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# Performance Audit of the Economic Development Program

CITY'S ECONOMIC DEVELOPMENT PROGRAM NEEDS IMPROVED  
STRATEGIC PLANNING

SEPTEMBER 2012

**Audit Report**  
Office of the City Auditor  
City of San Diego



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## THE CITY OF SAN DIEGO

September 25, 2012

Honorable Mayor, City Council, and Audit Committee Members  
City of San Diego, California

Transmitted herewith is an audit report on the Economic Development Program. This report is in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 45 of the report.

We would like to thank staff from the Mayor's Office and the Economic Development Division, as well as representatives from other City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Matthew Helm, Efram Bycer, and Chris Constantin.

Respectfully submitted,

Eduardo Luna  
City Auditor

cc: Jay M. Goldstone, Chief Operating Officer  
Wally Hill, Assistant Chief Operating Officer  
Kelly Broughton, Director, Development Services Department  
David Graham, Senior Policy Advisor, Office of the Mayor  
Tom Tomlinson, Deputy Director, Economic Development Project Management Division  
Russell Gibbon, Business Development Manager, Economic Growth Services  
Lydia Moreno, Government Incentives Program Manager, Economic Growth Services  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst



OFFICE OF THE CITY AUDITOR  
1010 SECOND AVENUE, SUITE 1400 • SAN DIEGO, CA 92101  
PHONE (619) 533-3165 • FAX (619) 533-3036

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## Results in Brief

Economic development is a broad concept that refers to increasing the size of the regional economic base and enhancing the economic well-being of a community. It is important to note that any economic development program operates within the broader context of the current economic environment. Effective economic development programs target key industry clusters to advance specific economic goals. It is essential that economic development strategic planning incorporate an assessment of current economic and business conditions, establish a clear mission, objectives and actions to fulfill that mission, and measure performance on an ongoing basis.

Prior to July 2012, the City of San Diego operated its core economic development programs through two separate divisions—the Mayor’s Office of Economic Growth Services (EGS) and the Economic Development Division (EDD). These two City divisions administered multiple programs with funding of over \$57 million<sup>1</sup> each year since fiscal year 2010 to both directly and indirectly support economic development. According to City staff, most of this funding comes from the business community or from the federal government through voluntary fees, self-assessments, and grants. Nevertheless, given the scope, magnitude, and importance of these programs, the City needs to take steps to improve its strategic planning for economic development. Specifically, the City should:

1. **Update the economic development strategy and include key strategic planning elements:** City Council Policy 900-01 adopted in 1992 provides for an annual review and biennial submission to the City Council of a comprehensive economic development strategy. EGS prepared and presented a draft of the *City of San Diego Economic Development Strategy, 2011* to the City

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<sup>1</sup> City officials noted that not all of the monies included in this total are considered community and economic development funds under the City’s current definition. We include the total program funding amount in order to better convey the overall size of the programs that the departments administer. See Appendix C for additional information and descriptive funding detail.

Council's Economic Development and Strategies Committee in January 2012, but the document has yet to be recommended for approval by the Committee or adopted by the City Council. The proposed strategy lacks several key elements of a general strategic plan, including clearly stated mission, goals, objectives, and actions to achieve that mission, relevant economic indicators, and robust performance measures to assess program progress. Information included in the Citywide Strategic Plan and in department-level tactical plans provide a starting point for improving the proposed economic development strategy. However, the information in these documents supplements but does not supplant the need for a comprehensive strategy specific to economic development.

2. **Strategically align core economic development programs with other interrelated City efforts:** The City's proposed Economic Development Strategic Plan focuses only on a portion of the City's economic development tools, and consequently needs additional alignment with other strategic and operational documents. Better alignment of goals, priorities, and strategies across interrelated programs and efforts would enhance the City's ability to link its economic development vision down to operations and leverage other programs to achieve citywide goals.
3. **Leverage its central coordinating role with key internal and external stakeholders:** In addition to improving its economic development strategic plan, the City has an opportunity to better leverage its central role in economic development through greater coordination with key stakeholder groups. The City should establish processes to coordinate interrelated efforts across the several City departments with programs and efforts that have a significant bearing on economic development. Additionally, the City needs to improve processes for strategically coordinating its efforts with its key external partners on economic development.

City officials provided us oral and written comments on a draft of this report (Management's written response is presented in Appendix E). City departments also provided technical comments, which we have incorporated throughout the report,



as appropriate. Overall, the City agreed with our recommendations to improve the content, scope, alignment, and coordination issues related to the City's economic development strategy, and supported our recommendation for the City Council to consider relevant City Council Policy clarifications. The City's written response outlines a few areas of conceptual disagreement with specific findings related to the scope of the economic development strategy document, the City's coordinating role, and our description of program funding. We provide a general evaluation of these comments in Appendix F.

# Background

Economic development refers broadly to the concept of increasing the size of the regional economic base to expand the distribution of wealth and improve the regional standard of living. More plainly, economic development can be characterized as the creation of jobs and wealth and the improvement of quality of life. Effective economic development is the result of a collaborative process involving local government, other economic development entities, and private industry. Governments generally achieve economic development through policies and programs designed to support businesses, provide services and infrastructure, and spur sustainable development. Since all communities differ in their geographic and political strengths and weaknesses, each community or region will have its own unique economic development strategy.

Much of today's economic development literature emphasizes the important role of industry clusters. Clusters are geographical concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions.<sup>2</sup> Organizations within each respective cluster are linked by complementarities and commonalities and share related needs for talent, technology, and infrastructure.<sup>3</sup> Industry clusters can affect competition and economic development by 1) increasing the current productivity of constituent firms or industries; 2) increasing the capacity of cluster participants for innovation and productivity growth; and 3) stimulating new business formation that supports innovation and expands the cluster.<sup>4</sup>

A leading economist and researcher on clusters and economic development, Dr. Michael Porter, asserts that government should focus policy on reinforcing and building upon

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<sup>2</sup> Michael E. Porter, "Location, Competition, and Economic Development: Local Clusters in a Global Economy," *Economic Development Quarterly*, February 2000, p.15.

<sup>3</sup> *Ibid*, p.16.

<sup>4</sup> *Ibid*, p.21.

established and emerging clusters rather than creating new ones. According to Porter, government can play a central role in recognizing clusters and then removing obstacles, relaxing constraints, and eliminating inefficiencies that impede productivity and innovation, including human resource, infrastructure, and regulatory constraints.<sup>5</sup>

**City's Economic  
Development  
Operations**

Prior to July 2012, the City of San Diego (City) operated its main economic development programs through two separate units—the Mayor's Office of Economic Growth Services (EGS) and the Economic Development Division (EDD). These two City divisions administered multiple programs with funding of over \$57 million<sup>6</sup> each year since fiscal year 2010 to both directly and indirectly support economic development. Most of this funding comes from the business community or from the federal government through voluntary fees, self-assessments, and grants.

EGS is responsible for five core programs and related business development activities: the Foreign Trade Zone (FTZ), the Enterprise Zone (EZ), the Business and Industry Incentive Program, the Business Cooperation Program, and the Guaranteed Water for Industry Program. The EGS staff is divided into the Government Incentives Team, which administers the EZ and FTZ programs, and the Business Expansion, Attraction, and Retention (BEAR) Team, which administers the other three programs. The federally-designated FTZ has a number of benefits for businesses operating within it including duty deferral, duty exemption, inverted tariff, logistical benefits, and elimination of duties on waste, scrap, and rejected or defective parts. The EZ that encompasses portions of San Diego, National City, and Chula Vista is a State program that stimulates business activity through a series of tax credits and business income tax deductions. The BEAR Team provides real estate due diligence, permit assistance, sales/use tax rebates, logistical support, and liaises between other City departments and public agencies on

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<sup>5</sup> Ibid, p.26.

<sup>6</sup> City officials noted that not all of the monies included in this total are considered community and economic development funds under the City's current definition. We include the total program funding amount in order to better convey the overall size of the programs that the departments administer. See Appendix C for additional information and descriptive funding detail.

behalf of businesses seeking to expand in or move to San Diego.

EDD is organized into three work units: the Department of Housing and Urban Development (HUD) Programs Administration (HPA), Business Finance, and Office of Small Business. Two-thirds of EDD's staff work within the HPA unit. HPA is responsible for grant compliance and overseeing administration of the City's federally-funded Community Development Block Grant Program (CDBG) entitlements.<sup>7</sup> The unit reported that CDBG entitlements for fiscal year 2012 totaled \$17.5 million, of which \$1.3 million was allocated to community and economic development projects. The Business Finance unit manages two revolving loan funds which are intended to provide gap financing to local businesses for working capital or capital purchases. These loan programs are funded by the U.S. Department of Commerce, Economic Development Administration, and totaled approximately \$3.2 million in fiscal year 2012.<sup>8</sup> The remaining EDD staff are part of the Office of Small Business, which administers a number of programs, including Business Improvement Districts and the Small Business Enhancement Program. For a complete list of programs and respective budget information, please see Appendix C.

Effective July 1, 2012, both EGS and EDD are now within the Development Services Department as part of the organizational restructuring laid out in the City's fiscal year 2013 Budget.

The City has reorganized its economic development functions, including the programs that make up EGS and EDD, in numerous ways. Exhibit 1 below shows the number of reorganizations that occurred from fiscal year 2007 through the recent changes made as part of the fiscal year 2013 budget:

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<sup>7</sup> EDD's HPA unit oversees the Community Development Block Grant Program. CDBG seeks to ensure decent affordable housing, to provide services to the most vulnerable communities, and to create jobs through the expansion and retention of businesses. HPA oversees contracts with non-profits throughout the city to spend the entitlement funding on CDBG-approved projects.

<sup>8</sup> We calculated this amount using total capital data, as reported by the City to the Department of Commerce.

