

Economic Recovery



The economic situation of our nation has not left San Diego untouched. Reduced economic activity overall has led to a spike in the local unemployment rate, currently standing at 10.1 percent as of June 2009. Spending in the construction, manufacturing, finance, and real estate sectors has been reduced, which in turn has affected the wholesale and retail sectors. The City of San Diego, itself dependent on sales tax revenue to provide General Fund services such as fire and police protection, faced a projected General Fund revenue shortfall that resulted in difficult decisions and trade-offs in order to develop this Fiscal Year 2010 budget.

As the nation looks to Washington to help develop and implement strategies for economic recovery and long-term economic growth, our community looks to the City for leadership and progressive planning to help stem the tide of economic woes, allow us to bounce back from this downturn quickly, and prepare us to be well-positioned for future economic expansion. The City is focusing its efforts on strengthening its economic base and regaining fiscal stability through a number of programs and initiatives:

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

Business Support and Expansion Programs

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

Economic Development Efforts

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

- (1) A business expansion, attraction, and retention effort designed to highlight the advantages of doing business in San Diego

Economic Recovery

- (2) A regulatory streamlining effort that eliminates duplicative and bureaucratic procedures which do not meaningfully contribute to protecting the public interests
- (3) A focus on emerging technologies, including the adoption of a new CleanTech Industry Program which will capitalize on the increasing demand for renewable energy (e.g. solar), biofuels, energy efficient solutions, and “green” products
- (4) The completion of critical path infrastructure facilities which will be especially attractive to base sector businesses

The local biotechnology industry has grown to over 500 companies, employing over 37,000 skilled staff producing an annual economic impact to our local economy of over \$9 billion. Other industries such as



telecommunications, software, electronics, and defense have had similar successes. The Mayor’s CleanTech Initiative demonstrates the City’s commitment to capture the economic benefits of new and emerging technologies.

In November 2008, the Mayor elevated the focus of his administration on economic development through an internal reorganization which brought two business development teams, the Business, Expansion, Attraction, and Retention (BEAR) Team and Government Incentives Team, under his direct purview. These two specialized teams make up

the Economic Growth Services Division of the Community and Legislative Services Department. The change will allow the Mayor to become more directly involved in business development efforts that focus on the growth of the City’s economic base.

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

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

General Plan Update

In March 2008 the Mayor recommended, and the City Council adopted, the City of San Diego General Plan, the first comprehensive policy document in over 20 years to guide future development within the City. The City's BEAR Team contributed significantly to the Plan's Economic Prosperity Element, the stated purpose of which is to "increase wealth and the standard of living of all San Diegans with policies that support a diverse, innovative, competitive, entrepreneurial, and sustainable local economy." The BEAR Team also developed land use policies specifically designed to preserve prime industrial land from encroachment from incompatible non-industrial uses. The implementation of these ground-breaking policy initiatives will be a major contributing factor to the preservation of high-quality industrial jobs for San Diego residents.

Tourism Marketing District

In April 2008 the Mayor recommended, and the City Council adopted, a new Tourism Marketing District to ensure a stable funding source for the marketing of the City to tourists and business travelers. This district requires hoteliers to collect a surcharge from customers which is pooled to provide funding for the San Diego Convention & Visitors Bureau, the organization responsible for national advertising campaigns. This dedicated funding source will bolster the City's ability to maintain its attractiveness as a visitor location.

Economic Roundtable

As one of the top priorities of his administration, the Mayor called upon business and civic leaders from the San Diego region to meet and help shape an agenda to proactively deal with the regional economy. In a series of "Economic Roundtables" hosted by the Mayor, he and a diverse group of leaders brainstormed and produced a list of four focus areas that will help grow jobs and sustain the economy in San Diego.

