

# Economic Recovery

The economic situation of our nation has not left San Diego untouched. Reduced economic activity overall has led to a spike in the local unemployment rate, currently standing at 10 percent as of May 2010. Spending in the construction, manufacturing, finance, and real estate sectors continues to remain relatively flat, which in turn has affected the wholesale and retail sectors. The City of San Diego, itself dependent on sales tax revenue to provide General Fund services such as fire and police protection, faced a projected General Fund revenue shortfall that resulted in difficult decisions and trade-offs in order to develop this Fiscal Year 2011 budget.

The City continues to focus its efforts on strengthening its economic base and regaining fiscal stability through a number of programs and initiatives:

- Business Support and Expansion Programs
- Economic Roundtables
- Small Business Development Programs
- Federal and State Stimulus Programs

## Business Support and Expansion Programs

The City of San Diego remains committed to restoring economic stability and reducing the level of local unemployment. By focusing on its comparative advantages such as its skilled labor force, desirable climate, and its strategic location adjacent to Mexico and the Pacific Rim, San Diego can compete for new job-creating public and private-sector investment. A few of the City's initiatives are outlined below.

## Economic Development Efforts

The Mayor is committed to building on the City's economic development programs that have contributed to the economic growth of the business community. This plan for economic recovery continues to be centered on a four-pronged strategy designed to ensure that investment dollars flow into San Diego quickly:

1. A business expansion, attraction, and retention (BEAR) effort designed to highlight the advantages of doing business in San Diego
2. A regulatory streamlining effort that eliminates duplicative and bureaucratic procedures which do not meaningfully contribute to protecting the public interests
3. A focus on emerging technologies, including the implementation of the Mayor's CleanTech Initiative designed to increase demand for renewable energy (e.g. solar), biofuels, energy efficient solutions, and "green" products
4. The completion of critical path infrastructure facilities which will be especially attractive to base sector businesses

The local biotechnology industry has grown to over 500 companies, employing over 37,000 skilled staff producing an annual economic impact to our local economy of over \$9 billion. Other industries such as telecommunications, software, electronics, and defense have had similar successes. The Mayor's CleanTech Initiative demonstrates the City's commitment to capturing the economic benefits of new and emerging technologies. Specific examples include Kyocera Solar, Inc. that recently

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announced its decision to begin manufacturing solar panels in the City of San Diego Industrial Park. San Diego now has two of California's four solar panel manufacturing plants, due to the addition of Siliken Renewable Energy to the Otay Mesa Community. The biofuel industry continues to expand in San Diego. New Leaf Biofuel in Barrio Logan has the capacity to produce 1.5 million gallons per year (GPY) of biodiesel and is currently producing and selling over 800,000 GPY. Synthetic Genomics Inc. in the University Community, has constructed a new 8,000 square foot greenhouse facility to support its continued research and development (R&D) efforts to produce an algae-based biofuel.

The Mayor's Office of Economic Growth Services (EGS) has ramped up its business retention efforts to ensure that businesses remain fully supported and recognized and are able to access state and federal programs. During this time, the Mayor has met with many local manufacturers who have either expanded R&D or production operations or are considering expansions.

The BEAR Team provides economic development services to businesses on a citywide basis with a particular focus on the North City industrial parks. BEAR administers the Business & Industry Incentive Program (permit assistance, due diligence, and incentives), Business Cooperation Program (sales and use tax rebates), and the Guaranteed Water for Industry Program (the industrial use of reclaimed water). The BEAR Team also analyzes the fiscal and economic impacts of proposed projects, policies, and other issues that affect economic development within the city.

The Government Incentives Team is focused on State and federal incentive programs for designated geographic areas. The Government Incentives Team's programs include: the State Enterprise Zone and Recycling Market Development Zone, the federal Renewal Community, and the federal Foreign Trade Zone (for businesses within 60 miles of the Otay Mesa Port of Entry involved in the import/export of merchandise or materials used in the manufacturing/assembly process).