**Exhibit 1**

**Reorganization of City's Economic Development Functions**

Fiscal Year	Organizational Structure
2007	<ul style="list-style-type: none"> <li>Community and Economic Development, Planning, and Development Services are part of the Land Use and Economic Development Department</li> </ul>
2008	<ul style="list-style-type: none"> <li>Planning, Urban Form, Redevelopment and Economic Development organized into City Planning and Community Investment (CPCI)</li> <li>The BEAR team, Office of Small Business, Enterprise Zone, and CDBG Program are included in CPCI</li> </ul>
2009	<ul style="list-style-type: none"> <li>Planning, Urban Form, Redevelopment, Economic Development and Facilities Financing Program organized into CPCI</li> <li>Economic Development includes the BEAR Team, Tourism Marketing District, Office of Small Business, CDBG Program, Enterprise Zone, and the Business Finance Program</li> </ul>
2010	<ul style="list-style-type: none"> <li>Economic Growth Services, including the BEAR team and Government Incentives team becomes part of the Mayor's Office through Community and Legislative Services</li> <li>CPCI is organized into Planning, Urban Form, Economic Development, Redevelopment, and Facilities Financing Program. Economic Development includes Office of Small Business, CDBG Program, and Business Finance section</li> </ul>
2011	<ul style="list-style-type: none"> <li>Economic Growth Services, including the BEAR team and Government Incentives team, becomes part of the Mayor's Office through Community and Legislative Services</li> <li>CPCI organized into Planning, Urban Form, Economic Development, Redevelopment, and Facilities Financing Program. Economic Development includes the Office of Small Business, HUD Programs Administration (CDBG and other federal entitlement programs), and the Business Finance Section</li> </ul>
2012	<ul style="list-style-type: none"> <li>BEAR and Government Incentives teams organized into Mayor's Office of Economic Growth Services</li> <li>CPCI dissolved with planning function moving to Development Services and Economic Development Division, including HUD Programs Administration, Business Finance, and Office of Small Business, under Assistant Chief Operating Officer</li> </ul>
2013	<ul style="list-style-type: none"> <li>Economic Development Division and Economic Growth Services, including all programs, moved to Development Services Department</li> <li>Development Services reorganized into Customer Service and Department Administration, Permit Issuance and Code Enforcement Division, Economic Development and Project Management Division, Advanced Planning and Engineering Division, and Building Construction and Safety Division</li> </ul>

Source: OCA based on City budget data.

**Economic Development Program Related Budget**

According to the City's adopted fiscal year 2012 budget, the City allocated \$5.5 million in funding for EGS and EDD personnel and non-personnel expenditures. As shown in Exhibit 2, EDD had 33.30 FTEs and an operating budget of about \$4.4 million. EGS was allocated almost \$1.2 million and nine FTEs.

*Exhibit 2*

**City of San Diego Economic Development Program Budget and Personnel, Fiscal Year 2012**

Department/Program	FY 2012 Positions	FY 2012 Budget
<b>Mayor's Office of Economic Growth Services</b>	<b>9.00</b>	<b>\$1,169,327</b>
<b>Economic Development Division</b>		
-Economic Development	3.00	\$ 561,624
-HUD Program Administration	20.54	\$1,799,404
-Small Business and Neighborhoods	9.76	\$2,370,556
<b>Economic Development Division (TOTAL)</b>	<b>33.30</b>	<b>\$4,731,584</b>
<b>TOTAL</b>	<b>42.30</b>	<b>\$5,540,911</b>

Source: OCA based on City budget data.

**City of San Diego's  
General Plan**

The City refers to the General Plan as its constitution for development that sets out a long-range vision and policy framework for how the City should plan for projected growth and provide public services. Accordingly, the City's economic development efforts fall within the broad objectives of the General Plan. State law requires each city to adopt a general plan to guide its future development and mandates that the plan be periodically updated to assure its continuing relevance and value. It also requires the inclusion of seven mandatory elements: Land Use, Circulation, Housing, Conservation, Noise, Open Space, and Safety. However, State law permits flexibility in the presentation of elements and the inclusion of optional elements to best meet the needs of a particular city. The City of San Diego's General Plan addresses state requirements through the following ten elements: Land Use and Community Planning; Mobility; Economic Prosperity; Public Facilities, Services and Safety; Urban Design; Recreation; Historic Preservation; Conservation; Noise; and Housing. The City Council adopted the Strategic Framework Element in 2002 to guide the comprehensive update of the entire 1979 Progress Guide and General Plan. The City Council also adopted a subsequent update to the General Plan in 2008.

**Economic Prosperity  
Element of the General  
Plan**

The policies in this element are intended to improve economic prosperity by ensuring that the economy grows in ways that strengthen the City's industries, creates and retains good jobs with self-sufficient wages, increase average income, and stimulate economic investment in our communities. Several cross-cutting issues are addressed in the Economic Prosperity Element:

1. Industrial Land Use
2. Commercial Land Use
3. Regional Center and Subregional Employment Areas
4. Education and Workforce Development
5. Employment Development
6. Business Development
7. Community and Infrastructure Investment
8. Military Installations
9. Visitor Industries
10. International Trade, Maritime Trade, and Border Relations
11. Redevelopment
12. Economic Information, Monitoring, and Strategic Initiatives

Importantly, the Economic Prosperity Element calls for the City to prepare and update an Economic Development Strategic Plan every three years to report on economic trends, describe targeted industry clusters, identify economic issues for the City, inform infrastructure and land use priorities, develop strategies for addressing near to mid-term economic issues, and identify new initiatives with the private sector within the context of long-term goals. Further, the element provides for the development and sustained use of comprehensive economic and performance indicators to monitor community economic performance and assess the effectiveness of the City's economic development efforts.

As previously noted, the City of San Diego adopted a comprehensive update to the City's General Plan in 2008. Subsequently, the City adopted a General Plan Action Plan

(Action Plan) in 2009 to identify actions needed to bridge policy and implementation. The purpose of the Action Plan is to serve as a tool to monitor the City's implementation over time to assess progress and the effectiveness of the 2008 General Plan. The Action Plan identified short- (0-3 years), mid- (3-5 years), and long-term (5-10 years) timeframes for implementation. The 2010 General Plan Monitoring Report, accepted by the City Council on December 6, 2010, is intended to report on the progress on implementing the actions set forth in each of the elements of the General Plan.

**City Management Program, City Strategic Plan, and Department Tactical Plans**

The objective of the City Management Program is to integrate strategic planning and performance monitoring efforts with the budget decision-making process. As part of this program, the Mayor adopted a Citywide Strategic Plan, which, according to City officials, was informed by the General Plan and other sources of legislative and public input. The City Strategic Plan includes a sustainable growth and economic prosperity goal and the following objectives to serve that goal:

1. Plan for smart and coordinated growth;
2. Cultivate CleanTech and promote base and emerging sector industries, including manufacturing, international trade, and tourism, as well as support the military;
3. Develop fiscally-sound civic projects that enhance the San Diego's quality of life; and
4. Enhance water reliability through conservation and development of alternative resources.

Another part of the City Management Program involves the development and maintenance of department tactical plans for all Mayoral departments, and excerpts of those plans are included in the departments' budget narratives. Accordingly, EGS and EDD have presented department-specific goals, objectives, and performance measures in their budget narratives.

It is important to note that the City Management Program is an on-going process that has been affected by budget reductions. Information on the Program included in the City's budget for fiscal years 2011-2013 notes that new goals and objectives and



sizing/workload data have not been included in each of these fiscal years because of changes resulting from budget reductions and updates planned for the Citywide Strategic Plan. The City further notes that budget reduction for the fiscal years noted make it difficult to provide reliable projections of service levels and performance targets. In an analysis of the City's program measures, the City's Independent Budget Analyst (IBA) reported in February 2012 that the City's use of performance measures has evolved significantly since 2006.<sup>9</sup> The IBA further noted that the City included over 600 departmental performance measures in the fiscal year 2009 and fiscal year 2010 budget documents, suspended measures for fiscal year 2011, and issued 167 interim measures in 2012. In fiscal 2013, the City included 293 measures in its budget documents. Importantly, the IBA notes that the provision of measures has been at the discretion of the Mayor, and when provided, the measures have not been easily available to the public.

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<sup>9</sup> IBA Report 12-08, Feb. 3, 2012.

## Audit Results

### ***Finding 1: The City's Economic Development Strategic Plan Is Outdated, and Proposed Plan Lacks Key Elements Necessary for an Effective Economic Development Strategy***

Leading government and private sector organizations utilize strategic plans as the basic underpinning of goal-setting and performance measurement for key programs. At its most basic level, a strategic plan is an organization's articulation of an overall mission or vision translated into specific goals and actions that take into account current conditions, opportunities, challenges, and includes a framework for assessing progress. Given the scope, complexity, and cross-cutting nature of economic development programs, timely and robust strategic plans are a particularly important aspect of a successful economic development effort.

The City Council recognized the need for timely and effective economic development strategic planning and established policy accordingly. Specifically, City Council Policy 900-01 adopted in 1992 provides for an annual review and biennial submission to City Council of a comprehensive economic development strategy. However, it has been more than 10 years since the City last provided a formal update of its 2001 plan. The Mayor's Office of Economic Growth Services (EGS) prepared and presented a draft of the *City of San Diego Economic Development Strategy, 2011* to the City Council's Economic Development and Strategies Committee in January 2012, but the document has yet to be adopted by City Council.

Based on our review, the proposed strategy lacks several key elements of a general strategic plan, including a clearly stated mission, goals, objectives, and actions to achieve that mission, relevant economic indicators, and robust performance measures to assess program progress. As a result, the City lacks an effective tool for describing, planning, coordinating, and measuring outcomes for key City efforts that are intended to create jobs and broadly benefit the region's economic health.

**City's Economic  
Development Strategic  
Plan Is Outdated**

Although the City initiated work on updating its Economic Development Strategic Plan in 2011, the City has not formally updated its plan since 2001.<sup>10</sup> City officials indicated that the gap in the City's economic development strategic planning was due, in part, to restructuring and reorganizations of the City's economic development-related departments that took place in 2005, 2008, and 2011.<sup>11</sup> At the urging of the City Council, EGS prepared and presented a framework for an economic development strategy to the City Council's Rules, Open Government, and Intergovernmental Relations Committee in June 2011. The Committee recommended further work with the City Council Offices prior to finalizing the draft of the strategy. Subsequently, the City formed the Economic Development and Strategies Committee in 2012. In January 2012, EGS presented a draft of the *City of San Diego Economic Development Strategy, 2011* to that Committee. The document has yet to be adopted by City Council, pending results of this review.

