



LEGISLATIVE ANALYSIS

TO: Honorable Members of the Board of Supervisors

FILE: File 990433 - City programs and policies that impact business attraction and retention

ORIGIN: Motion (Supervisors Katz and Becerril)

REQUESTED ACTION:

Members of the Board of Supervisors (the "Board") have passed a motion requesting the Office of the Legislative Analyst to provide the following services:

- Conduct analysis on City programs and policies that impact business attraction and retention, including business and payroll tax obligations and incentives.
- Determine sectors in which current and projected business growth lies.
- Establish whether attraction and retention policies are appropriate to those areas of growth.

BACKGROUND:

San Francisco's temperate climate and cosmopolitan environment make this region an attractive region for residents, businesses and tourists. According to the Tax Collector's Office, there are approximately 70,000 businesses in San Francisco that are registered with the Tax Collector. The sectors most closely linked to the regional economy include finance, insurance, and real estate (collectively referred to as FIRE), which accounts for 13% of total San Francisco employment. Other businesses are in apparel manufacturing, transportation services, business and professional services, motion picture production, hospitality and tourism, and the arts. Services, government, retail and FIRE comprise 80 percent of all jobs in San Francisco.

CITY PROGRAMS

The City administered various loan programs and tax credit programs which are provided to support local firms and serve as incentives for retaining these firms within City limits. The loan programs are administered through the Mayor's Office of Community Development (MOCD). The tax credits are administered through the City's Tax Collector's Office. Collaborations between local government and non-profit organizations also provide local businesses with the additional support and resources needed to promote business growth and development in San Francisco. The programs and incentives described below highlight some of the business-related activities intended to promote business development and growth in San Francisco.

Loan Programs:

The Mayor's Office of Community Development (MOCD) has developed a set of small business loan programs. In providing alternative financing sources and access to capital through their small business loan programs, the City's goal is to promote the stability and vitality of neighborhood commercial areas. By strategically targeting lower income neighborhoods, as indicated in MOCD's Consolidated Plan, these efforts will in turn create job opportunities for lower income San Francisco residents. For every \$35,000 borrowed, one new full-time permanent job must be created by the business receiving loan funds.

MOCD's loan programs are designed for small businesses that are unable to obtain financing through traditional sources. These loan programs are distinguished primarily by loan size, may involve direct lending, loan guarantees or bank participation, and include:

- ***Micro-Enterprise Revolving Loan Program*** - provides loans up to \$10,000 to support micro-enterprise and self employment efforts of lower income San Franciscans interested in starting or expanding their small businesses. A micro-enterprise refers to a business that has five or fewer employees. Applicants should demonstrate experience in the business for which the loan is requested and exhibit a source of repayment for the loan.
- ***Small Business Revolving Loan Program*** - provides existing small businesses with loans up to \$100,000, which can be used for various purposes, including working capital, equipment purchase ,and other business expansion activities.
- ***Section 108 Loan Program*** - provides loans exceeding \$100,000 to businesses identified as consistent with and supporting specific economic development initiatives of the City. The primary strategy of the CDBG economic development program is to support the goals of the City's overall economic development efforts.

These efforts include:

- a) reducing unemployment and under-employment through job training and expansion of employment opportunities;
- b) maintaining a vital, balanced and diversified economic base that provides job opportunities for a highly diversified labor force;
- c) promoting business retention and expansion, particularly for industries that create jobs for the City's chronically unemployed;
- d) and ensuring efficient and effective environmental, land and energy resource uses while pursuing economic development objectives.

MOCD contracts with Neighborhood Economic Development Organizations (NEDO) and Self Employment Entrepreneurship Development (SEED) agencies to provide technical assistance and loan packaging services for these small businesses. Loan applications are submitted to MOCD through NEDO and SEED.

Tax Credits:

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The City currently provides four hiring credits to businesses that operate in San Francisco. These City-sponsored tax incentives enable firms to reduce their tax burden as a result of incurring payroll and other business-related expenses.

