ECONOMCI PROSPERITY POLICY BACKGROUND INFORMATION

History of Economic Development in San Diego

The City's economic development and redevelopment functions are performed primarily by and through the Community & Economic Development (CED) Department and are authorized through a number of Council Policies, Council Resolutions, and Ordinances. The CED Department provides the staff for the City's Redevelopment Agency which manages and operates several redevelopment project areas. The local administration of redevelopment project areas was the Department's original function and activities were generally limited to a few areas within the City's urban core. Since that time, additional functions related to urban revitalization, revenue generation, and job creation have been added in order to address issues which stem from growth and economic change. These functions taken together form the basis for the Department's motto "Improving the Quality of Life and Ensuring a healthy Economy for all San Diegan's"

Redevelopment is usually the core economic development function of California's older urbanized cities and is considered necessary to ameliorate conditions of physical blight which often arise due to the functional obsolescence of older structures. The construction of newer suburban developments, especially retail establishments, has led to increased vacancies and the underutilization of these older structures. The adoption of redevelopment project areas provides the Redevelopment Agency with the financial resources to assemble smaller parcel and to subsidize and encourage new investment in these older areas. The adoption of redevelopment project areas occurs when a local jurisdiction is able to make findings related to conditions of physical blight in accordance with state law.

In the mid 1980's, the State of California introduced a new tool for urban revitalization – the Enterprise Zone. The City of San Diego applied for and received an Enterprise Zone designation for a defined geographic area in the central core of the city. This area (now known as the Metropolitan Enterprise Zone) was then known for its two most prominent communities, Barrio Logan and Southeast San Diego. Pursuant to its agreement with the State of California, the City created its own local Enterprise Zone program which included dedicated full-time staffing, collaborative partnership agreements with local job-training and other agencies, plus local development incentives. A second Enterprise Zone (now know as the South Bay Enterprise Zone) was designated by the State in 1992, this one known by its two most prominent communities – San Ysidro and Otay Mesa.

In the early 1990's, the City of San Diego was heavily impacted by the end of the Cold War and the commensurate reduction of defense spending. Like other cities in southern California, San Diego had become heavily reliant on the aerospace industry as an economic engine of growth. The City's largest employer General Dynamics had begun a significant phase-out of its missile and aircraft production facilities in the Midway and Kearny Mesa communities. Other factors, such as the lingering effects of the saving and loan debacle, the rapidly rising costs of workmen's compensation insurance, business regulations and environmental compliance costs also contributed to a local economic downtown which was relatively deeper and longer than that experienced by the nation as a whole.

A group of local business, labor, and government leaders formed an Economic Development Task Force in 1991 and recommended a number of policy actions designed to stimulate economic growth at the local level. These recommendations included permit “streamlining”, reductions in local development fees, expansion of inter-agency partnerships to improve communication and collaboration, support for small businesses, support for job training initiatives, and increased funding for economic development activities. Support for base sector industries including manufacturing, tourism, and international trade was to be a significant policy focus.

As a result of the efforts and recommendations of the economic development task force, the City Council adopted Council Policy 900-12, the Business & Industry Incentive Program. This program represented a significant departure from previous efforts and programs which targeted assistance and incentives to the designated urban core areas. This was the first official program aimed at increasing economic prosperity for the whole of San Diego by providing assistance to businesses citywide. The first business assisted through this program was Sony Electronics, Inc. a multinational company with a major manufacturing operation in the community of Rancho Bernardo. Since then hundreds of other businesses throughout the City has been assisted through this program. The result has been the creation of thousands of jobs and millions of dollars of new tax revenues.

Cluster Industries

Until recently, most of the citywide economic development efforts have focused on high-tech industry clusters identified by SANDAG pursuant to strategies and research developed by Prof. Michael Porter at Harvard University. These high-tech clusters are Biotechnology, Business Services, Defense, Electronics, Software, and Telecommunications. These “traded clusters” were identified as being the principal drivers of the “New Economy” in San Diego County and a clearly defined economic strategy was promulgated by former Mayor Susan Golding in a 1996 document titled: *Charting a Course for the 21st Century – A Strategic Economic Plan for San Diego’s “New Economy”* This focus on “traded clusters” is similar to many local economic development strategies which focus on the economic base of the local community – this base being essentially the aggregate of those economic sectors and industries which being wealth into the community by trading goods and services with other communities. This effort has been a qualified success story. San Diego successfully diversified its industrial base and reduced its reliance on the defense industry and uniformed military as hundreds of new high-tech firms flourished in San Diego during the nation’s high-tech boom period of 1995-2000.

