



The City of San Diego

# ADOPTED BUDGET

Fiscal Year

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Economic Recovery



# Economic Recovery

The national economic recession has adversely affected San Diego. Significantly reduced economic activity overall has led to a persistently high local unemployment rate, currently standing at 8.8 percent as of May 2012. However, there has been improvement in some economic sectors such as manufacturing, retail sales and tourism, which impact the City's major General Fund revenues. The City of San Diego, itself dependent on sales tax revenue to provide General Fund services such as fire and police protection, again initially faced a projected General Fund revenue shortfall, but the more recent uptick in retail sales and tourism revenues, coupled with years of City efficiencies resulted in a balanced budget which will include the restoration of certain services which were reduced in prior budget years.

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

## 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 industries, 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 as well as food and beverage production.
4. The completion of critical path infrastructure facilities which will be especially attractive to base sector businesses.

The local manufacturing and energy production sectors have achieved stabilized employment levels, particularly in the traditional high technology industries such as biotech & medical devices, cleantech, defense & security systems, and electronics & telecommunications. Emerging industries in the cleantech and food & beverage industry groups continue to advance their technologies and expand local production. In particular, biofuel manufacturer Menem has expanded research &

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development (R&D) and production facilities in Rancho Bernardo, New Leaf Biofuels is contemplating further expansion, and Soitec Solar has invested approximately \$150.0 million to construct a 165,000 square foot solar tracker manufacturing plant in the City. Other cleantech companies such as Ecotality have expanded the number of electric charging stations in the city which has facilitated the attraction of Car2Go, a Daimler Corp. subsidiary which operates electric and low-emission car sharing services. The food & beverage industries, such as microbrewing and food production, continue to expand in San Diego, increasing exports to the remainder of Southern California, other states, and Japan, and in the process, creating new job opportunities for local residents. Notably, Coronado Brewing Co. and Societe Brewing Co. established new production and bottling plants in the City.

The Economic Growth Services (EGS) section of the Development Services Department has expanded its business retention efforts to ensure that businesses remain fully supported and able to access State and federal programs. The Mayor has a program to meet with many local manufacturers who have either expanded research & development (R&D), production operations, or are considering expansions.

The BEAR Team provides economic development services to businesses on a citywide basis with significant activity in 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 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).

Several significant new projects were completed in Fiscal Year 2012. Biotech companies such as BioLegend, DexCom, Illumina, La Jolla Biologics, and Verenum all expanded research and manufacturing capacity, and Celgene Corp. consolidated its R&D operations into an approximately 200,000 square foot new laboratory in the Campus Point Industrial Park in the University Community. LPL Corp. commenced construction of a new approximately 400,000 square foot corporate headquarters and Qualcomm increased the size of Building Q to approximately 585,000 square feet, making it the largest R&D laboratory in the City.

In Fiscal Year 2013 the BEAR Team will work with a number of manufacturing, energy, and service sector businesses which are contemplating expansion or relocation to the City of San Diego. The Government Incentives Team will continue to organize "Your Business Matters" workshops throughout the year to promote the various local, State, and federal business programs to educate businesses on the programs and technical assistance available. Working with the South County Economic Development Council and the regional chambers of commerce, the EGS team will continue to organize workshops targeting accounting, tax professionals, and job developers on the benefits of the incentive program with updates provided by an expert panel of speakers from the Franchise Tax Board and the Internal Revenue Service. Additionally, the Government Incentives Team restructured the City's Foreign Trade Zone Program to enhance international trade opportunities, entice new private investments, and create new distribution jobs.

## 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 collects assessments from hotel operators who may pass on the assessment to customers. The assessments are pooled in order to provide funding for marketing, promotions and special events which generate hotel room night stays. This dedicated funding source will bolster the City's ability to market San Diego as a visitor destination. An initial resolution to renew the Tourism Marketing District is expected to be presented to the Budget and Finance Committee and to the City Council in summer 2012. The final resolution to re-establish the Tourism Marketing District effective January 2013 is expected to be considered by Council in early fall 2012.