Council Policy 900-01, "Economic Development," effective in 1992, provides the framework for a comprehensive economic development program and strategic plan which promotes and sustains a healthy diversified economy throughout San Diego." Importantly, the policy also provides for an annual review and biennial submission to Council of a comprehensive economic development strategy. As noted previously, the City had not submitted an economic development strategy for Council review since 2001.

The City's 2008 update to the General Plan provides additional policy guidance regarding the timing for the economic development strategic plan. Within the ten elements that comprise the General Plan, the Economic Prosperity Element provides that an Economic Development Strategic Plan be developed and updated every three years to, among other things, develop strategies for assessing near-to-mid-term economic issues within the context of long-term goals. In reports issued in 2007<sup>12</sup> and 2010,<sup>13</sup> the City's Independent

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<sup>10</sup> *The City of San Diego Community and Economic Development Strategy, 2002-2004*. Adopted by the San Diego City Council, May 15, 2001.

<sup>11</sup> See Background, pp. 7.

<sup>12</sup> IBA Report 07-115, Dec. 5, 2007.

Budget Analyst (IBA) noted that the economic development strategy was out of date and recommended that the City update the strategy and abide by the Economic Prosperity Element's three-year update timeframe.

Notwithstanding discrepancies between City Council policy guidance and the City's General Plan regarding timing, the City's 2002-2004 economic development strategy is outdated by either timeframe. As noted above, economic development efforts take place within the broader context of a constantly changing economic environment. Given that one of the main purposes of strategic planning is to establish priorities, out-of-date plans are not likely to reflect current priorities. Timely strategic planning is therefore essential to the overall relevance and effectiveness of the strategic planning effort.

**Proposed Economic  
Development Strategic  
Plan Lacks Critical  
Elements**

Based on our review of the proposed Economic Development Strategic Plan submitted for Council review in 2012, we found that the plan lacks several key elements, which limits the plan's utility for internal and external stakeholders. The proposed plan is divided into three main sections, including 1) a brief overview of San Diego economic climate; 2) broad descriptive information on San Diego's base sector industries; 3) descriptions of the City's various economic development programs

The Citywide Strategic Plan and the Mayor's annual reporting of excerpts of department-level tactical plans in the City's budget do provide important additional mechanisms for maintaining focus on the City's economic development programs and activities. However, the information included in those documents should supplement, not supplant the need for the comprehensive economic development strategy described in City Council policy and the General Plan's Economic Prosperity Element.

Relative to basic strategic planning criteria (summarized below), there are several shortcomings in the type and amount of information presented in the City's proposed economic development strategy. For example, the plan does not articulate an overall mission for the City's economic

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<sup>13</sup> IBA Report 10-37, Apr. 29, 2010.

development efforts, nor is there a clear connection to how or whether the various City economic development efforts are significantly improving economic conditions in the targeted base sector industries. As currently drafted, the proposed plan is an information summary of three distinct areas, with little connectivity between the sections. Although the types of information in the proposed plan would be essential parts of a strategic document, the overall content of the plan falls short of the comprehensive economic development strategic and goal-setting framework described in City Council policy and the General Plan.

Additionally, research and guidance from expert organizations, such as Government Finance Officers Association (GFOA), the National Performance Management Advisory Commission, the U.S. Government Accountability Office (GAO), the U.S. Office of Management and Budget (OMB), and the International City/County Management Association (ICMA), hold that an effective and useful strategic plan should contain the following elements:

- Mission
- Goals ,Objectives, and Actions
- Economic Indicators
- Performance Measures

Exhibit 3 summarizes the type of information contained in the City's proposed plan compared to the key essential elements of an effective strategic planning document.

*Exhibit 3*

**Comparison of Information in City of San Diego’s Proposed Economic Development Strategy and Key Strategic Planning Elements**

Types of Information In City Proposed Economic Development Strategy	Key Strategic Planning Elements Not Included in City’s Proposed Economic Development Strategy
<p><b>Economic Climate:</b> Proposed plan contains basic, limited information on the San Diego economic climate—the proposed plan devotes one paragraph in the 25 page document to a high level discussion of current economic conditions.</p> <p><b>Description of Base Sectors:</b> Proposed Plan contains broad descriptions of base sector industries in San Diego. The proposed plan provides brief synopses of the military, tourism, manufacturing (including biotech, CleanTech, defense and security industries, electronics and communications, and food and beverage), and international trade. Each sector description is followed by a brief narrative conclusion section that summarizes economic development opportunities in the sector.</p> <p><b>Program Description:</b> Proposed plan contains descriptive summaries of the City’s various economic development programs, but does not set forth specific goals or performance measures for the programs.</p>	<p><b>Mission:</b> An effective strategic plan should articulate the mission and vision of the City’s overall economic development efforts.</p> <p><b>Goals, Objectives, and Actions:</b> An effective strategic plan should include mid- to long-term goals and near-term objectives and actions for economic development efforts targeted at achieving the overall mission.</p> <p><b>Economic Indicators:</b> Effective economic development strategic planning efforts should include establishing and monitoring a range of regional, community-level, and industry sector-specific economic indicators to establish the context for the plan.</p> <p><b>Performance Measures:</b> An effective strategic plan should include a range of performance measures to assess progress towards achieving specific program objectives, as well as progress towards fulfilling the overall economic development mission.</p>

Source: OCA analysis.

We also reviewed economic development strategies for nine U.S. cities, and compared the content of those strategy documents with the general criteria described above.<sup>14</sup> Although the specific content and presentation varied among the cities, the cities consistently addressed key strategic planning elements. (See Exhibit 4)

**Exhibit 4**

**Selected Cities' Economic Development Strategic Plan Elements**

City (State)	Clearly Stated Mission, Goals, Objectives, and Actions	Economic Indicators	System of Performance Measurement
Atlanta (GA)	Yes	<ul style="list-style-type: none"> <li>• Uses data from multiple sources to analyze current situation and establish priorities</li> <li>• Identifies three primary components of the economy</li> </ul>	<ul style="list-style-type: none"> <li>• Report comparing projected goals to actual results</li> </ul>
Denver (CO)	Yes	<ul style="list-style-type: none"> <li>• Demographic and spatial data informs the strategies and allocation of resources</li> </ul>	<ul style="list-style-type: none"> <li>• Outputs delineated for each objective in the plan</li> <li>• Conduct additional analysis as part of plan implementation</li> </ul>
Dallas (TX)	Yes	<ul style="list-style-type: none"> <li>• Outlines economic, demographic, and geographical changes necessitating a new strategic approach</li> <li>• Lists indicators to track progress along desirable economic outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Individual workplans aligned with strategy</li> <li>• Project tracking database</li> <li>• Semiannual scorecard</li> <li>• Client relationship management database</li> </ul>
Los Angeles County (CA)	Yes	<ul style="list-style-type: none"> <li>• Identifies risks associated with not having a proactive strategic plan</li> <li>• Identifies five components central to economic development success</li> <li>• Surveyed businesses to determine challenges, threats, and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Annual reporting along goals and objectives compiled from inquiries to LA County government agencies, news articles, and press releases</li> </ul>

<sup>14</sup> We reviewed economic development strategies from Atlanta, GA; Denver, CO; Dallas, TX; Los Angeles County, CA; Portland, OR; San Antonio, TX; San Francisco, CA; San Jose, CA; and Seattle, WA.

City (State)	Clearly Stated Mission, Goals, Objectives, and Actions	Economic Indicators	System of Performance Measurement
Portland (OR)	Yes	<ul style="list-style-type: none"> <li>• Outlines changing economic conditions from economy defined by natural resources to an economy with global green opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Two Year Status Report highlighting progress with job creation and economic vitality goals</li> </ul>
San Antonio (TX)	Yes	<ul style="list-style-type: none"> <li>• Background section provides an overall assessment of, but not limited to, the geography of the region, its population, economy, workforce, and education issues</li> </ul>	<ul style="list-style-type: none"> <li>• Specific performance measures outlined</li> </ul>
San Francisco (CA)	Yes	<ul style="list-style-type: none"> <li>• Describes the City's economic performance and economic drivers</li> </ul>	<ul style="list-style-type: none"> <li>• Plans to evaluate and refocus the City's assistance programs for business and evaluate economic impact of the City's policies on business</li> </ul>
San Jose (CA)	Yes	<ul style="list-style-type: none"> <li>• Illustrates the structure and characteristics of the San Jose economy, and changes since 2004</li> <li>• Highlights milestones from the implementation of the previous economic development strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of 18-month work plans to implement strategy</li> <li>• Tracks jobs and revenue generated for both completed projects and projects in progress</li> </ul>
Seattle (WA)	Yes	<ul style="list-style-type: none"> <li>• Explicitly lists challenges hindering future economic development</li> <li>• Identifies three principles guiding economic decisions</li> <li>• Lists five key indicators for economic benchmarking</li> </ul>	<ul style="list-style-type: none"> <li>• Track select indicators and report progress with plan implementation</li> <li>• Develop a website where public can view progress of specified initiatives</li> </ul>

Source: OCA analysis of selected cities' economic development strategic plans.

*Mission, Goals, Objectives, and Actions*

Clearly defined goals, objectives, and actions are essential to achieving the mission of any economic development initiative in that they provide context and accountability. The clearer and more precise these elements are, the better able the City will be to maintain a consistent direction, regardless of leadership and other organizational changes.



Several of the stakeholders we interviewed, including officials from other economic development organizations in San Diego and industry associations, indicated that it is important for the City to have an economic development strategy that clearly communicates the City's mission. First, a clearly communicated mission is a signal to the business community and the public that economic development is a priority. Second, a description of specific goals and objectives is helpful to the business community because it delineates the City's roles and responsibilities. Lastly, economic development officials that we interviewed from several other cities told us that their city's economic development plan had been valuable in their communications with the business community. For example, officials from Los Angeles County, Seattle, and Portland indicated that their economic development strategic plans had been an important tool for recruiting and retaining businesses in their regions. Specifically, these officials said they were able to use their strategic planning documents to communicate overall mission and priorities to businesses, as well as provide a clear picture of the types of services available to businesses and the strategic rationale for providing the services.