Unfortunately, during the period from 2000 to present, globalization and the high costs of doing business in California greatly accelerated the loss of manufacturing jobs including even high-tech industries. Responding to pressure for lower prices from retailers and their consumers, multinational corporations began to rapidly rationalize production by moving manufacturing operations directly to lower cost states and off-shore locations, or by outsourcing these functions to third party contract manufacturers who have mastered global supply-chain management systems. This loss of middle-income blue collar jobs contributed to a situation which has long plagued San Diego – the inability to create good “move-up” jobs for existing residents. Many of the largest industrial corporations have retained or even expanded their research and development operations within San Diego while at the same time reducing or eliminating the production and distribution functions here.

Statistics recently published by the San Diego Chamber of Commerce - Economic Research Bureau underscore the impact of these manufacturing job losses. The Chamber's ERB breaks out San Diego's occupational categories into three categories – high, middle, and low. The lower-income jobs are those that pay less than $25,000/year ($12/hour), the middle-income jobs are those that pay $25,000-50,000 ($12.00 - $24.00/hour) and the higher-income jobs being those paying in excess of $50,000 annually. For the period 1999-2002, the lower-paying jobs increased in number by 11%, the middle-paying jobs increased 4%, and the higher-paying jobs increased in number by 8%. Without correlation to the size of these existing groups, it's obvious that San Diego's economic policies are resulting in the creation of substantial numbers of jobs in the lower and higher income brackets, and much less in the middle income bracket. Despite the fact that 63 percent of all jobs in the year 2000 paid middle income bracket ($25,000 - $50,000) wages and salaries, only 43 percent of the jobs created in the period 1999-2002 fell into this category. 67percent of the new jobs fell into either the lower bracket (a 30% gain) or the higher bracket (a 27% gain). Clearly, the high tech industrial businesses were adding new high-paying science and engineering jobs while eliminating manufacturing and distribution jobs. Professional services firms (law, finance, insurance, and real estate) were also adding new jobs at the high end, and the retail and tourist industry were adding jobs to the lower paying bracket. Several sources indicate that approximately 5,200 manufacturing jobs were lost during this period.

San Diego's economic policy should continue to focus on the growth of its economic base. This base primarily consists of three sectors: Accommodation (i.e. Tourism), Manufacturing, and Public Administration (i.e. the Navy and Marine Corps). However, the City can do little to increase or influence the size of the military presence in San Diego. 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. These businesses are primarily in the manufacturing sector and have significant job growth potential. These businesses are primarily in four groups: (1) the biotechnology industry, (2) the defense/security industry, (3) the business equipment industry, and (4) the distribution/logistics functions of manufacturer operating in Tijuana. As indicated below, San Diego has a comparative advantage in the attraction and retention of these industries for a variety of reasons.

San Diego's Potential for Industrial Development

San Diego's process of industrialization is in a constant state of flux. Globalization has rendered it infeasible to conduct many types of manufacturing and even some research and development (R&D) operations in the U.S. The situation in California is even more severe as high operating costs and real estate costs have rendered infeasible many types of high-tech production operations within the state, and especially in high-cost coastal cities like San Diego. With some exceptions, most types of consumer product manufacturing (especially home electronics), medical device manufacturing, electronic component manufacturing, and much of the related R&D functions have been moved to cheaper states and countries.

However, San Diego remains strong its ability to compete for manufacturing and R&D operations which have one or more of the following characteristics: (1) classified security and defense systems purchased by the U.S. government including weapons systems, telemetry and avionics systems, inspection and screening devices, training systems, communications systems, and reconnaissance systems (2) high-technology drugs, therapeutics, and medical diagnostics regulated by the FDA (i.e. biotechnology), (3) products which are highly proprietary, or are manufactured to extremely exacting tolerances in low volumes for very demanding (usually business) customers, and (4) the distribution of products and sub-assemblies made in Mexico.

San Diego has a comparative advantage in these industries for primarily two reasons: (1) very high labor quality including ex-military personnel with security clearances, and (2) 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 remain competitive, San Diego's industrial firms have either sold off divisions or business units which make the more commercial or consumer products, while retaining in San Diego those divisions or business units which make the higher-end products for government consumers, or prototype/pilot manufacturing of new valuable high-technology products for consumers.