



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Comprehensive Economic Development Strategy: Possible Goals for Committee Consideration and Inclusion into the Strategy

OVERVIEW

On September 25, 2012, the Office of the City Auditor (OCA) issued a performance audit report of the City's Economic Development Program titled "City's Economic Development Program Needs Improved Strategic Planning" (Audit). Initially presented to the Audit Committee on October 1, 2012 the report was subsequently forwarded to the Economic Development & Strategies Committee for further discussion on October 8, 2012. Following the OCA's audit presentation and Committee discussion, a multi-faceted motion was adopted in response to audit findings and recommendations.

The adopted motion in part requests staff return to Committee in January 2013 with a comprehensive economic development strategy (Strategy). As recommended in the Audit, the Strategy should include the following elements:

- An assessment of current economic and business conditions
- A clear mission
- Goals, objectives and actions to fulfill the mission
- Performance measures used to evaluate programs
- Alignment with the purpose, goals and actions of the General Plan Economic Prosperity Element, priorities identified in the City's Adopted Budget, and the policy priorities outlined in Council Policy on Economic Development (Council Policy 900-01)

In an effort to facilitate discussion of possible goals and objectives for inclusion into the Strategy, the Committee requested the IBA:

1. Review policy goals and objectives found in the Economic Prosperity Element of the City's General Plan, the Economic Recovery section of the FY 2013 Budget, City Council policies or other relevant City policies.
2. Drawing from existing policy goals and objectives, recommend goals for Committee consideration and possible inclusion into the Strategy.
3. Identify any funding, staffing or other constraints/limitations related to the goals recommended for possible inclusion into the Strategy.

FISCAL/POLICY DISCUSSION

Longstanding Interest in Updating the 2002-2004 Community and Economic Strategy

The Rules Committee, and more recently the Economic Development & Strategies Committee, has been interested in updating the 2002-2004 Community and Economic Strategy document since 2010. In a memorandum to the Rules Committee dated June 14, 2011, staff described what was being done to update the Strategy and requested Council feedback to assist them in developing a final Strategy document. Staff subsequently met with Council offices individually and returned to the Economic Development & Strategies Committee on January 30, 2012 with a draft Strategy.

The draft Strategy reviews current economic conditions, does a good job of explaining the importance of the City's base sector industries and small business, and concludes with a description of the City's economic development programs and other economic development efforts. Since the draft Strategy was presented, the Committee has purposely developed agendas to gather feedback from key industry stakeholders for possible inclusion into the Strategy. This feedback is summarized in Chair Lightner's Year-End Report for the Committee (item #5 on the on October 22, 2012 Committee agenda).

Audit Recommendations

The OCA reviewed the draft Strategy document presented to the Committee last January and noted the need for additional alignment with the City's other strategic and operational documents. Two of the four Audit recommendations address this finding and are highlighted below:

Audit 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.

Audit 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.

In an effort to respond to these Audit recommendations and further discuss possible goals/objectives for inclusion into the Strategy, the Committee requested the IBA review the City's other strategic and operational economic development documents.

Review of Existing City Economic Development Goals and Objectives

Existing economic goals and objectives are generally found in three City documents:

1. The Economic Prosperity Element of the City's General Plan
2. The Economic Recovery section of the City's FY 2013 Budget
3. The 2002-2004 Community and Economic Strategy

Attachment 1 provides a summary matrix of the City's existing economic development goals, policies and objectives. In developing this attachment, the IBA endeavored to extract major economic development goals/objectives from documents which offer much more expansive discussion. The City Council has adopted several Council Policies (generally found in many of the "900 series" of Council Policies) over time in support of the economic development goals found in the above documents, or in support of previous economic development strategies, land use plans, or similar documents/studies. These policies are referenced within the matrix. Some of the Council Policies address other City objectives and may need to be updated following adoption of the Strategy to better support prioritized economic development goals.

The Audit report begins by stating that "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." The City's existing economic development goals/objectives are diverse. It is important to understand that economic development goals/objectives are often challenging and can require alignment of a number of internal/external factors. The City may have more ability to achieve some of its goals/objectives and less ability to influence others (when external factors have a greater influence). For example, the City can easily direct staff and programmatic resources toward a goal of growing/supporting small business, but may be more challenged to significantly develop international trade or influence educational curriculums to meet the needs of local industry. Additionally, the realization of economic development goals may depend on resource limitations, legal constraints, policy considerations and cooperation/integration with

other City departments whose operational priorities may not align with the City's economic development priorities.