- ***New Jobs Tax Credit*** - Provisions in the San Francisco Payroll and Business Tax Ordinances provide a local tax incentive that became effective July 1, 1993. Eligible businesses that create new and permanent jobs or relocate in San Francisco receive a tax credit that can be applied against the Business or Payroll Expense Tax by reducing the taxpayer's tax liability. The New Jobs Tax Credit, which has been extended to December 31, 2002, provides a declining scale payroll or gross receipts tax credit for newly created jobs. Recently-introduced revisions to this program allow businesses to save 100 percent of the local tax on new jobs created after January 1, 1998 in the first two years, and 50 percent in the third and fourth years. The Tax Collector reports that whereas in 1993, 16 businesses filed for credits of \$15,104; in 1997, 184 businesses claimed total tax credits of \$2.2 million.
- ***San Francisco Enterprise Zone (EZ) Hiring Tax Credits*** - San Francisco offers a ten-year declining scale payroll or gross receipts tax credit for employers who create new jobs and hire from target groups. Unlike the New Jobs Tax Credit, the EZ Hiring Tax Credit is applicable to businesses that are located in the City's Enterprise Zone and hire designated target groups including Job Training Partnership (JTPA) participants, and certified General Assistance (GA) recipients. Businesses have not taken full advantage of the EZ tax credit. The Tax Collector reports an increase in business filings from 3 in 1993 claiming approximately \$4,000 to 8 firms in 1997 that claimed credit of \$14,000.
- ***Summer Youth Employment Tax Credit*** - San Francisco-based businesses that provide summer employment to eligible youth can earn a payroll or gross receipts tax credit. Savings can range from 50 percent to 100 percent of the San Francisco Payroll Tax Expenses and Business based on the target group. This tax credit became effective in 1996 and will expire in 2001, and is perhaps, the most underused tax credit program. According to the Tax Collector, whereas 3 firms filed for credits of \$2,834 in 1996, by the following year, no businesses had filed for this tax credit.
- ***Garment Manufacturer's Tax Credit*** - Garment manufacturers operating in San Francisco with annual gross receipts of \$5 million or less on or after January 1, 1997 may be relieved from paying the City's Business or Payroll Tax. Eligible businesses can claim up to 60 percent credit applicable for investment made in three categories: technical equipment that is used by the business in San Francisco; work reorganization that occurs within factory premises; and for training the Business's San Francisco employees. Recent Board of Supervisors' action intends to expand the definition of a garment manufacturer to include sub-contractors in the garment manufacturing business. It remains to be seen whether, from this broader definition, additional garment manufacturers who represent one-third of all businesses in San Francisco will take advantage of this tax credit, which in 1997 was claimed by 57 firms at \$402,000 in total tax credits.
- ***Non-local Tax Credits*** - The State of California and the federal government provide tax incentives for eligible employers who have businesses in the City's Enterprise Zone and hire from qualifying target groups who belong to various disadvantaged groups. These programs include the State's Enterprise Zone Hiring

Tax Credit which expires in 2007 and the Federal Hiring Tax Credits. For additional information on federal and State tax credits, see the attachment on Hiring Tax Credits.

MBE/WBE/LBE Program:

Recent reports indicate that small businesses are the fastest growing enterprise in San Francisco. The San Francisco Minority/Woman/Locally Owned Business Enterprise Program (MBE/WBE/LBE Program) requires City departments to make good faith efforts to extend contracting opportunities to minority-, women- and locally-owned businesses. This program is intended to establish these businesses as prime- and sub-contractors on City and County contracts. Certification by the Human Rights Commission (HRC) enables economically disadvantaged firms to qualify for a 10 percent bid or rating scale preference, while certified LBEs can qualify for a 5 percent bid or rating scale preference. Recent reports indicate that small businesses are the fastest growing enterprises. Reports by HRC indicate that minorities and women who own these business still have low participation in City contracts.

Public/Private Collaborative Efforts

The City's business development and retention efforts also extend to collaborations with private and non-profit organizations that support new, emerging and existing businesses. These organizations are mostly privately-funded, but may also be eligible for City funding and other technical assistance. Below, we'll highlight some of these efforts.

The San Francisco Partnership

The San Francisco Partnership (the "Partnership") is a three year old privately-funded organization that provides business attraction and retention services on a pro-bono basis to local businesses. The Partnership's goal is to increase jobs in San Francisco. Support comes in the form of private funding from the business community and in-kind services from City government, including the Mayor's Office of Economic Development and other City agencies.

The Partnership serves as a one-stop liaison between prospective businesses and relevant City and County officials and agencies helping to attract new businesses to San Francisco. Other efforts include troubleshooting with businesses and government officials to mitigate problems, identifying specific problems and recommending corrective actions. This organization also operates as an information clearing house that disperses information on City and state incentive programs, enterprise and foreign trade zones, economic and demographic statistics, the local real estate market, business license and tax information, job training resources, and other services.