*Economic Indicators*

Current economic indicators provide crucial context for the overall strategy, and the City's economic development strategy would be improved by tracking relevant indicators. The GFOA and other expert organizations emphasize the importance of establishing the economic context within which a program operates as a first step to establishing an effective strategic plan. More specifically, the Economic Prosperity Element of the General Plan contains clear direction for the formulation and ongoing monitoring of community economic indicators. The Economic Prosperity Element calls for 1) the monitoring and reporting of economic indicators on an ongoing basis, 2) the provision of regular indicator reports, 3) updates to the indicators as new information becomes available, 4) utilization of the indicators to identify the need for new strategies and priorities for public investment. Utilizing economic indicators for the City of San Diego would logically provide the most useful data to inform decisions on City-specific programs. However, it is acknowledged that economic indicators specific only to the

City of San Diego may be difficult to assemble. In instances where City-specific indicators are impractical, regional indicators may be the only reasonable approach.

We found that the City had an internal effort underway from about 2006 to 2009 to monitor a range of community economic indicators. However, that process was suspended in 2009. According to a cognizant City official, the effort was suspended following the reorganization of the City's economic development departments in 2008. We also found that other organizations, including the San Diego Association of Governments, have robust efforts to track a range of economic indicators, which the City could use in place of or to supplement its own efforts. Officials from those organizations also indicated that this would be an obvious area where the City could partner externally to obtain information that would be useful to the City's economic development strategic planning efforts.

Economic development planning officials from several of the cities we reviewed emphasized the importance of economic indicators as part of their planning efforts. Officials from Portland, Seattle, and Los Angeles County each indicated that their respective economic development strategic planning efforts began with an extensive analysis of regional and industry-specific indicators to determine regional and cluster strengths and weaknesses. For example, the City of Seattle produces a separate economic indicators report that is intended to provide key dashboard metrics that align with the city's economic development efforts. The indicators report includes a variety of metrics on business income, job growth, business start-ups and closures, educational system performance, and income distribution. Seattle officials and other officials that we interviewed noted that they continue to monitor these types of indicators to help assess direct and indirect economic development program effectiveness in their regions.

*Performance Measures*

The National Performance Management Advisory Commission notes that "it is impossible to overstate the importance of measurement in the operations of government." Internally, an effective performance measurement system can help organizations understand how decision-making processes or

practices led to success or failure in the past and how that understanding can lead to future improvements. Within the context of a city's economic development efforts, performance measurement and reporting is also a valuable tool for communicating results externally to the business sector and to the public, and can be used as the platform upon which to openly discuss how to improve results.

GFOA, ICMA, and other organizations suggest that it is important to establish a range of performance measures to assess the quantity, quality, timeliness, cost, and outcomes for economic development efforts. Economic development officials from San Diego, other municipalities, and other organizations that we interviewed noted the difficulty in determining specific impact of program efforts. For example, fluctuations in the overall economic environment may make it difficult to determine if a specific economic development program is achieving the intended outcome. That is, a weak economic climate may not necessarily mean that a specific City program is ineffective, and vice versa. Notwithstanding the effects of externalities on program measurement, research and experts we interviewed indicated that it is essential to maintain a range of performance measures to monitor overall trends and outcomes of economic development efforts.

Recently, several City Council members have expressed support for the development and implementation of performance measures for City programs, including measures related to economic development. Additionally, the IBA has made previous recommendations to the Mayor to provide consistent, data-driven performance measures to evaluate progress towards achieving City program and policy goals, and has compiled and published input from City Council on this issue.<sup>15</sup>

To obtain additional perspective on economic development performance measurement, we reviewed the economic development strategic plans for nine cities. Each of the cities' plans described a range of performance measures, although the specific types of measures varied among the cities. While the

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<sup>15</sup> For example, see IBA Report 12-08, Feb. 3, 2012; IBA Report 12-12 REV, Mar. 15, 2012; and IBA Report 12-16, Apr. 27, 2012.

types of measures varied, it is noteworthy that each of the plans we reviewed included some range of measures to assess progress towards broader goals and/or to identify progress towards completing specific tasks. For example, the City of Dallas’s plan utilizes a range of broad performance outcome-related measures as proxies to indicate progress towards achieving each of its desired outcomes (goals). The relevant portion of the plan is summarized in Exhibit 5 to illustrate the types of measures employed.

**Exhibit 5**

**City of Dallas Selected Economic Development Goals and Performance Measures**

Economic Development Goal	Related Performance Measures
Economic Growth	<ul style="list-style-type: none"> <li>• Labor force employment</li> <li>• Payroll employment</li> <li>• Real estate construction, by type</li> <li>• Building permits and value</li> </ul>
Economic Opportunity	<ul style="list-style-type: none"> <li>• Unemployment rates</li> <li>• Estimated underemployment rates</li> <li>• Per capita personal income</li> <li>• New business starts, by industry</li> <li>• Commercial occupancy rates</li> <li>• Median home value</li> </ul>
Sustainable Revenue	<ul style="list-style-type: none"> <li>• Total city revenue</li> <li>• City revenue by source</li> </ul>

Source: City of Dallas, Office of Economic Development.

Other cities include more specific, output-related measures as part of their economic development performance assessment. For example, the City of Seattle publishes specific department-level goals and targets with agreed-upon dates of completion, as well as an assessment of whether the target or goal has been met. Exhibit 6 provides an excerpt of Atlanta’s performance assessment process to illustrate the types of measures employed in the City of Seattle economic development department.

**Exhibit 6**

**City of Seattle Selected Economic Development Goals and Performance Measures**

Economic Development Goal	Related Performance Measures
Strengthen and Revitalize Neighborhood Business Districts and Commercial Districts	<ul style="list-style-type: none"> <li>• Award \$1 million through the “Only in Seattle” framework</li> <li>• Implement storefront/façade improvements</li> <li>• Add 2-5 neighborhood business districts to the “Only in Seattle” campaign</li> </ul>
Improve Navigation of Business Permitting Processes and Access to Services	<ul style="list-style-type: none"> <li>• Complete evaluation with specific recommendations on ways to better integrate the delivery of the City’s environmental services to businesses</li> <li>• Make recommendations on affordable and effective ways to assist businesses in the navigation of permits necessary to open restaurants</li> <li>• Execute recommendations for improvements in the delivery of environmental services and assistance to restaurants</li> </ul>

Source: City of Seattle, Office of Economic Development.

An economic development strategic plan that contains the type of key elements described above and builds upon existing City efforts would provide the City with 1) an important internal tool for managing the cross-cutting efforts of the several City departments that must necessarily be involved in economic development; 2) critical information to facilitate decision-making, planning, and prioritization of limited resources among individual economic development programs; 3) a clear and comprehensive description of the City’s roles and responsibilities versus those of key external stakeholders; 4) an opportunity to provide the business community and the public with a clear, holistic description of City efforts; 5) a comprehensive set of indicators to identify the need for new strategies and priorities for public investment; and 6) an adequate range of performance measures to assess the quantity, quality, timeliness, cost, and outcomes for the City’s economic development efforts.

**Recommendation #1** The City Council's Economic Development and Strategies Committee should review existing City Council policies to 1) clarify when and how frequently the City should submit the Economic Development Strategic Plan to the City Council and the timing for any interim reviews; and 2) establish guidelines for the content of the Economic Development Strategic Plan that requires inclusion of the elements necessary for a robust and comprehensive economic development effort. (Priority 2)

***Finding 2: The City's Proposed Economic Development Strategic Plan Should Be Better Aligned with other Key City Strategic Efforts to Improve Central Coordinating Role***

The City's proposed Economic Development Strategic Plan focuses only on a portion of the City's economic development tools and consequently requires additional alignment with other strategic and operational documents.<sup>16</sup> The proposed strategy addresses only the economic development efforts carried out by the Mayor's Office of Economic Growth Services (EGS) and the Economic Development Division (EDD). However, as noted in the General Plan's Economic Prosperity Element, there are several other City programs and activities that directly affect economic development in the region, including efforts related to land use, capital improvement, workforce development, water, housing and redevelopment, and transportation, among others. These efforts need to be appropriately reflected in the City's strategy to provide a basis for coordination and to provide internal and external stakeholders with a clear context for how the various efforts are interrelated. Additionally, the economic development strategy needs to be consistently reflected in the relevant portions of the Citywide Strategic Plan and department-level information presented as part of the budget process. As noted in the General Plan, the economic development strategy is intended to be a comprehensive synthesis of the totality of the City's economic development efforts. Accordingly, it is essential that the plan contain linkages 1) upward to higher level strategy and policy; 2) laterally to other relevant comprehensive City plans; and 3) outward to external stakeholder efforts.

From a strategic planning standpoint, better alignment of goals, priorities, and strategies across interrelated programs and efforts would greatly enhance the City's ability to link its economic development vision down to operations and leverage

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<sup>16</sup> It was beyond the scope of this review to assess the adequacy or effectiveness of other City program's strategic planning efforts. Nevertheless, the interrelationship between the programs with a direct or indirect economic development component is a critical aspect of the City's overall economic development effort.

other programs to achieve citywide goals. From an operational standpoint, establishing ongoing mechanisms and processes for coordination would further benefit the City's economic development efforts. To that end, we identify two key potential areas the City should address to better leverage its central coordinating economic development role. Specifically, the City should 1) establish a mechanism or process for coordinating with other City programs and activities that have an economic development component, and 2) improve processes and mechanisms for strategically coordinating its efforts with its key external partners on economic development.

**Proposed Economic Development Strategic Plan Needs Stronger Upward Alignment to City's General Plan**

Based on our review, the proposed strategic plan does not incorporate references or direct linkages to the General Plan's Economic Prosperity Element. The General Plan's Economic Prosperity Element is the City's principal, comprehensive articulation of high-level, long-term economic development policy. The element links economic prosperity with land use and employment policies and underscores the connectivity to the other elements set forth in the General Plan.

According to the Economic Prosperity Element, the City's Economic Development Strategic Plan should operationalize the broad policies established in the element. Specifically, the Economic Prosperity Element states that the strategic plan is to

"further refine the policies in this element. It translates regional economic and quality of life information to more specific economic policies and programs. Regular updates to the strategy will identify those industries that are growing for which San Diego is competitive in the global marketplace."

