



THE CITY OF SAN DIEGO

**SMALL BUSINESS ADVISORY BOARD
MEETING MINUTES**

February 23, 2005

Metro Career Center, Community Meeting Room
3910 University Avenue
San Diego, CA 92105

BOARD MEMBERS PRESENT	BOARD MEMBERS ABSENT
George Chandler Scott Cummins Jesse Navarro Judy Preston Warren Simon Richard Sims	Auday Arabo Faith Bautista Kurt Chilcott Spencer Skeen Chi Tran

CITY STAFF
Steven Bal, Office of Small Business Kelly Broughton, Development Services Department Meredith Dibden Brown, Office of Small Business Hank Cunningham, Community and Economic Development Karen Campos, Equal Opportunity Contracting Kelly Cunningham, City Treasurer's Office Art DeBolt, Development Services Department Marcella Escobar-Eck, Development Services Department Ples Felix, Economic Development Division Gary Halbert, Development Services Department Ron Halbritter, Development Services Department Lynette Jones, Office of Small Business Jeff Kavar, Economic Development Division Michael Lengyel, Economic Development Division Elyse Lowe, Councilmember Madaffer's Office, District Seven Marcia Samuels, Neighborhood Code Compliance Department Jeffery Tom, Councilmember Atkins Office, District Three Janet Wood, Office of Small Business

OTHERS PRESENT

Ken Clark, Small Business Development and International Trade Center
Sol Calinao, San Diego County Hispanic Chamber of Commerce
Enrique Gandarilla, City Heights Business Association
Rick Hernandez, San Diego Gas and Electric
Wendy Hope, City Heights Community Development Corporation
Scott Kessler, Business Improvement District Council
Robin Kole, North Park Main Street
Carlette Lewis, San Diego Workforce Partnership
Teresa Olmos, North Park Main Street
Kevin Swanson, Syntropic Systems Corporation
Jay Turner, North Park Main Street

Introduction: George Chandler, Chair, Small Business Advisory Board (SBAB)

- Mr. George Chandler called the meeting to order at 8:50 a.m. He welcomed the attendees to the meeting. The purpose of the annual community outreach meeting is to obtain testimony from the small business community on their concerns impacting small businesses. Mr. Chandler thanked the Board members for their work during the past year. The Board members then introduced themselves, citing their professional affiliations.

Welcome and Opening Remarks

- Mr. Jeffery Tom, Chief of Staff for Councilmember Toni Atkins of District Three thanked everyone for attending the meeting. Mr. Tom stated that prior to his new position as Chief of Staff for Councilmember Atkins, he had worked with many of the small businesses and business improvement districts located in District Three. He encouraged the individuals providing testimony at the meeting to establish a dialogue with the senior staff present at the meeting and to interact with the members of the SBAB. Mr. Chandler asked Mr. Tom to pass their regards to Councilmember Atkins, adding that she has been a strong supporter of the SBAB and the small business community.
- Mr. Enrique Gandarilla, Executive Director of the City Heights Business Association (CHBA) welcomed the attendees to City Heights. The CHBA is composed of over 700 businesses and property owners. Their mission is to enhance the growth of City Heights as an international marketplace by creating partnerships with businesses, property owners, community organizations, and government entities that promote economic revitalization and combat community deterioration. He cited the Clean and Safe Program that provides street sweeping, litter removal, graffiti removal, sidewalk power washing, tree planting and targeted security services along University Avenue from Interstate 805 to 50th Street. These programs significantly improve the business district, by providing for a cleaner and safer environment for businesses and their customers.
- Mr. Hank Cunningham, Director of the City's Community and Economic Development Department welcomed attendees to the meeting. He commented that the Metro Career Center was a redevelopment project that includes both the San Diego Workforce Partnership and the City Heights Community Development Corporation (CDC) as its tenants. He stated that the community outreach meeting is one of the most important annual events for small businesses in the city. He thanked Ms. Lynette Jones for her efforts in organizing the community outreach

meeting. He also thanked the members for serving on the SBAB. Mr. Chandler thanked the staff for their support to the SBAB and to the small business community.

Small Business Advocacy Services and Acknowledgements: Lynette Jones, Office of Small Business (OSB)

- Ms. Lynette Jones stated that OSB is a small unit that does a great deal of work, including providing staff support to the SBAB. OSB is recognized as a model by municipalities throughout the County and throughout the U.S., as they are frequently contacted to provide information about their programs. OSB assists small businesses with advocacy, start-up and expansion technical assistance, Business Improvement District activities, SIP and other important programs. She acknowledged several of the business and economic development agency representatives that were present and thanked them for their collaborative work with the City and its SBAB efforts.
- She thanked the SBAB for their support of OSB. Additionally, she thanked Starbucks and Albertsons for their donation of refreshments for the community outreach meeting. She acknowledged the San Diego Workforce Partnership for hosting the outreach meeting.