The Renaissance Entrepreneurship Center

The Renaissance Entrepreneurship Center (REC) is a non-profit organization that has been providing support services to Bay Area businesses for over 10 years. The support the REC receives from local government and private entities enables the REC to provide assistance to small business owners, which includes business incubation for a period of 12 to 36 months. To date, the REC incubator has supported 36 businesses which in turn, generated 150 new jobs in San Francisco. The REC's Financing Resource Center also provides training, support and facilitates loan packaging for new and existing businesses enabling them to access loans from both

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government sources and private banks. The REC has assisted over 350 graduate-owned businesses in the Bay Area, which have created over 1000 jobs and generated over \$30 million in gross revenues.

The South of Market Foundation (SOMA)

The South of Market Foundation(SOMA) is a non-profit economic development corporation that was founded in 1992 to address the financing needs of small businesses. SOMA provides loan packaging services to small businesses through the Mayor's Office, community banks, or the Small Business Administration (SBA). On average, this organization packages between 15 to 20 loans. This organization also helps new businesses find commercial space. Last year, SOMA assisted over 100 businesses which needed assistance with financing.

BUSINESS DEVELOPMENT IN OTHER JURISDICTIONS:

Below are highlights of some of the business programs and incentives which are provided by the cities of Oakland, Emeryville and San Jose to support firms that do businesses in their individual cities. Because of the competition among Bay Area cities for business attraction and retention, these cities have tailored their services to benefit existing and potential businesses. Below is a table that highlights these cities programs.

OTHER JURISDICTIONS - INCENTIVES AND PROGRAMS

Incentives & Programs	Oakland	Concord	San Jose
Tax Incentives		*	<ul style="list-style-type: none"> • San Jose Enterprise Zone (EZ)- provides State hiring credits, State Sales & Use tax credits (8.25%), business expense deduction, utility rate discounts, etc. • Manufacturer's Investment Credit (MIC) - Manufacturing or R&d businesses receive a 6% tax credit for acquiring, constructing or reconstructing qualified property. • Qualifying businesses can "double-dip EZ and MIC credits to receive up to 14.25% total tax credit maximum carry-over of up to 7 years. • Redevelopment Areas - incentives vary by location and project type. Incentives include approved Environmental Impact Reports, construction tax waivers, etc.
Financial Assistance			<ul style="list-style-type: none"> • Development Enhancement Fund (DEF) -helps firms secure loans by providing banks with loan guarantees, subordinated direct loans, and gap financing. • Revolving Loan Fund (RLF) - small business loans from \$10,000 to \$100,000, and used for tenant improvements, working capital, equipment, etc. • Recycling Market Development Zone (RMDZ) - low-interest loans and technical assistance for manufacturers using recycled feedstock. • Industrial Development Bonds (IDB) - Financing (\$500,000 - \$10 million) and tax exemptions for job-generating companies. • Water Conservation Financial Incentives (FIP) - Financial incentives up to \$20,000 for companies that participate in indoor wastewater reduction.
HIRING/TRAINING/TECHNICAL ASSISTANCE			<ul style="list-style-type: none"> • Center for Software Development (CSD) - Public/private venture offers technical and non-technical resources to software entrepreneurs. • Entrepreneurship Training for local entrepreneurs. • Environmental and Software Business Clusters - incubators for software and environmental startups.

			<ul style="list-style-type: none"> • Silicon Valley Economic Development Corporation (SVED) - Silicon Valley business receive technical/management assistance, loan financing and packaging assistance. • San Jose First Employment Program - One-stop shop for employers seeking qualified employees to obtain assistance in recruitment, on-the-job training, labor market information, etc.
OTHER PROGRAMS		* One-Stop Shop - Interactive Web application for developers and residents provides access to land use zoning, property ownership and environmental information.	<ul style="list-style-type: none"> • International Trade Assistance • Energy Utilities - Assistance with facility energy and rate analysis, energy efficiency improvements, etc. • SCV Permit Assistance Center- Assistance on use, handling, discharge and storage of toxic substances.

Sources: *San Jose Office of Economic Development,*

POLICY ISSUES/ANALYSIS:

There are currently 70,000 businesses in San Francisco that are registered with the Tax Collector's Office. These businesses utilize or benefit from the City's resources, including various loan programs, tax credit programs, and other technical or in-kind services. Local businesses represent a growing revenue source for the City. The Tax Collector's Office reports that whereas in Fiscal Year 1993-1994 the City generated about \$348 million in business taxes, by Fiscal Year 1997-1998, these businesses paid taxes approximating \$472 million. A majority of these firms, according to the Small Business Network, are small businesses with annual sales less than \$5 million.