The IBA believes all of the economic development goals/objectives listed in Attachment 1 are worthy of City support. However, we realize that in order to be effective, a three-year strategy may need to focus limited resources on a few high-priority strategic goals while making best efforts to support other worthy goals.

Goals for Committee Consideration and Possible Inclusion into the Strategy

The Audit states an effective Strategy requires a mission or vision of the City's overall economic development efforts. An effective Strategy also requires mid to long-term goals with corresponding near-term actions/activities designed to achieve the end objective. In recommending the need for mid to long-term goals in the Strategy, OCA auditors envisioned economic development staff presenting possible Strategy goals for Committee consideration and discussion. However, at the request of the Committee and in an effort to initiate discussion/feedback for staff, the IBA has developed the following four strategic goals for possible inclusion into the Strategy.

1) Provide support and assistance to small businesses.

It is hard to imagine a Strategy without a goal of providing support and assistance to small businesses (defined by the City as those businesses with 12 or fewer employees). Approximately 94% of the City's businesses are small businesses (over 98,000). Vibrant small business districts provide needed goods/services and contribute to the character of the City's neighborhoods. Small businesses are more likely to be locally owned and operated, therefore a high proportion of profits are recycled into and benefit the local economy. The FY 2013 Budget indicates approximately half of the City's job growth since 1991 is attributable to small business.

Work units within the Development Services Department's Economic Development & Project Management Division (primarily the Office of Small Business) offer support and assistance to the City's small businesses. Programs/services include, but are not limited to, a Small Business Ambassador, Small Business Development and Outreach Program, Storefront Improvement Program, SBEP Citywide grants and CDBG grants to non-profit partner organizations supporting businesses, Enterprise Zone, Small Business Revolving Loan Programs, etc. Additionally, there are City small business assistance programs outside of the Economic Development & Project Management Division like the Small Local Business Enterprise Program, Mentor-Protégé Program and DSD's Small Business Liaison. Finally, the City has external small business development partners in the form of non-profits supporting small businesses, business improvement districts (18), commercial maintenance assessment districts (8) and others.

As a go-forward goal for the Strategy, staff should continue to use its programs and resources to support and assist small business. New programs could be developed and existing programs could be modified as needed to further improve small business support. Staff should continue to collaborate internally with resources and maintain/expand relationships with external partners. Better measures of success for supporting small business should be developed and periodically communicated to the Committee and in the City's annual budget document.

2) Strategically use economic development programs and incentives to grow, retain and attract manufacturing businesses.

Manufacturing is one of the City's four major base sector industries (the others being Military, Tourism and International Trade & Logistics). Base sector industries are important to our economy because they bring outside capital (visitor spending, capital investment, etc.) into the City. This imported capital typically flows to benefitting local businesses and their employees who in turn spend locally to further grow our economy. As noted in the draft Strategy document presented in January, the manufacturing sector is particularly important because it 1) creates needed middle income jobs for local residents and 2) has a high support job multiplier - approximately 3 to 7 retail and service sector jobs are directly and indirectly created for each manufacturing job. Additionally, manufacturing businesses often generate higher property taxes (manufacturing equipment is taxable) and sales/use taxes (via manufactured goods sold) for the City, which in turn can be invested in other public services.

Examples of key manufacturing industries in the City include: Biotech & Medical Devices; Cleantech (producing renewable energy, clean energy, energy efficiency, energy storage, biofuels and other positive environmental products); Defense & Security Systems; Electronics & Telecommunication; and Food & Beverage Production. Each of the aforementioned manufacturing industries are described in greater detail in the draft Strategy staff presented in January 2012. Some of these industry clusters (Biotech, Defense, and Telecommunication) have a longstanding presence the City and others are emerging industries (Cleantech and Food & Beverage Production).

For the reasons cited above, endeavoring to support and grow manufacturing industries in the City is a worthy goal for inclusion into the Strategy. Economic development staff currently uses a limited array of incentives authorized by City Council Policies (900-12 in particular) and special incentive zones to support manufacturing businesses. Other City policies and practices (for example, those relating to permitting, industrial land use, water, public land sales or leases, and public infrastructure) can significantly support or hinder this economic development goal. If staff is to be successful in achieving this goal, City management must commit to it by requiring coordination and collaboration between key City departments on a regular basis, and especially when significant manufacturing opportunities arise.

3) Take a leadership role in: a) creating job opportunities for all City residents and b) developing a workforce to meet the needs of our local businesses.