Public Testimony

- Mr. Kevin Swanson of Syntropic Systems Corporation stated that he is a small business owner that is looking at incorporating in Bermuda or the Virgin Islands, because of the tax structure to do business in San Diego. He added that he is seeking small business contracting opportunities. He asked that the SBAB and City staff to consider making the City of San Diego and perhaps the County of San Diego a redevelopment zone to keep the invested tax revenue in San Diego. Mr. Jeff Kavar, Deputy Director of the City's Economic Development Division replied that to be designated a "redevelopment area" under State law, there must be blight, which consists of physical and economic conditions within an area that causes a reduction of, or lack of, proper utilization of that area. Based upon the definition, it would be improbable to make a designation for San Diego as a whole. There are cities that have done it, citing Coronado in the early 1980s. The intent of redevelopment is to capture incremental property tax growth and dedicate it to the physical and economic blight. Mr. Kavar stated that there are 10 discrete redevelopment project areas within San Diego. Mr. Swanson requested that City staff look into the issue.
- Ms. Robin Kole of Urban Body Gym and Vice-President of the Board of Directors for North Park Main Street commented that the Board of Directors is very pleased with the changes made in the Development Services Department (DSD) over the past year and encouraged them to continue. She stated that the regular presence of the DSD liaison Mr. Ron Halbritter is very valuable at their meetings. Mr. Ric Sims of the SBAB commented that he has never seen a government entity such as DSD work so hard in such a short period of time to turn things around. He complimented Mr. Gary Halbert and his team for their effort. Mr. Halbert responded that they intend to continue their effort and he thanked Mr. Halbritter for his great work. Ms. Jones stated that she is appreciative of Mr. Halbritter and Mr. Kelly Broughton for attending the monthly SBAB meetings and for being supportive. Ms. Judy Preston of the SBAB expressed concern about the recent hiring freeze and its potential impact on DSD. Mr. Halbert responded that they are communicating with Deputy City Manager Pat Frazier regarding this matter and that they believe DSD will be able to fill its positions.
- Mr. Jay Turner, Executive Director of North Park Main Street stated that DSD has made a major turnaround and that OSB's new brochure "Small Business Program Guide" has been very helpful

to them. He suggested two changes: 1.) Changing the term “Business Tax Certificate” to a “Business License”, because the former term is very confusing and “Business License” is the term used by other cities and 2.) Have diagnostics and training for new businesses that have been in existence for 5 years and encourage business owners to revise their business plan on a regular basis. Some Board members noted that they have also found the term “Business Tax Certificate” to be confusing and that they prefer the term “Business License”. Ms. Meredith Dibden Brown of OSB stated that the term “Business License” implies that there is a regulatory function occurring, so if the City issues a “Business License”, it assumes that staff is actually looking at the information submitted to the City by a business and making a determination that they are compliant with the rules and regulations that they are expected to follow. She stated that the City currently does not have the resources to do so. Mr. Jesse Navarro of the SBAB suggested that a legal clause or disclaimer statement could be included on the applications. Mr. Kawar commented that staff can review the issue and bring it back to the SBAB next month. Mr. Sims added that business planning and development is one of his specific areas of expertise. The critical issue is that in order to create an effective program, there needs to be a will to pay for it within the community and/or an ability to market it and maintain a certain level of participation.

- Ms. Teresa Olmos, a resident of North Park and employed with Century 21 Horizon stated that she has been involved with the North Park Main Street Restructuring Committee. She commented that Mr. Halbritter was a key player in providing assistance to a client of hers with permitting and zoning issues, noting that costly mistakes were avoided.
- Mr. Rick Hernandez of SDG&E commented that they have had very positive collaborations with OSB, DSD, the Small Business Administration (SBA), the Small Business Development and International Trade Center (SBD&ITC), the BID Council, the BIDs, and other organizations to assist small business customers. He noted particularly the ABCs and Expert Insights seminars presented by Ms. Jones of OSB and Mr. Ken Clark of the SBD&ITC. He announced that SDG&E has a program for small businesses to exchange high-energy incandescent light bulbs for energy-saving fluorescent light bulbs and replace them onsite for no charge. He noted that interested business owners may contact Program Manager Jeff Hirsch at (858) 636-6887.
- Ms. Wendy Hope, Director of Community and Economic Development for the City Heights CDC stated that they appreciate the SBAB coming to City Heights for their Community Outreach Meeting. She also thanked the Board and the people they work with for their continued advocacy and support for small businesses. She brought along the 5th edition of the City Heights Business Directory and noted that Maria’s Fresh Produce has their salsa and spiced carrots available at Costco stores. She announced that City Heights will hold their 13th Annual International Village Celebration on Saturday, June 4, 2005.