1) City Programs that Impact Business Attraction and Retention

Financing Programs

The three loan programs (describe above) administered by MOCD provide local businesses with financing options that are generally not available from conventional financing. Loan amounts for MOCD's micro and macro business loan programs vary from about \$10,000 for the Micro-Enterprise Revolving Loan Program to over \$100,000 for the Section 108 Loan Program.

Despite the availability of these City-administered loan programs, organizations such as the Small Business Network, SOMA, and the San Francisco Partnership maintain that the need for capital financing still remains one of the top concerns for small business entrepreneurs. Because resources from public financing are limited, partnerships with private lenders enable the City to expand the capital base for local businesses. The micro-enterprise loan with Bank of America is an example of such public-private financing schemes.

Tax Incentives

The Tax Collector's Office states that the City's tax incentive programs, such as the New Jobs Tax Credit, have contributed toward attracting businesses to San Francisco. Additionally, these programs provide employment opportunities for certain disadvantaged groups and promote economic development in depressed neighborhoods, such as those that are located in Enterprise Zones. The San Francisco Enterprise Zone Hiring Tax Credit (EZ tax credit), the New Jobs Tax Credit and the Summer Youth Employment Tax Credit programs fit in that category. Despite the apparent benefits of these tax credits, the Tax Collector reports that among the 70,000 businesses that are registered with the City, approximately 10 percent of these firms pay business taxes. Among those that pay the business tax, approximately 250 firms or less than 1 percent claim the tax credits.

- *Public/Private Partnerships*

Partnerships between the City and local organizations - in particular, non-profits, have helped channel resources and provide services to local businesses. Without the participation of these local organizations, the City would otherwise be required to provide these resource at great cost to the City or be unable to provide them at all without having targeted City offices to provide those services. The expansion in small businesses and in growth sectors such as multi-media and bioscience has given rise in recent years to more organizations, including SOMA and the Renaissance Entrepreneurship Center (REC) that provide incubator and financing assistance to business start-ups and growing businesses. While this assistance has tended to be specialized by

type of business, groups such as the Small Business Network have argued that San Francisco still needs to address the needs of struggling small businesses, a majority of whom still do not benefit from services provided by groups such as the San Francisco Chamber of Commerce, the San Francisco Partnership and the REC.

2) Sectors of Current and Projected Business Growth

Following the end of the recession in the early 1990s, the local economy has been on the upswing as a result of the emergence of new industries that began relocating in San Francisco as well as improving employment figures - registered at 3.1 percent by the Bureau of Labor Statistics last November. Growth in the local economy has been noted in the following sectors:

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Industry and Commerce

The Bay Area is home to a diverse group of companies – from computers to environmental technologies to business services—which cushion the local economy against downturns in one industry. New industries and restructured old industries are creating a “new industrial space” in San Francisco. Multimedia represents one of the emerging industries in San Francisco with the highest concentration among all metropolitan regions in the US. Apparel manufacturing in San Francisco has remained strong throughout the recession by shifting from mass production to high value designer products. Printing and publishing is incorporating new information technologies and represents a key support industry for the San Francisco financial sector.

San Francisco provides an enormous diversity of products and services. This diversity and strong linkages among industries within the region have contributed greatly to the robust economic health of the region. The City then plays an important role as a cultural center and as a center for finance and high level business services. The visitor sector is another key industry for San Francisco. Visitors (40%) visit other parts of the Bay Area, and other Bay Area visitors come to S.F. for businesses, shopping or entertainment.

On the downside, the region’s economy has become increasingly dependent on international markets in the last four years. Last January, exports made up 170% of the Gross Regional Product, more than double the US average. While this presents new sales and contracts for area companies, it also means risk as many manufacturers and engineering firms learned in 1998 with the Asian financial crisis, which wounded the semiconductor industry and others.

San Francisco has to its credit the advantage of being in one of the most dynamic corporate environments. Private businesses in the City are engaged in the development of new technologies and products.

The recession lasted from 1987 through 1993 (mid 80s to early 90s). In terms of trends and forecasts in Citywide jobs, San Francisco has been in a period of recovery since 1995, and will continue through 2003, according to t____. ____ expects an increase in City jobs from 540,000 to 600,000 between 1995 and 2003.