## Tourism Marketing District

In December 2007 the Mayor recommended, and the City Council adopted, a new Tourism Marketing District to ensure a stable funding source for the marketing of the City to tourists and business travelers. This district requires hoteliers to collect a surcharge from customers which is pooled to provide funding for the San Diego Convention & Visitors Bureau (the organization responsible for national advertising campaigns) as well as other organizations. This dedicated funding source will bolster the City's ability to maintain its attractiveness as a visitor location.

## Economic Roundtable

The Mayor has continued to convene economic roundtables which include leaders from the San Diego region to meet and help shape an agenda to proactively deal with the regional economy.

These four areas of continued focus are:

- Retain, grow, and attract companies to promote expansion of existing and emerging business sectors
- Streamline local regulation for business including planning, permitting, and license processes
- Promote the expansion, attraction, and retention of cleantech industries with the objective of becoming a recognized leader in the development of clean technology-based products and solutions
- Aggressively pursue increased investment by State/federal government for local infrastructure projects which are important to the business community. Federal stimulus funds will be prioritized to complete public infrastructure within the city's industrial parks. Additional funding will be sought for other projects to support business expansion and increased efficiency.

The Mayor has asked various organizations to assist him in overseeing the implementation of next steps associated with these four areas of focus as well as to provide regular updates on how we are achieving success in dealing with the regional economy.

## **Small Business Development Programs**

Small businesses are a major contributor to San Diego's economy representing more than 80,000 businesses (approximately 93 percent of all businesses in the City) and about half of San Diego's job growth since 1991. In 1991, the City of San Diego created one of the first municipal offices in California dedicated solely to helping small businesses succeed-the Office of Small Business. The City also sets aside millions of dollars each year for programs to help small businesses prosper.

## **Direct Assistance**

There are a variety of programs available to directly assist small businesses ranging from providing detailed information on City and regional services, to help with start-up questions and providing assistance with permitting issues. The City also provides matching grants to businesses in targeted areas for storefront renovation projects.

## **Development and Retention Programs**

The Office of Small Business, in partnership with the business community and economic development agencies, administers several programs for small business development and retention including the following:

- Business Improvement Districts
- City/Business Improvement District Council Partnerships
- Community Parking District Program
- Technical Assistance Coordination

## **Advocacy and Regulatory Relief**

The Office of Small Business staff is an advocate for small business concerns and coordinates several programs to ensure that small businesses have a voice in many issues that affect their ability to succeed.

## **Local and Small Local Business Enterprise Program (L/SLBE)**

In order to provide economic opportunity for its residents and businesses and stimulate economic development, the City has developed and implemented various policies that directly impact how public funds are spent. These policies are aimed at using the power of the public purse to stimulate economic development through the support and empowerment of the local community, especially those aspects of it that have been placed at a disadvantage in the past. The major programs that were created to serve these respective groups are:

- Mentor Protégé Program
- Subcontracting Outreach Program (SCOPE)
- Minor Construction Program
- Small Local Business Enterprise Program, adopted in FY 2010

Supporting and/or complementing these programs are policies regarding living wage, prevailing wage, disadvantaged business enterprises, certifications, and apprenticeships.

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The SLBE Program supports policies that established a 20 percent participation requirement and a minimum bid discount of 2 percent for meeting that requirement. 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 included:

- 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 a stronger economic base
- Promoting the development of certified businesses through joint ventures and mentor/protégé relationships

The new policies provide economic opportunity to local residents and businesses by supporting local economic development while paying competitive prices for goods and services. At the same time, the SLBE Program does not obstruct efforts to attract outside investments that are critical to the City's economic growth.

## Federal and State Stimulus Programs

The 2009 American Recovery and Reinvestment Act (ARRA) contains over \$46 billion for transportation and the City has lobbied hard to ensure that it receives a fair share of these funds.