2005 Economic Forecast for San Diego: Kelly Cunningham, Chief Economist, City Treasurer’s Office

- Mr. Cunningham provided a Powerpoint presentation on the 2005 economic forecast for San Diego to illustrate projected overall economic growth, employment growth by sector, average annual wage, international trade, military/defense spending, changing demographics, and housing affordability.
- There was discussion on the slides pertaining to the average price of housing vs. the average wage in San Diego. Mr. Sims stated that one of the frequent arguments made in San Diego is that if more housing were available, then housing would be more affordable. Based upon the information presented, even if housing costs were to come down 30 percent, they still wouldn’t

be affordable to the average person. Building more houses would mitigate some of the housing problems, but the long term issue is the average wage in San Diego. Mr. Cunningham noted that at one time it took only one income to buy a house, when the average price was 4 or 5 times the average wage, but housing prices have accelerated, while wages have remained fairly flat. Mr. Turner noted that in San Francisco, the housing costs have changed the way people move into homes. He observed that the trend there is that two unrelated people will invest in a home, which substantially changes who is qualifying for home purchases. Mr. Cunningham stated that with the acceleration, it takes more than two incomes to afford a home. Mr. Sims noted that one of the biggest issues emerging is condominium conversions, which is taking apartments off the market and converting them into condominiums. He noted that the co-op model is used in New York City where people actually own the building that they buy, so there is no broker in between to drive up the price. Low interest loans are provided to tenants that want to purchase the building and turn them into a co-op, which is similar to the condominium structure. Mr. Cunningham remarked that there needs to be some creativity in addressing the housing affordability issue in San Diego. He added that he doesn't see a housing bubble, since he doesn't expect the housing prices to collapse, due to the housing demand and the strength of the local economy.

- Mr. Cunningham also noted that the age demographics of San Diego are also changing, because many young people between 20 and 30 years of age are leaving San Diego, because they can't afford to live here, which is negatively impacting the recruitment of employees for the hi-tech industry.
- SBAB members thanked Mr. Cunningham for his presentation, adding that the information he presented was very insightful. For further information, please see the following link: <http://www.sdchamber.org/economic/economicoutlook.ppt>

Special Incentives and Business Finance Programs: Ples Felix, Manager, Metro Enterprise Zone and Renewable Communities

Mr. Felix reported the following information:

- The Metropolitan Enterprise Zone was established in 1986 and is a geographically designated area in which businesses can claim certain State income tax savings and other advantages. The area includes most of downtown, the Gaslamp Quarter, Southeast San Diego, and Little Italy.
- Since 1986, they have been assisting businesses seeking permits for expansion, location, tenant improvements, and development of their business. Staff serves as a contact between the permit applicant and the regulatory staff to ensure a smooth process. Consistent with Council Policy 900-12, Enterprise Zone projects are to be expedited, so the applicant will save time and money.
- The State has 13 criteria to determine what qualifies an individual and it ranges from a disabled person to a homemaker. If qualified, the Enterprise Zone business will issue a voucher. The voucher allows the business to claim a wage credit against the salary of the qualified person. The wage credits are more valuable than tax deductions. The average wage in 1986 was the minimum wage and as of last year, the average hourly wage was \$11.00 per hour. He added that the National Steel and Shipbuilding Company has worked with the program each year.
- In August 2004, the State mandated that a \$10 fee be applied to the issuance of a voucher. After staff analysis, the City of San Diego determined that they will apply a \$40 cost recovery fee to the issue each voucher.

- The Renewable Community (RC) area was designated in 2001, based upon the 2000 Community Renewal Tax Relief Act, which provides federal income tax benefits for businesses and investments made in designated areas in San Diego.
- They provide a wage credit in the amount of 15 percent of the wages for each employee who resides and works in the RC. The maximum amount of tax credit per employee is \$1,500.
- A business may elect to deduct the full cost of certain property that would otherwise be subject to depreciation, such as equipment and machinery used in the conduct of the business, in the year the property is placed in service. The amount continues to grow exponentially every year.
- The Commercial Revitalization Deduction in the RC allows expenses charged to a capital account for developing a new commercial building or rehabilitating an existing building to be deducted in one of two ways: 1.) Deduction of half of the expenses in the first year a building is placed in service, with a straight-line depreciation for the remaining half over the remaining 38 years or 2.) All the expenses may be amortized over 10 years, beginning in the month the building is placed into service.
- The Zero Percent Capital Gains Rate is a program where if an investor acquires a RC asset between January 1, 2002 and December 31, 2009, and that investor hold the asset for a minimum of five years, then the investor may exclude any gain from the sale or exchange of the asset from their gross federal income in the year the gain is realized.
- Mr. Chandler stated that the SBAB would be willing to provide their support when needed. Also, he suggested that they make the information available to business tax certificate holders.
- For further information on City of San Diego incentive zones, please see the following link: <http://www.sandiego.gov/economic-development/business-assistance/incentive/>

Closing Comments: George Chandler

- Mr. Chandler thanked staff for their meeting preparation efforts and for the presentations. He also thanked the Board members, attendees and staff who attended the meeting.

Meeting Adjournment

- The meeting was adjourned at 10:45 a.m.