Labor Market

- The California Employment and Development Department (CEDD) projects growth in employment from 1995 to 2002 of 51,100 jobs in both full-time and part-time positions. Most of the growth is expected to be in services - approximately 47,100 jobs in San Francisco County, and nearly 60% of that advance will occur in business services.
- The CEDD also expects high job growth in computer services and commercial art components that are part of the multimedia industry.

S.F. Business Services Projected Additional Jobs 1995-2002

<u>Business Services</u>	<u>Projected Growth</u>
Temporary and other employment agencies	11,500
Computer programming and related services	6,800
Building maintenance and pest control services	2,500
Mailing, reproduction, commercial art and related services	1,500
Advertising services	1,400
Guard, detective and armored car services	1,300

Other services industries that will register significant gains during the 7-year projection period include engineering, architectural, accounting, research and management services, which will grow by 6,600 jobs, with the management and public relations part leading the way within that grouping.

- The CEDD also states that the change to private ownership of a large public hospital late in 1997 pushed the health services job total up significantly.
- CEDD expects sizable job gains in the following medical components: dental offices, specialty outpatient clinics; offices of health practitioners; occupational and physical therapists and nutritionists; offices of chiropractors, and home health services.

The amusement and movie industry will add 2,500 jobs over the 7 year period.

The social service industry is expected to add 2,400 additional jobs over the 7-year period, which will include significant increases in individual and family social services and child care services.

The completion of various new hotels and the expansion of others will boost hotel employment by 1,800 over the 7-year period.

Private education will gain 1,000 jobs.

Retail trade employment will expand by 7,300 between 1995 and 2002.

Retail jobs are also expected to increase, particularly those in restaurants and bars.

Construction is expected to show an increase of 2,700 jobs between 1995 and 2002. However, construction employment gains are not expected to from the high levels posted in 1997-98 because some major projects such as airport expansion and Giants' stadium will be completed prior to 2002.

Manufacturing employment, which generally declined during the 1980s and first half of the nineties, is projected to increase by 1,100 jobs between 1995 and 2002.

Gains centered in apparel production and some of the multimedia components (electronic equipment and printing and publishing) are expected to more than offset a decrease concentrated in food processing.

The transportation and public utilities industry division will edge upward by 200 jobs overall.

Wholesale trade employment will decrease by 400 jobs between 1995 and 2002 as a sizable nondurable goods wholesaler moved its headquarters out of San Francisco in the early part of the projection period.

Finance, insurance, and real estate will lose 1,700 jobs over the 7-year period. Significant job cutbacks are expected in the insurance component. Within finance, continued job losses at banks and savings and loans are expected to be offset by gains concentrated in security brokers and investment companies.

Government employment will decrease by 5,200 jobs between 1995 and 2002.

Source: S.F. Economic Summit

The South of Market district has developed due to an expansion of downtown activities, as a location for industries that complement the financial functions of the downtown core, and for new types of industrial activities. This district is crucial because it provides lower rents, larger floor space, and mixed-use opportunities better than the downtown area. This district combines industrial and office activities.

The Marina/Fillmore district shows a large concentration of cultural and institutional activities, which represent half of the total employment in this district. These activities are combined with retail and office activities.

Between 1985 and 1994, employment in financial and insurance services declined 27% from approximately 73,700 to about 54,200. During this period, professional and business services employment increased from 89,000 to 100,000 – an increase of 12%. Professional services include legal, engineering, architectural, surveying, accounting, research, and management services. Business services include a variety of activities ranging from advertising, mailing, photocopying, computer and data processing services to building maintenance, equipment rental and personnel supply services.

The decline in financial services employment is a result of several factors, including downsizing due to mergers, acquisitions, and technological advances, and consolidation of services in financial centers such as New York and Tokyo.

Professional and business services have grown in response to global and regional economic trends, including large scale corporate downsizing resulting in out-sourcing which transforms the economy from an industrial to a services based economy.

This shift from a predominantly financial function to a greater diversification of office and information services represents one of the main changes in S.F.'s economic role in the region. At the local and sectoral level, the reorganization of activities has taken place through the development of small business networks where each business performs very specialized tasks, and complements each other overall. This change has driven a decentralization of businesses, and a different pattern of office development with an increasing number of small businesses.

Multimedia Industry

Multimedia is better defined as an industry cluster rather an industry group. Multimedia integrates various types of communication (video, sound, text, graphics), various industries (computer manufacturing, telecommunications, graphic art, motion picture, software printing and publishing), and various occupations (writers, artists, programmers, designers, animators). In addition, multimedia also blurs the division between consumers and producers due to the use of knowledge as the main input. Multimedia products are also tools for multimedia producers. Thus, consumers directly contribute to the development of multimedia products.