These four focus areas are:

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

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

Economic Recovery

Small Business Development Programs

Small businesses are a major contributor to San Diego's economy representing more than 80,000 businesses (approximately 92 percent of all businesses in the City) and about half of San Diego's job growth since 1991. In 1991, the City of San Diego created one of the first municipal offices in California dedicated solely to helping small businesses succeed—the Office of Small Business. The City also sets aside millions of dollars each year for programs to help small businesses prosper.



Direct Assistance

There are a variety of programs to directly assist small businesses ranging from providing detailed information on City and regional services, to help with start-up questions and providing

assistance with permitting issues. The City also provides matching grants to businesses in targeted areas for storefront renovation projects.

Development and Retention Programs

The Office of Small Business, in partnership with the business community and economic development agencies, administers several programs for small business development and retention to create a more healthy economy for San Diego including the following:

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

Advocacy and Regulatory Relief

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

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

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

- Mentor Protégé Program
- Subcontracting Outreach Program (SCOPE)
- Minor Construction Program
- Considering Local Small Business Program

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

The L/SLBE Program supports policies that established a 20 percent participation requirement and a minimum bid discount of 2 percent for meeting that requirement. In addition to bid discounts, the Program provides for additional points in negotiated professional services contracts and increased points and discounts as the level of local and small local business participation increases.

The intended impacts included:

- Increasing the number of certified businesses participating in City contracting and in development projects
- Increasing the circulation of City dollars within the community and thus stimulating a stronger economic base
- Promoting the development of certified businesses through joint ventures and mentor/protégé relationships

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

Federal and State Stimulus Programs

The local construction industry has been one of the economic sectors hardest hit by the economic downturn. Bringing transportation construction jobs to San Diego is one way to alleviate those job losses. The American Recovery and Reinvestment Act (ARRA) contains over \$46 billion for transportation including \$27.5 billion for highways, \$7 billion for transit, \$8 billion for high speed rail, over \$1 billion for Amtrak capital improvements, and \$1 billion for airports.

Economic Recovery

These transportation dollars will not just help San Diego in the short-term. Improvements to highways, rail, ports, and airports will help the region move goods more efficiently for years to come. California Gateways, including our border and our port, move well over \$297 billion in trade for other states according to the 2000 California Global Gateways Report. This is an important function for both the national and local economy because trade generates employment, taxes, business profits, and jobs. San Diego is set to receive over \$112 million in total stimulus funding for economically important transportation projects located within the City. More specifically, \$74.0 million has been allocated to complete the 905 Freeway, thus better connecting the Otay Mesa industrial parks to the international Port-of-Entry, \$18.0 million to complete Carroll Canyon Road, thus better connecting Sorrento Mesa industrial parks with those in Sorrento Valley, and \$20.2 million for various smaller projects in neighborhoods throughout the City.

Goods movement at the border is particularly important to the City's long-term economic health. Mexico is California's number one export market and a significant amount of those exported goods produced in factories and fields around the state go through San Diego. A recent study found that constrained border infrastructure had a negative economic impact on the state of California of over \$3 billion annually. The City has successfully lobbied for State and federal money for the expansion of the San Ysidro crossing, for a new third port of entry, and for a new six lane freeway (SR 905) to move goods easily in and out of the border zone. The stimulus package includes \$700 million for border projects to supplement these important projects.

Another important funding area included within the ARRA is money for clean energy technology. San Diego has been a leader in the area of clean energy and has an emerging clean tech industry that could potentially rival its biotech and wireless industries in producing jobs for the region. The stimulus package includes \$12.5 million of block grant monies for local clean energy initiatives, renewable energy grants, and tax incentives to help San Diego's emerging clean tech businesses grow. In addition to seeking its own funding, the City will also be partnering with other public agencies in the region whether they are local, State or Federal in their efforts in to bring clean energy dollars into the region.