Accordingly, there should be a direct connection between the policies outlined in the Economic Prosperity Element and the goals, objectives, and actions set forth in the Economic Development Strategic Plan. This type of connectivity would, for example, require the proposed strategy to include a section on land use policy and establish strategic economic development goals that comport with this policy. This type of connection is especially critical given the important relationship between land use policy and economic development. For example, a city's policy determination to designate specific



lands for industrial use provides the opportunity for the establishment of job-creating industry in that location. As a result, land use is directly correlated to whether economic development occurs in that specific area. As noted in the Economic Prosperity Element, “the supply and type of employment land uses in the City are significant factors in determining the ability of the City to meet the needs of a rapidly changing economy.” Further, the element states that the “diminishing supply of industrial land is a potential challenge to the growth and retention of base sector industries providing middle-income job opportunities in the City.” Without aligning land use policy with the economic development strategy, the City cannot take the necessary steps to define and carry out economic development priorities.

**Proposed Economic  
Development Strategic  
Plan Needs to be  
Aligned Laterally with  
Other Comprehensive  
City Plans**

As noted above, the City’s economic development efforts extend beyond the scope of the programs administered by EGS and EDD. Accordingly, the City Economic Development Strategic Plan needs to establish clear lateral connectivity to the breadth of the City’s interrelated efforts on economic development issues.

The City’s General Plan, GFOA guidelines, and leading industry practices hold that a city’s economic development strategy should include the full range of programs that have a bearing on economic development outcomes, including efforts related to infrastructure, workforce development, housing and redevelopment issues, and transportation, among others. Aligning plans within the Economic Development Strategic Plan does not require that the economic strategy subsume or supplant the strategic planning efforts of any other program. Rather, proper strategic alignment of related goals for various city efforts would provide a mechanism for greater coordination and contextual awareness of the manner and extent to which a particular program is contributing to the broader economic development mission. Additionally, a document that describes and aligns the various interrelated efforts would provide the City with a valuable tool for communicating its mission and demonstrating the scope of City efforts to external stakeholders, including the business community.

Other cities’ economic plans that we reviewed each included a

robust description of all interrelated efforts across a range of city programs. Each of these cities' plans specifically noted the importance and benefit of alignment for purposes of coordinating among various departments. For example, the City of Seattle's economic development strategic plan focuses on the connectivity between investment in capital infrastructure projects and economic development in the city. The plan describes how major infrastructure initiatives are engines of job creation and sets forth priorities for those projects that correspond to the city's overall economic development goals. Similarly, the plan also references zoning, land use, workforce, and education issues and specifically ties those issues to its overall economic development goals.

Two specific examples underscore the need for better lateral alignment between the City's Economic Development Strategy and other comprehensive efforts. First, the proposed strategy is not linked nor aligned in any way to the City's Capital Improvement Program (CIP).<sup>17</sup> GFOA guidance notes the importance of integrating economic development strategy with capital improvement projects so that these related efforts can occur in concert with each other. By so doing, communities can realize the benefits of the capital investments in job creation and infrastructure improvement.

Second, the proposed strategy is not aligned with the Community Development Block Grant (CDBG) Consolidated Plan. In general, the purpose of the CDBG Consolidated Plan is to 1) identify a city's or state's housing and community development (including neighborhood and economic development) needs, priorities, goals and strategies, and 2) stipulate how funds will be allocated to housing and community development activities. The lack of explicit alignment with CDBG's housing and community development needs, priorities, and goals significantly limits the potential effectiveness of the economic development strategy.

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<sup>17</sup> Our 2011 performance audit report on the City's Capital Improvement Program (CIP) noted the importance of aligning the City's CIP with the General Plan. The report also highlighted other challenges of aligning interrelated City efforts. For example, the report noted challenges resulting from a lack of coordination between the City's CIP and the use of CDBG funds. These issues serve to underscore the need for coordination and alignment between related City efforts. See OCA-11-027, June 29, 2011.

**Proposed Economic  
Development Strategic  
Plan Should Include  
Outward Linkages**

At a general level, the City's economic development efforts are part of the broader regional economic development environment. Other economic development entities (such as the San Diego Regional Economic Development Corporation, the San Diego Regional Chamber of Commerce, and the San Diego Association of Governments), industry associations, academic institutions, non-profit organizations, and individual businesses are among the City's key external partners in economic development. Accordingly, the City's Economic Development Strategic Plan should identify points of intersection with those groups' goals and actions. By so doing, the City could better delineate stakeholder roles and responsibilities for interrelated economic development efforts. It is noteworthy that many of the officials from stakeholder organizations that we interviewed were unaware of any economic development strategic planning effort on the part of the City. Additionally, several of the officials indicated that the region's overall economic development would be improved by a greater coordination and stronger linkages between stakeholders' program efforts.

Several types of benefits would accrue to the region's economic development by establishing alignment between the various actors' plans, goals, and actions. Firstly, the process of identifying and describing other groups' efforts, is, in and of itself, a mechanism for improving coordination—not only for the City, but for all involved groups as well. For example, meetings with external stakeholders to catalog, describe, and categorize the various groups' efforts would be a *de facto* coordinating process. Secondly, establishing linkages provides an opportunity to determine each groups' comparative advantage with regard to furthering economic development, and provides an opportunity for each group to benefit from the others' expertise. Thirdly, aligned efforts can deter potentially duplicative, uncoordinated efforts and promote a more mutually beneficial use of resources.

Each of the other cities' economic development strategic plans that we reviewed contained sections that explicitly described the efforts of external partners and specifically delineated

partner groups' roles and responsibilities in relation to the cities' efforts. In each case, the plans enumerated the importance and benefit of aligning the cities' efforts with those of the external partners. In general, most of the plans we reviewed described mechanisms for outreach to partner groups, and the partner groups were often part of a formal process for developing and vetting the cities' strategic plans.

**City Should Better  
Leverage its Central  
Coordinating Role**

Effective economic development results from a collaborative process involving local government, other economic development entities, and private industry. Some economic development experts note that local governments occupy a unique position within the broader economic development landscape. Specifically, experts and research emphasize that local governments' greatest comparative advantage with regard to economic development is the central role the government can play as a convener and facilitator. Improved strategic planning will better enable the City to maximize the value of its economic development efforts. However, it is also important that the City take steps to improve and further develop processes and mechanisms to operationalize its coordinating role.

Several of the cities' plans that we reviewed described specific internal and external coordinating mechanisms and highlighted their importance in helping the city and region carry out the actions and achieve the goals set forth in the strategic plans. In these cases, the plans noted the importance of clearly delineating the role of the various stakeholders in meeting the strategic objectives. Exhibit 7 summarizes the types of coordinating efforts employed in several of the cities we reviewed.

*Exhibit 7*

**Selected Cities' Economic Development Strategic Stakeholder Collaboration and Coordinating Mechanisms**

City (State)	Strategic Stakeholder Collaboration Key Features	Coordinating Mechanism
<b>Atlanta (GA)</b>	Strategic input from several City of Atlanta departments, economic development organizations, community and civic groups, and public school system	Action plan with process owners assigned, launch dates, and completion dates
<b>Denver (CO)</b>	Strategic input via residential surveys and public meetings	Annual action plans; multi-agency Development Council
<b>Dallas (TX)</b>	Focus on partnerships to improve the flow of information and leverage resources	Defines role of the City and multidisciplinary teams; lists specific stakeholders accountable for each goal; individual workplans
<b>Los Angeles County (CA)</b>	Strategic input via extensive private, public, and non-profit surveys and numerous public input forums	Identifies "Champions" within government departments, education institutions, industry, and other stakeholders to guide implementation of actions within each strategic goal
<b>Portland (OR)</b>	Strategic coordination between Portland Development Commission, Mayor's Office, and numerous private and public sector committees	Each action step includes a list or responsible parties who will collaborate on its implementation
<b>San Antonio (TX)</b>	Strategic collaboration with regional council of governments	Implementation Groups designated for each goal
<b>San Francisco (CA)</b>	Strategic input via community surveys; development of strategic plan confirmed via ballot initiative	Mayor's Office of Economic and Workforce Development charged with ensuring that City departments continue to act in a coordinated manner and advance the priorities and goals of the strategy
<b>San Jose (CA)</b>	Strategic plan developed by senior City executives in collaboration with private sector researchers and consultants	Action plan for each economic development objective with process owners assigned
<b>Seattle (WA)</b>	Strategic coalition between government, private sector, non-profits, and labor	Regular tracking of key indicators; coordination and alignment through the Mayor's Office by Executive Order

Source: OCA analysis of selected cities' economic development strategic plans.

As currently structured, the City's economic development efforts are primarily narrowly defined as the programs administered by EGS and EDD. However, as noted above, economic development is a much broader endeavor, and should be more properly defined as the sum of interrelated efforts and programs that cut across several City departments. We identified two areas that the City should consider addressing in order to better leverage its central, coordinating role.

First, the City needs to establish a mechanism or process to better coordinate across other departments that have an economic development component or engage in activities that could improve economic development efforts. The lack of alignment between departments' interrelated efforts is exemplified by the gaps in the proposed strategic plan. The City Management Program and Citywide strategic planning process provide potentially valuable mechanisms for facilitating interdepartmental coordination on economic development. In addition to improving the strategic planning process through greater alignment across programs, an on-going formal process or mechanism for coordination among departments will result in a more cohesive, thorough economic development effort.

Second, and perhaps most importantly, the City needs to improve and further develop processes and mechanisms for strategically coordinating with external partners on economic development issues. The City currently oversees a number of advisory boards, initiatives, workshops, and roundtables related to specific economic development efforts. For example, the Mayor holds Economic Roundtables with private sector business managers to focus on regional economic issues, and EDD oversees efforts such as the Small Business Advisory Council and the City's Business Improvement District Council. Additionally EGS and EDD staff meet with over 50 outside organizations engaged in some form of activity with a bearing on economic development. Further, the City is represented in the memberships, boards, and committees of multiple external stakeholder groups. While these efforts are valuable components of the City's economic development program, the City needs to clearly identify and convey how these programs

relate to and support an overall strategy. Several experts, industry representatives, and other external groups' staff cited the need for the City to employ more systematic, regularized coordination with external partners and other stakeholders. Many interviewees noted a high degree of satisfaction with EGS and EDD staff expertise and responsiveness on day-to-day issues. However, many of the same interviewees indicated that the City's efforts would benefit from a clearer delineation of roles and responsibilities. Further, several interviewees noted that City Council's recently established Economic Development and Strategies Committee provides a potentially valuable forum for this type of collaboration and indicated that the City should leverage that venue for outreach and input solicitation purposes.<sup>18</sup>

Finally, it is important to note that EGS and EDD are municipal departments whose core missions relate specifically to the City of San Diego. Nevertheless, San Diego is a key municipality within the broader regional economic development landscape. Accordingly, the City's economic development efforts will necessarily have both direct and indirect effects on the region. The City can and should continue to develop and improve its network of external partners, and should do so in a strategic way that establishes clear divisions of labor, augments value-added reciprocity with partners, and maximizes taxpayer value.