These transportation dollars will not just help San Diego in the short-term. Improvements to highways, rail, ports, and airports will help the region move goods more efficiently for years to come. California Gateways, including our border and our port, move well over \$297.0 billion in trade for other states according to the 2000 California Global Gateways Report. This is an important function for both the national and local economy because trade generates employment, taxes, business profits, and jobs. San Diego is set to receive over \$132.0 million in total stimulus funding for economically important transportation projects located within the City. More specifically, \$74.0 million has been allocated to complete the 905 Freeway, thus better connecting the Otay Mesa industrial parks to the international Port-of-Entry, \$18.0 million to complete Carroll Canyon Road, thus better connecting Sorrento Mesa industrial parks with those in Sorrento Valley, \$20.2 million for various smaller projects in neighborhoods throughout the City, and \$20.2 million in Transportation Investment Generating Economic Recovery (TIGER) grants for the interchange between the 905 Freeway and Interstate 805.

Goods movement at the border is particularly important to the City's long-term economic health. Mexico is California's number one export market and a significant amount of those exported goods produced in factories and fields around the state go through San Diego. A recent study found that constrained border infrastructure had a negative economic impact on the State of California of over \$3.0 billion annually. The City has successfully lobbied for State and federal funding for the expansion of the San Ysidro crossing, for a new third port of entry, and for a new six lane freeway (SR 905) to move goods easily in and out of the border zone. The 905 Freeway is now under construction and Phase 1A through the industrial parks will be completed during Fiscal Year 2011.

Another important funding area included within the ARRA is money for clean energy technology. San Diego has been a leader in the area of clean energy and has an emerging clean tech industry that could potentially rival its biotech and wireless industries in producing jobs for the region. The stimulus package included \$12.5 million of block grant monies for local clean energy initiatives, renewable energy grants, and tax incentives to help San Diego's emerging clean tech businesses

grow. In addition to seeking its own funding, the City will also be partnering with other public agencies in the region whether they are local, State or federal in their efforts in to bring clean energy dollars into the region.

## **Future of the City's Economic Health**

San Diego's economic policies will continue to focus on the growth of the city's economic base. This base primarily consists of four "clusters" or groups of related industries: manufacturing, international trade and logistics, tourism, and the military.

### ***Manufacturing***

The manufacturing sector contributes the largest single economic impact to the regional economy. San Diego's manufacturers are engaged in research and development (R&D), manufacturing, sales, distribution, product servicing, and repair activities in a wide range of industries such as biotech and medical, cleantech, defense and security, food manufacturing, and telecommunications. As land and fiscal resources become more constrained due to a variety of factors, regulatory land use policy and fiscal policy (e.g. financial incentives) should be targeted specifically to those private-sector businesses which are both part of the economic base and which have the willingness and ability to create middle income job opportunities for local residents. These businesses are primarily found in the manufacturing sector and have significant job growth potential.

Five of the City's 10 largest employers are in this sector and include telecommunications manufacturer Qualcomm, and four major defense contractors: General Atomics, General Dynamics, Northrop Grumman, and Science Applications International. General Atomics has continued to add jobs at its Aeronautical Systems division, and smaller defense sub-contractors like ATK and AEM completed major expansions in Fiscal Year 2010. Medical device, diagnostics, and equipment manufacturers continue to thrive in San Diego, led by Biosite, CareFusion, Gen-Probe, and Illumina, each of which generate significant employment opportunities and sales tax revenue for the City. Drug manufacturers Amylin Pharmaceuticals, Biogen-IDEC, Johnson & Johnson, Novartis, and Pfizer continue to operate major research laboratories in the University Community.

San Diego has a comparative advantage in these industries for primarily three reasons: (1) very high labor quality including ex-military personnel with security clearances, (2) the continued presence of major primary research institutes and universities such as Sanford-Burnham, Salk, Scripps, UCSD, and related support organizations, and (3) proximity to Mexico which has its own comparative advantage in the manufacturing of high quality and high-technology products in high production volumes, where national security, product safety, and intellectual property concerns are not a major consideration.