A recent analysis of the multimedia industry cluster has reported over 60,000 jobs in the Bay Area. This number includes technology production, product distribution, product development, and information development.

In terms of the development of specific products, it has been estimated that there are nearly 10,000 jobs nationwide, and half of these jobs are located in the South of Market district, which offers an ideal combination

of resources for the development of the multimedia cluster, as well as a community for printing and publishing businesses.

Bioscience Centers

The Bay Area is emerging as one of the major bioscience centers in the nation. It's estimated to have 360 firms which employ nearly 60,000 people in the Bay Area. Major academic research institutions such as UCSF, UC Berkeley and Stanford University are critical to the growth of this industry. San Francisco plays a major role in shaping this industry because of the world class bioscience related research and development work at the UCSF Medical Center.

Health Care Industry

The health care industry is a vital part of the San Francisco economy. Health care related employment remained strong throughout the recent recession, and is returning to levels of job growth that characterized the sector prior to 1993. A "health care valley" appears to be developing around the Kaiser and Mt. Zion hospital facilities in the vicinity of Geary Blvd. And Divisadero Street. This district has experienced significant building activity in recent years.

Currently, there are about 2,153 Health Services establishments in San Francisco. This represents about six percent of all establishments in the city. As of 1980, the Health Services group employed about 36,395 persons, and by 1994, this had increased to 37,000, after declining to 32,000 in 1984. The UCSF Medical Center is the largest single employer in the city.

Cultural and Arts-related Activities

There are approximately 650 business establishments in the city whose primary function is cultural and arts related activities, representing about 2% of all establishments citywide. In 1994, these activities generated over \$300 million in gross receipts. An additional \$200 million is estimated to come from secondary spending resulting from arts and cultural activities.

Visitor Sector

The visitor and retail sectors are recovering from the recession and appear poised for future growth as well. In the visitor sector, San Francisco benefits from both tourism and convention and business visitors. In 1992, about 13.4 million people visited the city, for an average stay of 3 days each. An average of about 70% of the city's existing base of approximately 30,000 hotel rooms are filled each night, somewhat above the national average of about 66%.

The visitor sector is a major contributor to the city's economy, bringing in about \$231 million in total revenues annually, and supporting about 66,000 jobs or about 12% of the citywide total. This sector is also a critical component in supporting the city's thriving retail sector. This is primarily true in the major shopping areas e.g. Union Square, Downtown, and Fisherman's Wharf, and in the city's unique neighborhood commercial districts.

The retail sector is also showing some signs of recovery from the recession, despite setbacks including the closure of the Emporium store on Market Street. Challenges for the city include adjusting to the changing nature of retail brought about by larger "super stores," while still maintaining the unique, pedestrian-friendly, small-scale character of many of the shopping areas, and maintaining their individuality and direct service links to San Francisco's many diverse neighborhoods. Retail sales increased by about \$300 million in 1994, after 3

years of steady decline, and much of the recovery was in restaurant, apparel stores, and retail services and repairs. Although in the past 2 years (since 1994), there was an emergence of large stores such as Costco, NikeTown, and the Virgin megastore, most of the gains in retail sales and employment were in establishments with less than 20 employees.

San Francisco has old infrastructure that must be repaired or replaced because infrastructure is basic and critical to the city's economic viability. Therefore, S.F. must continue to upgrade and maintain its existing infrastructure, and add new infrastructure, both in areas of growth and in areas of technological change such as fiber optics. A number of projects are in progress including upgrade of streets, sewers, and water systems. Maintaining and improving infrastructure is costly. San Francisco has a sound bond rating that it is important for the city to maintain together with its infrastructure.

The growth and expansion of multimedia and e-commerce is one of the biggest trends in San Francisco commercial real estate today. A new research report by San Francisco brokerage CAC Group shows that between 1999 and 2002, as much as 3.5 million square feet of new and rehabbed space could be built at Multimedia Gulch.