Future of the City's Economic Health

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

Manufacturing

Despite many recent plant closures, the manufacturing sector still employs over 49,000 city residents, and contributes the largest single economic impact to the regional economy—\$25.8 billion.¹ San Diego's manufacturers are engaged in research and development (R&D), manufacturing, sales, distribution, product servicing, and repair activities in a wide range of industries such as biotech and medical, CleanTech, defense and security, food manufacturing, and telecommunications. As land and fiscal resources become more constrained due to a variety of factors, regulatory land use policy and fiscal policy (e.g. financial incentives) should be targeted specifically to those private-sector businesses which are both part of the economic base and which have the willingness and ability to create middle income job opportunities for local residents. These businesses are primarily found in the manufacturing sector and have significant job growth potential.

¹ Statistical information provided by National University System Institute for Policy Research

Economic Recovery

San Diego has a comparative advantage in these industries for primarily two reasons: (1) very high labor quality including ex-military personnel with security clearances, and (2) proximity to Mexico which has its own comparative advantage in the manufacturing of high quality and high-technology products in high production volumes, where national security, product safety, and intellectual property concerns are not a major consideration.



In order to better support the local manufacturing sector, the Mayor will recommend to the City Council that the City apply

to the State of California for an expansion of the San Diego Regional Enterprise Zone to include many of the northern industrial parks where the City's biotech, telecom, electronics, defense, and CleanTech manufacturers are located. Expansion of the Enterprise Zone will provide a strong supply-side stimulus to the local manufacturing sector by permitting these firms to substantially reduce their California income tax.

International Trade & Logistics

San Diego's proximity to Mexico provides the City with an important comparative advantage in terms of capturing international trade activity. The Otay Mesa border crossing is adjacent to several large industrial parks containing over 14 million square feet of existing industrial space and over 1,000 acres of developable industrial land. This part of the city has been designated by the State as an Enterprise Zone and portions of it have been designated by the federal government as a Foreign Trade Zone. These designations allow logistics businesses to claim lucrative state income tax credits and the ability to defer, reduce, or eliminate trade duties. The recent and proposed construction of several modern distribution centers, comparatively low lease rates, tax and duty advantages, and the completion of the SR 905 Freeway will enable the City to position itself as an attractive location for trade-servicing and logistics companies.

Tourism

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

The City will continue to maintain facilities under its purview and to ensure the preservation of clean, safe beaches and well-maintained parks. Using the dedicated funding source provided by the new Tourist

Economic Recovery



Marketing District, the City will be able to maintain one of the nation's lowest transient occupancy taxes (TOT), which should also help keep San Diego competitive with other tourist destinations.

In addition, the City established a Citizens' Task Force on the Convention Center Project under the Mayor's leadership to support San Diego's tourism industry. Since opening in 1989, the San Diego Convention Center has generated over \$18 billion in economic impact by hosting over 4,200 events that utilized more than 11 million hotel room nights.¹ This task force is intended to facilitate a civic dialogue on the feasibility of an

expansion of the San Diego Convention Center and related developments and/or enhancements. The mission of the Mayor's Citizen Task Force on the Convention Center Project is to evaluate and recommend to the Mayor the necessary steps required to ensure San Diego's ability to protect and expand local jobs and retain and enhance its current market position in the convention and meeting industry.

Military

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

Conclusion

San Diego's workers and entrepreneurs have dealt with difficult economic times in the past such as the massive restructuring that accompanied the recession of the early 1990's. During this time, the City's manufacturing sector had to undergo a serious structural reorganization because of the sudden decline of defense spending as a result of the end of the Cold War. The manufacturing sector became more diversified, most notably illustrated by the growth and development of the biotechnology and telecommunication industries and the transformation of the local defense industry.

The City of San Diego has made it a top priority to focus on economic recovery for the City and its residents. This recovery plan is aimed at preparing the local economy to rebound with the national economy, or even sooner. It relies on the City's position as a military town, a tourism draw, and a manufacturing leader, specializing in the defense and biotechnology industries.

¹ Statistical information provided by San Diego Convention Center Corporation