## Economic Roundtables

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

These 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 licensing processes;
- Job creation, employment education, and region-wide efforts to expand a skilled workforce;
- Promote the expansion, attraction and retention of cleantech industries with the object of becoming a recognized leader in the development of clean technology-based products and job creation.

The Mayor has asked the San Diego Regional Economic Development Corporation (SDREDC) to assist him in overseeing the implementation of the next steps associated with these 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 90,000 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 (OSB). The City also supports programs to help small businesses prosper.

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
- Small Business Enhancement Program
- Storefront Improvement Program
- Community Parking District Program

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## Advocacy and Regulatory Relief

The Office of Small Business (OSB) advocates 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. Additionally, OSB provides other forms of direct assistance to small businesses such as guidance on starting a business, getting certified, accessing financial resources, contract opportunities, and referrals to appropriate staff for permit assistance.

## Small Local Business Enterprise Program (SLBE)

In order to provide economic opportunity for its residents and businesses and stimulate economic development, the City has implemented various new 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 SLBE Program is an important part of the City's overall commitment to equal opportunity in contracting. The Program supports policies that provide increased prime and subcontracting opportunities for small local businesses. It includes restricted competition bid opportunities, an annual CIP construction goal, contract-by-contract construction project goals, and a 20 percent voluntary goal on Architecture & Engineering consultant, goods & services contracts. It allows for a minimum bid discount of 2 percent for certified small local businesses and for non-certified firms achieving goals on goods and services contracts. Points are awarded on negotiated contracts for small local business participation and points are increased as the level of small local business participation increases.

The intended impacts include:

- 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 capacity 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. To date there are over 500 certified small local businesses participating in the Program.

## 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, manufacturing, sales, distribution, product servicing, and repair activities in a wide range of industries such as biotech & medical devices, cleantech, defense & security systems, electronics & telecommunications, plus food & beverage production. 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

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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.

Four of the City's 10 largest employers are in this sector and include telecommunications manufacturer QUALCOMM, and three major defense contractors: General Atomics, Northrop Grumman, and Science Applications International. General Atomics has continued to add jobs at its Aeronautical Systems division, and smaller defense sub-contractors have continued to add jobs as well. Medical device, diagnostics, and equipment manufacturers continue to thrive in San Diego, led by Alere, CareFusion, Gen-Probe, and Illumina, each of which generate significant employment opportunities and sales tax revenue for the City. Drug manufacturers Amylin Pharmaceuticals, Celgene, Johnson & Johnson, Novartis, and Pfizer continue to operate major research laboratories in the University Community.

San Diego has a comparative advantage in these industries primarily because of its very high labor quality including ex-military personnel with security clearances, and the continued presence of major primary research institutes and universities such as Sanford-Burnham, Salk, Scripps, UCSD, and related support organizations.

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 adding at least 30 additional north city industrial parks to the Enterprise Zone in Fiscal Year 2013.

## ***International Trade and 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 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 availability of several modern vacant 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. The Economic Growth Services section sought and received authorization from the Federal Department of Commerce to restructure the FTZ site approval process in Fiscal Year 2011, so that local businesses can more easily participate in the program.

## ***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.

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Since opening in 1989, the San Diego Convention Center has generated \$21.6 billion in regional economic benefits and \$411.1 million in tax dollars.<sup>1</sup> A Phase 3 expansion of the Convention Center is currently being pursued. It is projected that the new conventions attracted by the expanded facility will generate a regional economic impact of nearly \$700 million and new tax revenues of \$13.5 million annually. The expansion itself will create and support nearly 7,000 new jobs.

## ***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) and 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.

## **Conclusion**

The City of San Diego has made it a priority to focus on economic recovery for the City and its residents. The City's efforts are focused on maintaining the City's position as a military town, a tourism draw, and a manufacturing leader, specializing in the defense, biotechnology, and clean technology industries.

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<sup>1</sup> Statistical information provided by San Diego Convention Center Corporation as of Fiscal Year 2012.