- The emergence of Multimedia Gulch is fueled by the exponential growth of Internet companies, the abundance of venture capital and in-migration and startups.
- The multimedia industry has grown faster than any other in the Bay Area since 1995—expanding jobs 52% since then. Manufacturing jobs have fallen 12% in the last 10 years.
 - New creation for S.F.'s multimedia industry is the New Media Campus, which will consist of incubator space for fledgling companies, state-of-the-art meeting and demonstration facilities, and market-rate office space in which firms can grow. It will be housed in the heart of Multimedia Gulch.
 - Incubation provides cheap space where similar companies can cluster together. The Campus will offer below-market rents for up to 25 startups along with technologically advanced meeting space for firms to collaborate and conduct business. The rest of the office space in the building will be leased at market rates, with an eye toward new media and related firms. The incubator will be run by a nonprofit organization, Women's Technology Cluster. The City has earmarked \$250,000 for one year of rent and PG&E has provided the incubator's first corporate grant.
 - In San Francisco, the free-wheeling multimedia industry has thrived the last few years by setting up shop in forgotten SOMA buildings. As the economy rebounded, inexpensive space has become scarce, forcing many firms out of the area and putting a strain on those that want to stay.
 - Multimedia Gulch is now surrounded by the city's downtown building boom, where several new and renovated office, retail and hotel projects are under way, punctuated by the Giants' new stadium.

3) Current Policies and Business Growth

POLICY ANALYSIS:

A generally positive economic climate must also be accompanied by feelings of confidence on the part of business that the local environment will accommodate their needs for capital, commercial real estate, and support their needs for transportation as well as those of their clients and employees.

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The reduction of manufacturing jobs since the end of World War II reflects worldwide patterns of industrial restructuring. Between 1980 and 1990, manufacturing employment declined significantly - from 40 percent to 34 percent of total US jobs. However, in terms of gross domestic product, total manufacturing output increased from 40% to 41% of the national total. This is a reflection of greater productivity in manufacturing. In San Francisco, manufacturing jobs declined from 30 to 22% of total jobs.

Traditional manufacturing has continued to face constraints in San Francisco, such as high land prices, limited land availability, and limited rail and port accessibility.

1) Coordination and Fast tracking of City Services

- Shortened process time for MOCD Loan Programs
- One-Stop Permit Center - started last year.

2) Addressing the Need for Capital

3)

Financing

- Number of women and minorities opening businesses has been skyrocketing. However, number of loans has lagged.
- Union Bank of California's Urban Enterprise Banking program is trying to narrow the gap. They meet one-on-one with the businesses and lend directly and try to avoid a lengthy loan processing time. They generally lend to business that have been in operation for 2 or more years; profitable in the last fiscal year; have positive interim fiscal year results; and have an adequate primary source of repayment. Loans range from \$10,000 to \$2.5 million, and are used as a line of credit, as a term loan for equipment, or as a real estate loan.

Although economic indicators for San Francisco are improving in general, things are not bright in many of the city neighborhoods. Significant inequality persists—e.g. the median income in the Civic Center and South of Market districts is about half of the citywide average, and about one third of the median income of the highest district, West Portal/Twin Peaks. With one third of all persons 18 years or older in the City having at least a BA, only one in twelve residents of the So. Bayshore district have this level of educational attainment, while more than half of residents in Noe Valley/Upper Market district have at least a BA. In North Beach/Chinatown, Union Square, Civic Center, South of Market, South Bayshore, and Excelsior districts have residents with less than a high school education that are nearly twice the citywide average of about 22%. These districts also suffer from higher than average citywide unemployment rates. For example, while citywide unemployment stood at 6.3% in 1990, in South Bayshore it was 13.3%, 12.6% South of Market, and 10.1% for Civic Center residents.

- *Extending expiring tax credit programs*
- *collaborations with private sector* - Adopt MOCD flexible lending practices and guidelines for funding risky loans (assigned risk levels).
- Work with local lenders

- ***Sectors in which current and projected business growth lies.***

1) Meeting the Real Estate Challenge

Despite the slowdown following the international financial turbulence last summer, 1998 was a very solid year in San Francisco. According to Whitney Cressman Ltd., the central business district experienced positive net absorption of 472,000 square feet (#s vary because the industry does not use uniform statistical methodology), and average rental rates rose by more than 27%. Properties were sold above the benchmark \$300-per-square-foot threshold, and vacancies in all building classes dropped from 4.1% to 3.4%.

1) Addressing the Needs of Small Businesses

2) Addressing the Challenges of the MBWLE Ordinance

- ***Attraction and retention policies that are appropriate to areas of business growth.***

1. Addressing Customer Service Needs:

- Dissemination of Information
- Timely Delivery of City Resources
- Ensuring Timely Delivery of City Resources/Y2K

The reduction of manufacturing jobs since the end of World War II reflects worldwide patterns of industrial restructuring. Between 1980 and 1990, manufacturing employment declined significantly - from 40 percent to 34 percent of total US jobs. However, in terms of gross domestic product, total manufacturing output increased from 40% to 41% of the national total. This is a reflection of greater productivity in manufacturing. In San Francisco, manufacturing jobs declined from 30 to 22% of total jobs.