**Recommendation #2** The City should immediately undertake an effort to engage in an internal and external coordination process to develop a clear and comprehensive statement of economic development mission and associated goals, objectives, actions, and measures. The City should ensure that the revised strategy addresses the elements set forth in City Council policies, and General Plan guidance, including those elements described in this report. This effort can and should build upon the department-level goals and measures that the City included in its Fiscal Year 2013 Proposed Budget but should be expanded to encompass other City efforts related to economic development. This effort should include regular reporting to City Council's Economic Development

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<sup>18</sup> We provide a suggested roadmap of recommended next steps for the Economic Development and Strategies Committee in Appendix D.

and Strategies Committee. (Priority 2)

**Recommendation #3** As part of an ongoing strategic planning process, the City should determine necessary points of alignment with the General Plan and other relevant comprehensive city plans to determine how and to what extent those efforts should be formulated in the next version of the economic development strategic plan. (Priority 2)

**Recommendation #4** The City should establish and further develop formal and ongoing internal and external coordinating mechanisms specifically related to the City's economic development strategy. This effort should occur in consultation with City Council's Economic Development and Strategies Committee to take advantage of the Committee's oversight and coordinating role with regard to economic development. (Priority 2)



# Conclusion

The City's economic development efforts are a direct investment in the economic prosperity of the city and the region. It is important to note that there are numerous factors that affect economic development, and there are limits to what the City can do on its own. As noted throughout this report, effective economic development is contingent on the coordinated efforts of the City, other economic development entities, and private industry. Nevertheless, the City is uniquely positioned to have positive direct and indirect impacts on the direction of economic development in San Diego and the broader region. Importantly, the recent organizational restructuring of the City's core economic development departments and the upcoming mayoral election underscore both the need and the opportune timing for the City to further develop and improve its economic development strategy. A sound and stable economic development strategy is essential, particularly given the inevitability of changes in leadership, organizational structure, and policy focus.

In order to leverage its unique position within the broader economic development landscape, the City needs to take several steps to safeguard its investment in the economic well-being of the San Diego region. First, the City needs a clear articulation of its intended outcome for economic development and needs to explicitly lay out the path to achieve that outcome. Further developing and improving the City's economic development strategic plan is an effort that will likely take several years, but it is a process that needs to begin immediately.

Second, in addition to the strategic planning process, the City must necessarily take steps to better coordinate its economic development efforts internally and externally. As currently conceived, the limited scope of the City's economic development definition inhibits the City's capacity to fully realize the benefits of its investment in the region's economic well-being. Aligning and coordinating the City's economic

development efforts will enable the City to better deploy its limited resources to targeted efforts related to economic development.

## Recommendations

- Recommendation #1** The City Council's Economic Development and Strategies Committee should review existing City Council policies to 1) clarify when and how frequently the City should submit the Economic Development Strategic Plan to the City Council and the timing for any interim reviews; and 2) establish guidelines for the content of the Economic Development Strategic Plan that requires inclusion of the elements necessary for a robust and comprehensive economic development effort. (Priority 2)
- Recommendation #2** The City should immediately undertake an effort to engage in an internal and external coordination process to develop a clear and comprehensive statement of economic development mission and associated goals, objectives, actions, and measures. The City should ensure that the revised strategy addresses the elements set forth in City Council policies, and General Plan guidance, including those elements described in this report. This effort can and should build upon the department-level goals and measures that the City included in its Fiscal Year 2013 Proposed Budget but should be expanded to encompass other City efforts related to economic development. This effort should include regular reporting to City Council's Economic Development and Strategies Committee. (Priority 2)
- Recommendation #3** As part of an ongoing strategic planning process, the City should determine necessary points of alignment with the General Plan and other relevant comprehensive city plans to determine how and to what extent those efforts should be formulated in the next version of the economic development strategic plan. (Priority 2)
- Recommendation #4** The City should establish and further develop formal and ongoing internal and external coordinating mechanisms specifically related to the City's economic development strategy. This effort should occur in consultation with City Council's Economic Development and Strategies Committee to take advantage of the Committee's oversight and coordinating role with regard to economic development. (Priority 2)

# Appendix A: Definition of Audit Recommendation Priorities

## DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class <sup>19</sup>	Description <sup>20</sup>	Implementation Action <sup>21</sup>
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

<sup>19</sup> The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

<sup>20</sup> For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

<sup>21</sup> The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

## Appendix B: Audit Objectives, Scope, and Methodology

In accordance with the City Auditor's Fiscal Year 2012 Audit Work Plan, we conducted a performance audit of the City's economic development programs. Specifically, our objectives were to:

1. Evaluate the City's overall economic development strategy; and
2. Assess the extent to which the City's economic development strategy was coordinated and aligned with other relevant internal and external efforts.

To answer these objectives, we reviewed legal and policy documents relating to the City's economic development programs, including relevant sections of the San Diego Municipal Code, the General Plan, and City Council policies. To gain further understanding of the City's specific economic development programs, we reviewed department budget submissions, organizational charts, department policies, relevant documents submitted for City Council committee meetings, economic development program descriptions, and, where applicable, legal documents that govern the operations of certain programs. Further, we reviewed existing and proposed versions of the City Economic Development Strategic Plan.

To gain additional understanding of various components of economic development external to the City's efforts, we met with representatives from the San Diego Regional Economic Corporation, the San Diego Regional Chamber of Commerce, and several other key industry group representatives. Additionally, we conducted extensive interviews with a range of economic development experts, including representatives from academic institutions, non-profit organizations, and former City officials who had been involved with economic development during their tenure with the City.

Finally, we reviewed economic development strategic plans from nine selected US cities and conducted follow-up interviews with representatives from three of those cities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix C: Program Funds Administered by the Economic Development Division and Economic Growth Services, Fiscal Years 2010-2012

Division/ Department	Program	Funding Source	FY10 Budget	FY11 Budget	FY12 Budget	Source Notes
Economic Development Division	Community Development Block Grant (CDBG) - Community and Economic Development, Public Facilities and Improvements, Housing Rehabilitation, Public Services, Fair Housing Services, CDBG Administration	HUD Annual Entitlement Grant	\$15,207,728	\$16,324,037	\$13,602,765	Represents funding allocations awarded to Microenterprise Assistance Projects and Community Development Projects, CIP (construction, rehabilitation) projects, public service projects, CDBG administration, HUD 108 loan payments
Economic Development Division	Maintenance Assessment Districts (MADs)	Property Assessments	\$3,638,706	\$3,819,084	\$3,107,038	FY 10, FY11, FY12 adopted budget; does not include MADs administered by Department of Parks and Recreation
Economic Development Division	Downtown Property and Business Improvement District (PBID)	Property Assessments	\$7,427,546	\$7,018,551	\$6,713,112	FY 10 Budget - FY12 Engineer's Report; FY11 and FY12 budgets derived from SAP Budget Reports
Economic Development Division	San Diego Tourism Marketing District	Hotel Assessments	\$24,902,329	\$22,762,359	\$26,077,202	Annual reports from SAP showing assessment revenue
Economic Development Division	Small Business Enhancement Program (SBEP) - Per Council Policy 900-15	Appropriation that equals \$20 (out of the \$34 business tax license) up to 80,000 of small businesses registered with the City	\$1,600,000	\$1,600,000	\$1,600,000	Council Policy 900-15

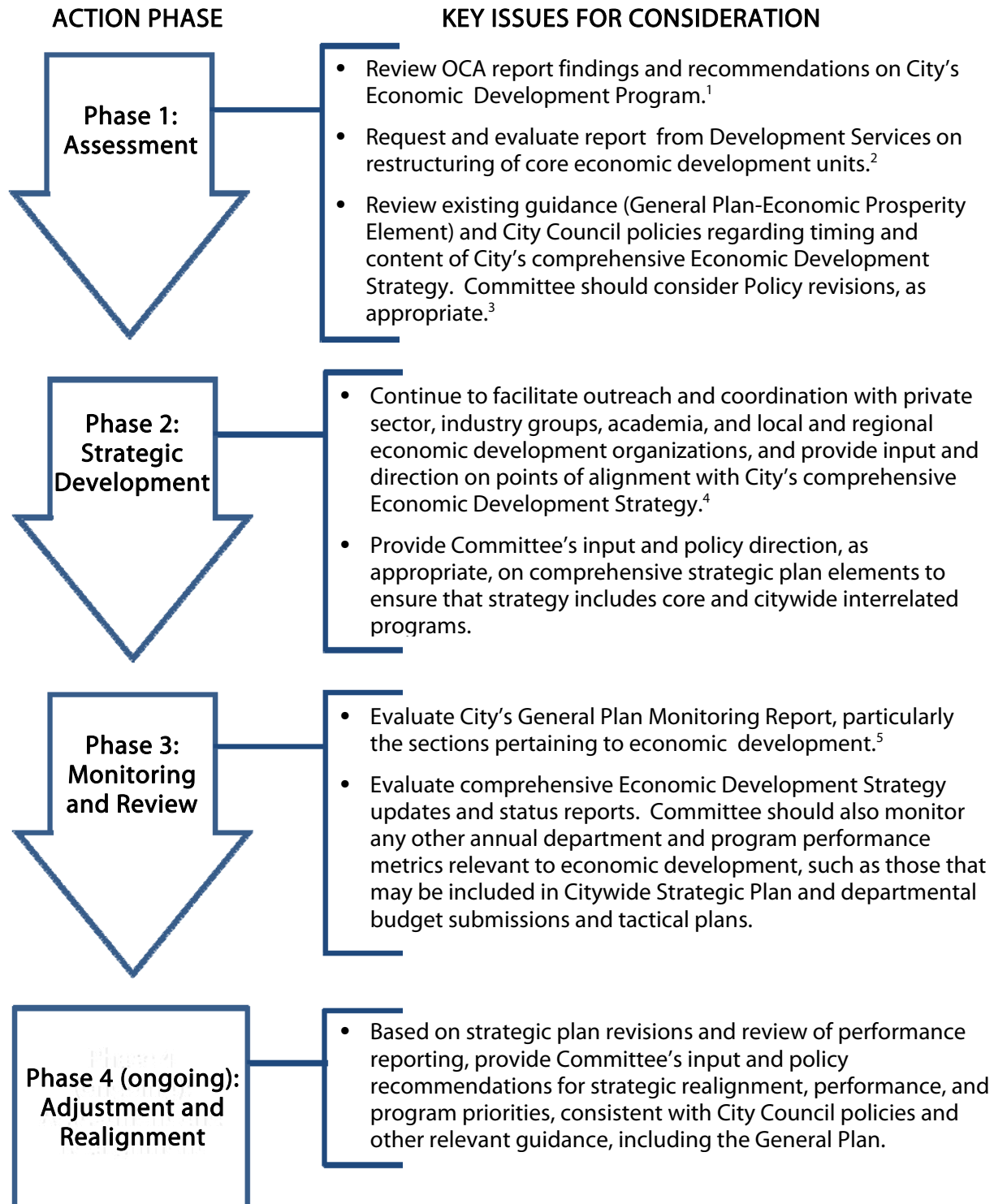
Performance Audit of the Economic Development Program