In order to better support the local manufacturing sector, the Mayor has recommended to the City Council that the City apply to the State of California for an expansion of the San Diego Regional Enterprise Zone to include the areas within the communities of Kearny Mesa, Linda Vista and Navajo. Expansion of the Enterprise Zone will provide a strong supply-side stimulus to the local manufacturing sector by permitting these firms to substantially reduce their California income tax. Economic Growth Services anticipates the City will be able to add at least 30 additional north city industrial parks to the Enterprise Zone in Fiscal Year 2011.

### ***International Trade & Logistics***

San Diego's proximity to Mexico provides the City with an important comparative advantage in terms of capturing international trade activity. 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. This part of the city has been designated by the State as an

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Enterprise Zone and portions of it have been designated by the federal government as a Foreign Trade Zone (FTZ). These designations allow logistics businesses to claim lucrative state income tax credits and the ability to defer, reduce, or eliminate trade duties. The recent and proposed construction of several modern distribution centers, comparatively low lease rates, tax and duty advantages, and the completion of the SR 905 Freeway will enable the City to position itself as an attractive location for trade-servicing and logistics companies. In Fiscal Year 2011, the Mayor will be seeking authorization from the federal Department of Commerce to expand the FTZ to include some of the industrial areas which were identified as Prime Industrial Lands in the City's updated General Plan.

## ***Tourism***

Because of its warm Mediterranean climate, San Diego is a top-ranked tourist destination. San Diego competes with similar cities such as Los Angeles, San Francisco, Seattle, and Miami for vacationing tourists and business travelers. The construction of the San Diego Convention Center has dramatically improved the City's ability to attract business travelers while retention and enhancement of family-oriented attractions such as the San Diego Zoo, Balboa Park Museums, and Sea World has helped attract vacationing families.

The City will continue to maintain facilities under its purview and to ensure the preservation of clean, safe beaches and well-maintained parks. Using the dedicated funding source provided by the new Tourism Marketing District, the City will be able to maintain one of the nation's lowest transient occupancy taxes (TOT), which should also help keep San Diego competitive with other tourist destinations. Hilton Hotels recently completed its newest and largest San Diego Hotel adjacent to the San Diego Convention Center, a \$348 million investment in the local economy which will generate significant transient occupancy and property tax revenues for the city as well as new job opportunities.

Since opening in 1989, the San Diego Convention Center has generated over \$18.0 billion in economic impact by hosting over 4,300 events that utilized more than 11 million hotel room nights<sup>1</sup>. The Citizens' Task Force on the Convention Center Project recommended that development of a third phase of the convention center be pursued. Discussions are underway to preserve land available for an expansion and research continues to be performed by the convention center corporation on the feasibility, cost, and entitlements necessary for the project.

## ***Military***

The City has a long history of accommodating the Department of the Navy, including not only the Pacific Fleet, but also the United States Marine Corps (USMC), the Space and Naval Warfare Systems Command (SPAWAR), along with several smaller commands. The Department of the Navy has announced its intention to construct several new facilities throughout the County ensuring a long-term presence. Beyond supporting these efforts however, the City can do little to increase or influence the size of the military presence in San Diego. Fortunately, the military has increased its physical presence in San Diego County providing a pillar of stability for the local economy. During Fiscal Year 2010 the Navy continued to move more ships into San Diego, a trend which will reportedly continue well into Fiscal Year 2011.

## **Conclusion**

The City of San Diego has made it a top priority to focus on economic recovery for the City and its residents. This recovery plan is aimed at preparing the local economy to rebound with the national

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<sup>1</sup> Statistical information provided by San Diego Convention Center Corporation.

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economy, or even sooner. It relies on the City's position as a military town, a tourism draw, and a manufacturing leader, specializing in the defense and biotechnology industries.



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