Employment Development and Education & Workforce Development are two key objectives of the Economic Prosperity Element of the City's General Plan. Each of these objectives have supporting goals. For example, the Employment Development objective has a goal of "a city with an increase in the number of quality jobs for local residents, including middle-income employment opportunities and jobs with career ladders." The Education & Workforce Development objective has a goal of "a city that will continue to incubate growth and investment by providing a skilled and educated workforce that meets industry needs." Both objectives call for a broad distribution of educational and employment opportunity throughout the City.

The IBA believes there is shared interest in these goals. The City clearly does not have jurisdiction over private sector hiring or educational curriculums. However, with a shared objective of economic prosperity, the City is well positioned to work with public and private sector partners to facilitate communication at public Committee meetings; organize outside discussion forums with employers and educators; coordinate employment workshops for job seekers; and promote job fairs. Efforts in support of creating job opportunities for local residents or developing educational programs to meet the needs of local businesses are fundamental economic development goals that should be considered for inclusion in the Strategy.

In its inaugural year, the Economic Development & Strategies Committee under the leadership of Chair Lightner has already 1) convened a roundtable discussion on March 28th between major local employers and educators to discuss educational programs and workforce needs and 2) organized a "Connecting to Careers" training and employment fair on August 25th with the San Diego Workforce Partnership. These are excellent examples of taking a leadership role to achieve this goal. Economic development staff can also contribute to this goal by supporting Committee facilitated events; providing local hiring incentives (i.e., tax credits) to businesses creating jobs in targeted areas using the City's Enterprise Zone program; or by offering business workshops to promote local, State and Federal programs supporting job creation. The IBA recommends the Committee have the lead role in creating forums to achieve this goal with critical assistance from employment development partners (i.e., the Workforce Partnership), private sector stakeholders (businesses and educators) and economic development staff.

4) Evaluate all reasonable regulatory relief suggestions and strive to develop innovative economic development initiatives for the Committee to consider for possible inclusion into the Strategy or to support with City Council Policy.

Last year, the City Council expressed an interest to do anything responsible and feasible to strengthen San Diego's economy and enhance job growth. The Council reached out to the business community, and others who are subject to the City's permitting and regulatory processes, and requested they attend a Regulatory Relief Day Workshop on November 14, 2011. The Council requested specific suggestions to improve the City's business-related processes and activities. All comments were noted and forwarded to the new Economic Development & Strategies Committee for follow-up in 2012. The Committee immediately established a Regulatory Relief Day Working Group to review and implement all feasible/reasonable suggestions. The Committee also made regulatory relief a standing public comment opportunity on every agenda in 2012.

The IBA recommends the Committee continue soliciting and evaluating reasonable regulatory relief suggestions going forward and establish this as a goal in the new Strategy. If this goal is to be effective, it is essential that: 1) suggestions be reasonable, not conflict with existing law or significantly undermine critical public priorities (i.e., public safety), 2) that appropriate department staff be made available and be open-minded in evaluating suggestions, and 3) that those who submit suggestions follow-up with additional information when requested to enable staff to properly evaluate a suggestion. Additionally, we recommend that economic development staff be charged with periodically bringing regulatory relief suggestions to the Committee for consideration.

Furthermore, we believe it is important for economic development staff to develop innovative economic development initiatives and bring them to the Committee for discussion. Examples of initiatives could be a regulatory relief suggestion, a proposed new business incentive or a new strategic goal. Economic development staff interacts with the business community on a daily basis. They deal with regulatory challenges and are able to identify City policies/practices that may be in conflict with economic development objectives. They also have ideas about unique business opportunities and are best able to make suggestions to the Committee.

The Economic Development & Strategies Committee must receive regular and pro-active input from its professional economic development staff in order to create effective policies and tools that will enable staff to be effective in achieving economic development goals. This expectation should be incorporated into this Strategy goal.

Possible Funding, Staffing or other Constraints/Limitations

In recommending the above Strategy goals for Committee consideration, the IBA suggested goals which might reasonably be accomplished with existing resources and enhanced internal/external collaboration. These goals are suggested to initiate Committee discussion and provide feedback to economic development staff who will be preparing the updated Strategy for presentation to Committee in January 2013. Ultimately, we believe economic development staff should submit Strategy goals to the Committee for consideration. Should additional resources be needed to facilitate a new goal or operational practice, staff should provide an accompanying cost/benefit analysis to enable the Committee to better evaluate their proposal.