Division/ Department	Program	Funding Source	FY10 Budget	FY11 Budget	FY12 Budget	Source Notes
Economic Development Division	Business Finance - San Diego Regional Revolving Loan Fund -EmTek Fund -Metro Revolving Loan	Federal - Economic Development Administration (EDA)	\$3,680,833	\$3,097,175	\$3,225,816	Reflects total capital base listed in semi-annual reports to U. S. Department of Commerce, Economic Development Administration
Economic Development Division	Business Improvement District	Business Assessments	\$1,524,005	\$1,647,200	\$1,757,944	Reflects appropriations amount listed in FY10, FY11, FY12 BID budget narratives
Economic Development Division	Economic Development Tourism Support (EDTS) Grants	TOT - \$540,000	\$540,000	\$540,000	\$540,000	FY10, FY11, FY12 adopted budgets
Economic Development Division	Business Resource Center	Federal grant	N/A	N/A	\$95,000	A-10 Budget Worksheet for Small Business Resource Center
Economic Growth Services	EGS Staff and Programs	EZ application fee, FTZ administration, and TOT	\$1,571,268	\$1,374,127	\$1,169,327	FY10 and FY 11 - Included in Community and Legislative Services Budget FY12 - Office of the Mayor's Budget
<b>Total</b>			<b>\$59,912,435</b>	<b>\$58,182,533</b>	<b>\$57,888,204</b>	

Source: OCA.

Note: City officials noted that not all of the monies included in these program funding totals are considered community and economic development funds under the City's current definition. We include the total program funding amount in order to better convey the overall size of the programs that the departments administer and to more accurately convey the scope of the departments' activities.

# Appendix D: Roadmap of Recommended Next Steps and Key Issues for City Council’s Economic Development and Strategies Committee





Source: OCA.

<sup>1</sup> See p. xx for summary of recommendations included in this report.

<sup>2</sup> See p. 5 for a summary of the reorganization of the City's core economic development units. The effects of this reorganization will need to be evaluated on a prospective basis. In a June 1, 2012 budget priorities memorandum to the Independent Budget Analyst, the Chair of the Economic Development and Strategies Committee included a request for the City to submit a report on the economic development programs and functions resulting from the reorganization.

<sup>3</sup> As noted in this report, City Council Policy 900-01 pertains most specifically to the timing and content of a economic development strategic plan. Several other City Council policies pertain to specific elements of the City's economic development efforts, and the Committee may wish to consider revisions to those policies, as needed.

<sup>4</sup> Finding 2 of this report pertains specifically to the City's coordination with external stakeholders. See report section beginning on p. 23.

<sup>5</sup> The General Plan Monitoring Report has been prepared to measure progress in implementing the City of San Diego General Plan. The General Plan was comprehensively updated in 2008, and the General Plan Action Plan, which lays out the implementation program for the General Plan, was adopted in 2009. The Action Plan describes the Key Implementation Actions for the General Plan, and includes a matrix that identifies over 300 implementation actions with at least one action associated with every General Plan policy, including the Economic Prosperity Element.

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# Appendix E: Management's Response

## CITY OF SAN DIEGO M E M O R A N D U M

DATE: September 24, 2012

TO: Eduardo Luna, City Auditor

FROM: Kelly Broughton, Development Services Director

SUBJECT: Performance Audit of the Economic Development Program

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Thank you for giving us the opportunity to review and comment on your "Performance Audit of the Economic Development Program," dated September 2012, (the "Audit"). We feel that the Audit is well written, and is generally based on an examination of the City's adopted Council Policies, budget documents, the existing and proposed economic development strategy documents, the policies and strategies of other jurisdictions, and interviews with business advocates and economic development practitioners inside and outside the City. We appreciate the efforts of the Office of the City Auditor to provide both the Mayor and Council with an evaluation of the City's economic development efforts, and more specifically the Economic Development Strategy, since we believe that economic development must continue to be a high priority of the City. Much of the information provided in the Audit can be used to stimulate new discussions at the highest levels regarding overall City policies and City commitments to its residents in terms of finding new ways to create more job opportunities and tax revenues by expanding the City's tax base. The City can and possibly should use the proposed Economic Development Strategy (EDS) as a foundation upon which a more robust and powerful policy and marketing document can be built in order to improve the City's overall effectiveness in terms of economic development.

However, the Audit still suffers from some errors of fact, some omissions, and some misunderstandings about the City's current economic development efforts. We feel it is essential to remedy these errors of fact, to include more information and discussion on areas which were omitted, and to clarify what we regard as misunderstandings regarding specific issue areas, operational activities, goals, responsibilities, and methods.

Under the section heading "Results in Brief" the Audit states "Nevertheless, given the scope, magnitude, and importance of these programs, the City needs to take steps to improve its strategic planning for economic development. Specifically, the City should:

- (1) *"Update the economic development strategy and include key strategic planning elements"*
- (2) *"Strategically align core economic development programs with other interrelated City efforts"*
- (3) *"Leverage its central coordinating role with key internal and external stakeholders"*

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We agree that a more comprehensive economic planning process could be beneficial to the City. However, recommendation one and two fail to recognize that the proposed Economic Development Strategy is an additive document to help provide further detail and add specificity to the economic development elements outlined in the the City's Strategic Plan and Economic Recovery section of the budget. With proper resources, the City intends to use the Economic Development Strategy to further identify and specify economic development efforts of the City within the framework of the City's Strategic Plan, City's Management Program, and the City's Budget. Regarding activity three which is based on what we regard as an erroneous premise – the idea that the City, acting by and through its economic development units, has (or should take on) a central coordinating role for the entire region with respect to “external stakeholders.” The City has a key role in coordinating with regional organizations and the trade organizations, but is not the sole central coordinator for organizations that must be responsive to their members, the other cities in the region, and their respective constituencies. The discussion below explains why.

## **Sources and Uses of Funds**

The Audit plainly states that *“Prior to July 2012, the City of San Diego operated its core economic development programs through two separate divisions – the Mayor's Office of Economic Growth Services (EGS) and the Economic Development Division. These two City divisions administered 27 programs with funding of over \$35 million each year since 2010 to both directly and indirectly support economic development.”* [Emphasis added]

The City's CDBG budget allocation of approximately \$17.5 million is mostly spent on social services in predominantly residential areas, such as for emergency shelters and other services to homeless persons in accordance with Federal guidelines for the use of such funds. Only approximately \$1.2 million was spent in FY12 for economic development purposes. Accordingly, the City's annual expenditures for economic development are closer to approximately \$19 million. Of this amount only approximately \$870,000 is budgeted for industrial development.

## **The City's Economic Development Strategy**

The proposed Economic Development Strategy (EDS) was completed using existing staff resources based upon input from the Rules Committee and meetings with individual council members. As explained to the Economic Development & Strategies Committee, the document was deliberately short and concise, to present an attractive justification for new commercial and industrial investment in San Diego. The EDS was never intended as a pure policy document, or as the written result of a comprehensive economic policy planning process. The EDS was drafted to do essentially two things: (1) give business investors outside San Diego a clear picture of the City's current local economy, its mix of businesses and industries, its potential investment and business opportunities; and (2) to describe the City's business development programs and other business support structures which would further justify new private commercial and industrial development within the City.

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We feel the content of the document illustrates that City staff already understands the City's selling points and is proceeding accordingly. At the most recent Economic Development & Strategies Committee meeting when the EDS was presented, staff indicated a willingness and ability to augment the base document if sufficient resources could be identified. Subsequently two new positions were added to the FY13 EGS budget in order to increase overall organizational effectiveness including additional outreach and administration.

The stated goals, objectives, and performance measures of the City's economic development units have been included in the "Department Detail" sections of the City's annual Budget Document, each and every year since FY09, consistent with the same practice for other departments and work units throughout the City. Additional information on current conditions and economic development efforts have been similarly provided in the "Economic Recovery" sections for those same years, and more recently economic policy objectives were included in the "City Management Program" section.

We agree that if the Council intends for the EDS to fulfill the role of an "action plan" and/or to more comprehensively set forth guiding principles and policy's for the City as a whole (including its bilateral relationships with external partners) that such a document could provide value and lead to greater efficiency and effectiveness in the achievement of traditional economic objectives. As stated above, much of the information already exists in other City documents and is well within the institutional knowledge base of the City's economic development units.

However, City staff still needs to get input from the City Council and stakeholders, presumably through one or more of its standing committees (e.g. Economic Development & Strategies) in order to develop a scope of work to build upon the existing EDS and transform it into a more comprehensive document. Further, we caution that an accelerated due date and/or a very broad scope of work could lead to a short term loss of economic opportunities as expert staff would be diverted from business development to plan development. In the event the Council chooses to proceed towards the development of a more robust and comprehensive EDS, we also still recommend that the EDS refine its scope to goals, objectives, and policies which are reasonably within the purview of the Mayoral departments as they are currently funded. A focused scope of work and an adequate time frame would best ensure no disruption to ongoing job creating and revenue generating activities. If the input provided leads to a scope of work that includes complex technical data and statistics which is not readily available it may be necessary to identify additional financial resources (NPE) in order to contract for that portion of the work.