Traditional manufacturing has continued to face constraints in San Francisco, such as high land prices, limited land availability, and limited rail and port accessibility.

2. Public/Private Collaboration

ISSUES:

Real Estate/Mergers

- S.F.'s downtown office vacancy rate is hovering around 5% to 6%, and average Class C rental rates now exceed \$40 per square foot.
- Boston Properties Inc. purchased Embarcadero Center complex for \$1.2 billion, which works out to about \$330 per sq. ft.
- Acquisition of historic Transamerica by Aegon, a larger and better managed operation.
- National and international corporation should be clamoring to be headquartered here, at the center of the information revolution. Instead, the Baby Bell that should have survived in an Internet-based future, allowed itself to be dismembered. Instead, the world's largest, fastest-growing, and best-managed provider of mobile communications voluntarily sold itself a young British company that is, by most measures, smaller and less well managed.

- Two of the city's three major investment banks were picked off by much larger commercial banks, and both of these acquisitions have been disasters for the acquired institutions.
- Even without major global headquarters, San Francisco's economy is likely to remain strong. Important operations still need to be located near the information revolution, with easy access to global transportation. Content industries require the vast, international cultural resources that few cities can offer.
- Banking consolidation reached a fevered pitch in 1998 as the state's two largest banks were acquired by out-of-towners. Bank of America merged with Charlotte, NC-based NationsBank. Wells Fargo has merged with Norwest Corp of Minneapolis. Greater Bay Bancorp of Palo Alto acquired San Francisco's Golden Gate Bank in 1998 as part of its strategy of operating community banks. Mergers involving the two largest banks have delighted community bankers who say they are picking up customers who prefer to bank with smaller institutions.
- The largest Bay Area Mergers and Acquisitions of 1998:
BancAmerica Corp
Wells Fargo & Co.
McKesson Corp.
AirTouch Communications
Netscape Communications Corp.
- Hospital mergers in 1998:
Sutter Health continued to grow in the Bay Area as California Pacific Medical Center bought Davies Medical Center in S. F.
Oakland's Summit finally signed a merger agreement with Alta Bates Hospital and Sutter Health.

Per Planning Dept:

Total city jobs = 565,000

Office jobs = 300,000

Retail jobs = 104,000

Cultural and institutional jobs = 97,000

Industrial jobs = 68,000

Downtown: 43% of jobs; 2.3% of land area

Industrial Areas: 10% of jobs; 14% of land area

Rest of the City: 47% of jobs; 83.7% of land area

Industrial jobs:

Doing well in Light Industry - Includes Contractor with Home office

Doing Well in Industrial Space - Includes Multi-Media, Printing shop, Garment manufacturer, food processor, taxi/Shuttlebus storage

Already left the city - Heavy industry
Includes cargo, and warehouse storage.

Per San Francisco Urban Institute (Report: Economic Expansion in San Francisco since 1994)

- Over 1.2 million jobs created in California since 1993, and over 260,000 of those jobs were in the S.F. Bay Area. Since 1994, over 35,000 jobs were created in the City of San Francisco.
- Almost 24,000 of jobs created in S.F. since 1994 were in the service sector office employment (accounting, advertising, management consulting, engineering, architecture, law, data processing, multimedia, etc.). These jobs represent over 2/3 of all jobs created in the city.
- Almost 8,000 jobs have been created for Managers and Executives in S.F. since 1994. Almost 6,000 jobs have been created in Admin. Support positions in S.F. since 1994. Almost 5,000 jobs have been created for Professionals, and about 3,000 for lawyers since 1994. Over 2,000 jobs have been created in Cleaning and Custodial positions in S.F. since 1994.
- Ever increasing traffic congestion will deter companies from locating in or relocating to San Francisco. Some employers are providing employer-sponsored shuttle services - e.g. Gap Inc. has been posting this service from its city headquarters to its expanding San Bruno campus for 4 years. The challenge includes connecting current employment centers with public transportation. In order for companies to attract and retain the highest quality workers, they will need to provide them with an easy way to get to work.
- Industry and economic development leaders stress the need to create better transportation systems, faster permitting processes, and small business incubators in order to protect these companies and secure growth.