The City's economic development staff administers an impressive array of economic development programs and resources. It does so with a relatively small General fund investment as many of the programs and associated administrative staff expenses are financed with grants, programmatic funds or business/property assessments. A meritorious proposal for additional resources to accomplish a clear economic development objective should be provided by staff and be relatively easy for the Committee to evaluate. Conflicting City policies and/or departmental perspectives often represent bigger challenges than the need for additional resources, if any, to achieve an economic development objective.

Should the new administration decide to embrace a set of economic development goals, it may wish to consider establishing a cross-departmental senior management team to facilitate worthy economic development proposals that may compete/conflict with other City goals, priorities or policies. For example, the Capital Improvements Program Review and Advisory Committee (CIPRAC) is comprised of leaders from City departments to provide high level Capital Improvements Program (CIP) direction and prioritization recommendations. Input from the City Attorney's Office should also be sought as policy changes and business incentive proposals can raise legal questions. Dedicated senior management commitment to economic development goals can significantly assist staff and the Committee in achieving shared objectives.

CONCLUSION/RECOMMENDATION

On October 8, 2012, the Office of the City Auditor presented the Audit of the City's Economic Development Program to the Committee. One of the significant Audit findings was that the draft Strategy presented to the Committee in January lacked a mission, goals, economic indicators and performance measures. Following the audit presentation and Committee discussion, a multi-faceted motion was adopted in response to the audit findings and recommendations.

The adopted motion in part requested staff return to Committee in January 2013 with a comprehensive Strategy document. In an effort to facilitate discussion of possible goals and objectives for inclusion into the Strategy, the Committee requested the IBA:

- Review policy goals and objectives found in the Economic Prosperity Element of the City's General Plan, the Economic Recovery section of the FY 2013 Budget, City Council policies or other relevant City policies.
- Drawing from existing policy goals and objectives, recommend goals for Committee consideration and possible inclusion in the Strategy.
- Identify any funding, staffing or other constraints/limitations related to the goals recommended for possible inclusion in the Strategy.

This report reviews existing economic development goals and summarizes them in Attachment 1. We assert that all of the economic development goals/objectives listed in Attachment 1 are worthy of City support. However, we acknowledge that in order to be effective, the three-year Strategy may need to focus limited resources on a few high-priority strategic goals while making best efforts to support other worthy goals. Based on our review of existing City goals and discussions with economic development staff, we suggest the following four fundamental goals for possible inclusion into the Strategy and provide supporting rationale:


- 1) **Provide support and assistance to small businesses.**
- 2) **Strategically use economic development programs and incentives to grow, retain and attract manufacturing businesses.**
- 3) **Take a leadership role in: a) creating job opportunities for all City residents and b) developing a workforce to meet the needs of our local businesses.**
- 4) **Evaluate all reasonable regulatory relief suggestions and strive to develop innovative economic development initiatives for the Committee to consider for possible inclusion into the Strategy or to support with City Council Policy.**


In suggesting these goals for Committee consideration, the IBA selected goals which might reasonably be accomplished with existing resources and enhanced internal/external collaboration. These goals are suggested to initiate Committee discussion and provide feedback to economic development staff who will be preparing the updated Strategy for presentation to Committee in January 2013.

The Committee is concluding its inaugural year and its activities (many intended to gather information from key City industries for inclusion in the Strategy) have been summarized in Chair Lightner's Year-End Report. The IBA recommends staff review the Committee's Year-End Report in preparing the updated Strategy.

This is the first time the City's economic development staff has had a Council Committee dedicated to their mission (broadly to promote economic well being in the City). The Committee provides a forum and an opportunity for economic development staff to regularly present their ideas, proposals, resource needs (if any) and accomplishments. The City's economic development staff interacts with the business community on a daily basis and often has useful ideas/insights about how to better support the City's businesses. The IBA believes the City's economic development efforts will be most effective when there is regular communication between professional economic development staff and the Committee charged with supporting their mission.

It is also important to understand that economic development goals/objectives are often challenging. The realization of economic development goals may depend on resource limitations, legal constraints, policy considerations and cooperation/integration with other City departments whose operational priorities may not align with the City's economic development priorities. In order to better achieve internal cooperation to achieve economic development goals, we have suggested the new administration consider establishing a cross-departmental senior management team (like CIPRAC for CIP projects) to facilitate worthy economic development proposals that may compete/conflict with other City goals, priorities or policies.


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Attachments: Summary Matrix of Existing City Economic Development Goals, Objectives and Policies