## **The Role of Municipal Economic Development Agencies**

The Audit makes repeated references to the City as having a "**central coordinating role**" (p.2, 28, 31-33) with respect to "external stakeholders," and "external partners." The City already regularly networks with over 50 outside organizations such as other jurisdictions (Port of SD, Chula Vista, National City) regional and sub-regional economic development corporations, trade associations, chambers of commerce, and other business, academic and educational organizations, and federal agencies in order to coordinate certain policy objectives, market and administer its multi-jurisdictional Enterprise Zone, maximize economic development project opportunities, gain new information, etc. In many instances City staffers are voting members of

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formal organizations or attend meetings on an as-needed basis. We added one new staff position (CDS IV) in FY 13 specifically to increase outreach and coordinate with our economic development partners and trade organizations on issues, initiatives, and regional efforts.

The City coordinates the marketing and promotion of its own regional initiatives such as the Cleantech Initiative and the San Diego Regional Enterprise Zone. The Enterprise Zone (EZ) includes the cities of Chula Vista and National City and is effectively marketed by all three cities and by external partner organizations such as the Otay Mesa Chamber of Commerce, San Ysidro Chamber of Commerce and the South County Economic Development Council. The EZ adds tremendous cash value to businesses located within the designated area, providing all three cities with a powerful economic development tool. During the last 5 years EZ businesses have hired over 31,000 workers, including 7,310 new jobs created and filled by local residents. The EZ was recently expanded to include southern and eastern Chula Vista as well as 5 new commercial/industrial areas in the central and northern parts of San Diego. Nine non-profit external partner organizations have agreed to assist in the marketing of the expanded EZ including: BIOCUM, CleanTech San Diego, CommNexus, CONNECT, the Industrial Environmental Association, the San Diego Brewers Guild, the San Diego North Chamber of Commerce, the San Diego Regional Chamber of Commerce and the San Diego Regional Economic Development Corp. Initiatives like these provide a focused approach to working with the various economic development organizations which allows the City to leverage its role as a significant coordinating body, rather than the "central coordinating" economic development body for the entire region.

The 55 organizations with which the City regularly networks, represent a very broad and disparate strata of mostly private-sector groups which have generally membership-driven agendas and frequently compete among each other for new members and contributions (and accordingly) compete for "credit" for certain accomplishments. Any "central coordinating role" properly belongs with a regional organization such as the Greater San Diego Chamber of Commerce, the San Diego Regional Economic Development Corp. (EDC), or the San Diego Association of Governments (SANDAG). The City's involvement with those organizations and its approach to serving as a significant coordinating body, is the appropriate role given the activities of the various economic development organizations and the needs of the other cities in the region.

In order for the city to maintain and grow successful economic development relationships it is important to recognize the differences between municipal economic development agencies such as those contained within the structures of cities and counties, and those in the private sector. Private sector economic development organizations are typically non-profit organizations which promote broad goals and policy objectives, or market specific geographic areas to potential business investors. These organizations answer to a board of directors and obtain funding from grants, by hosting events, or through member contributions.

Municipal economic development agencies, by contrast, are staffed by civil servants who answer to elected officials and administer specific economic development programs enacted by those elected officials. Generally speaking, these programs are designed to not only create new job opportunities for City residents through increased private sector investment, but also to

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revitalize older historical commercial corridors, and to generate new General Fund tax revenues by broadening and strengthening the tax base. They are complex programs which derive their funding from special assessments on businesses, fees for services, grants from state and federal agencies, interest on loans, and voluntary tax contributions. These programs provide high value-added services, subsidies, and other incentives, as necessary and appropriate, to directly or indirectly stimulate new capital investments and new hiring by private businesses. Importantly, the administration of these special programs generates new General Fund revenues, well above and beyond program administration costs, directly from commercial and industrial projects and special assessment districts. Thus municipal economic development agencies are, by their nature, zone, district, and project oriented.

Construction and new capital investments from expanding businesses creates contracting and procurement opportunities throughout the region. Similarly, the hiring of new employees by these private sector businesses, and the resultant payroll expenditures, also creates other jobs and economic opportunities throughout the region. However, California's tax structure allocates property, sales, use, license, and other taxes and franchise fees to the jurisdiction where the business or capital investment is physically located. Thus there is always competition between jurisdictions for business investment.

While a comprehensive planning process could lead to an improvement in the bilateral relationships the City enjoys with its external partners, (e.g. better divisions of labor, clearer agreements as to roles and responsibilities to eliminate duplicative efforts) any expectation that the City has the authority or any mandate to coordinate the activities of private organizations or other competing jurisdictions is predicated only on the weak evidence of some individuals interviewed by the Office of the City Auditor (p. 31). The idea that the City should seek to gain such a mandate and take on such a role implies an unrealistic understanding of not only the behavior of external stakeholders and partners, but also a misunderstanding of conflicting interests which would likely militate against any such role for the City. The Audit's lack of detail concerning the roles and responsibilities of municipal economic development agencies in California generally, and in the City of San Diego specifically, further underscores our contention that though the City has a significant role in the region as a coordinator and convener, it is not appropriate to take on the "*central coordinating role*" in an absolute context. It is a concept that is frankly, infeasible and could result in the misappropriation of City resources.

## **The Auditor's Concluding Recommendations**

The Audit provides four (4) concluding "Recommendations." "Recommendation #1" is directed to the City Council's Economic Development and Strategies Committee. Therefore we defer to that Committee to respond to that recommendation. We generally agree with "Recommendations #2, #3, and #4" with the proviso that the "external coordinating process/mechanisms" should be focused on the implementation of City-sponsored initiatives and in furtherance of the best interests of the City.

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## **Conclusion**

We appreciate the focus and attention which the Office of the City Auditor has placed on the City's economic development efforts and find that the Audit was well written. City staff's evaluation of the Audit has stimulated internal discussion and that can build upon our efforts to achieve greater efficiency and effectiveness.

We agree that pending further Council direction, the EDS could be expanded into a more comprehensive document, at a minimum by pulling in existing goals, objectives, and performance measures from the various segments of the City Strategic Plan, City Management Plan, and City Budget Document. As was communicated during the development of the EDS, a more comprehensive document will require a scope of work that can be developed in collaboration with stakeholders and the Council. Such a scope would need to identify a reasonable timeframe for completion of that work and any necessary resources to ensure that existing efforts are not disrupted, potentially resulting in lost opportunities to create jobs for City residents and tax revenues for the City's General Fund.

We hope that this response will help the Office of the City Auditor to understand in greater detail how the City's economic development units function, their goals and objectives, and in particular that our own economic development efforts, by necessity, are structured similarly to other jurisdictions throughout the state. We do believe that the City serves a significant coordinating role with our external partners that we constantly strive to expand and improve. However, a "central coordinating role" with respect to external partners or other neighboring jurisdictions, beyond the general scope of the existing bilateral relationship structure, is likely infeasible and would result in the disruption and diversion of existing efforts, efforts which we believe are working and providing great value to City residents and taxpayers.

Kelly Broughton  
Development Services Director

cc: Jay Goldstone, Chief Operating Officer  
Wally Hill, Assistant Chief Operating Officer  
David Graham, Deputy Chief of Staff  
Tom Tomlinson, Deputy Director, Economic Development & Project Mgt. Division  
Lydia Moreno, Government Incentives Program Manager, EGS  
Russ Gibbon, Business Development Manager, EGS



## Appendix F: Management's Comments and Our Evaluation

City officials provided us oral and written comments on a draft of this report (Management's written response is presented in Appendix E). City departments also provided technical comments, which we have incorporated throughout the report, as appropriate. Overall, the City agreed with our recommendations to improve the content, scope, alignment, and coordination issues related to the City's economic development strategy, and supported our recommendation for the City Council to consider relevant City Council Policy clarifications. The City's written response outlines a few areas of conceptual disagreement, including specific findings related to the scope of the economic development strategy document, the City's coordinating role, and our description of program funding.

First, the City's response indicates the proposed economic development strategy was not intended to be the written result of a comprehensive economic development planning process. The response outlines the need for additional City Council input and, potentially, additional resources in order to transform the proposed strategy into a more robust document. We agree that additional City Council guidance would be beneficial on the specific areas we describe in the report. However, we maintain that existing City Council policies, guidance set forth in the General Plan's Economic Prosperity Element, and the strategic planning elements outlined in our report provide a reasonable rationale, direction, and framework for developing a more comprehensive economic development strategy. As noted in our report and in the City's response, some specific performance measures and planning elements are reflected in City budget and other documents. We note in the report that these efforts provide an important starting point to improve the strategy. Importantly, the City's response generally agrees with our assessment of the potential benefits to the City of developing a more comprehensive plan.

Second, the City's response outlines an area of disagreement with our report relating to the City's central coordinating role with external stakeholders. The response seems to mischaracterize our use of the word "central" and infers that we recommend that the City establish itself as a type of centralized coordinating authority. We make no direct or implied assertion in the report that the City expand its jurisdiction, and the report fully acknowledges the municipal mandate and focus of the City's efforts. Nor does the report suggest that the City's strategic planning efforts replace those of the City's partners. On the contrary, the report acknowledges and describes the City's coordination with external stakeholders, but also articulates the need for those efforts to be further developed in support of the City's economic development strategy. Our assessment is based on economic principles, accepted concepts of strategic planning, external reviews of other municipalities' efforts, and input of many of the City's economic development partners. Finally, we maintain that the City's key

role within the broader regional economy will benefit from improved, focused, and strategic bilateral and multilateral coordination with its partners.

Last, the City's response disagrees with our description of the total funds administered by EGS and EDD. As noted in the body of the report, in footnotes, and in Appendix C, we present the total amount of funds administered by the programs to better convey the units' work activity. Further, we include the data sources and specific rationale for including total funding throughout the report, and also include specific reference to the portion of those funds that the City considers to be economic development expenditures, under its current definition.