

Management Audit

of the

**Office of Small Business and Consolidation of City
Departments' Small Business Functions**

Prepared for the

**Board of Supervisors
of the City and County of San Francisco**

by the

Budget and Legislative Analyst

February 11, 2010

CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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February 11, 2010

Supervisor David Chiu, President,
and Members of the Board of Supervisors
City and County of San Francisco
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear President Chiu and Members of the Board of Supervisors:

The Budget and Legislative Analyst is pleased to submit this *Management Audit of the Office of Small Business and Consolidation of City Departments' Small Business Functions*. In response to a motion adopted by the Board of Supervisors in April 2009 (Motion No. 09-65), the Budget and Legislative Analyst conducted this management audit, pursuant to the Board of Supervisors powers of inquiry as defined in Charter Section 16.114 and in accordance with U.S. Government Accountability Office (GAO) standards, as detailed in the Introduction to the report.

The purpose of the audit has been to evaluate the efficiency, economy, and effectiveness of the Office of Small Business and City departments' small business functions. The Executive Director of the Office of Small Business and the Director of the Office of Economic and Workforce Development have provided a written response to the management audit which is attached to this report.

The audit report findings are as follows:

The Office of Small Business needs a more strategic approach to (a) providing services to clients of the Office of Small Business's Small Business Assistance Center, and (b) working with City departments to coordinate and streamline the City's complex small business functions. A strategic approach would incorporate Small Business Assistance Center client data and City department small business permitting and fee data to plan and provide services and programs. Because the Office of Small Business staff's time has mostly been expended on the Small Business Assistance Center's day-to-day work with its clients, the Office of Small

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Business has not developed a more strategic approach to address the issues faced by small businesses. For example, although the Administrative Code requires the Office of Small Business to prepare a report on the City's existing laws and regulations governing small businesses and make recommendations on streamlining the City's small business functions, the Office has neither issued such a report nor conducted the research for such a report.

The Office of Small Business has not (a) ensured that data on services provided to small business clients is reliable nor (b) developed sufficient performance measures to effectively track and measure its performance. The Office of Small Business does not consistently collect complete Small Business Assistance Center data nor ensure that all data is reported correctly. Consequently, client data may not be sufficiently reliable for tracking and reporting the Office of Small Business's operational activities and performance measures. For example, the Small Business Assistance Center client database includes a field for the type of business, including if the business is a non-profit organization or government entity. However, the Small Business Assistance Center staff do not record this information for all clients. Further, the Office of Small Business reports all contacts as "small businesses served by case managers and the Office of Small Business" whether the contact was a small business, a non-profit organization, a government entity served by the Small Business Assistance Center, a contact during a neighborhood merchant walk or an attendee at a presentation given by the Office of Small Business. Also, most of the performance measures currently tracked by the Office of Small Business, such as "the number of small businesses served by case managers and the Office of Small Business" and "the number of outreach events", are workload but not outcome measures. Tracking and reporting performance measures related to outcome (such as the percent of satisfied customers) would allow the Office of Small Business to better plan services and identify the effectiveness of its services.

The City does not coordinate the multiple points of entry for small business registration and permits. Many small businesses must obtain various permits from several different City departments to comply with Municipal Code requirements. For example, a new restaurant must obtain a business registration certificate from the Treasurer/Tax Collector's Office, zoning approval from the Planning Department, a health permit from the Department of Public Health, and a public assembly permit from the Fire Department for occupancy of more than 50 people. However, City department staff who process permits at the first point of entry do not have comprehensive information on the City's business permitting process. Consequently, a small business submitting an application to one of the City departments serving as the first point of entry will not receive information on the many steps in the process, including which permits are required, and permitting timelines and fees.

No City entity is responsible for monitoring and improving the impact of permitting timelines, duplicated administrative processes, and redundant fees on small businesses. The City has 250 different permit and fee requirements and at least ten City departments administering them. The interdepartmental permitting process can be both lengthy and costly for

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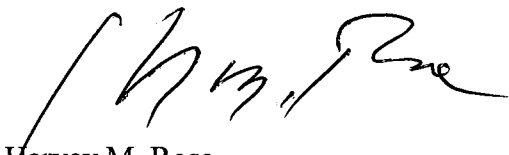
small business applicants. For example, the application process for a new restaurant business can take approximately four months and require \$2,705 in permit fees.

City departments lack permit systems that provide extensive online access to business applicants or link to other City departments. Most permit applications are hard-copy, and interdepartmental permitting processes are still performed manually. City departments often exchange permit applications through postal or interdepartmental mail or hand delivery rather than electronically, potentially slowing the small business permitting process and increasing staff costs for manually processing permits. Also, City departments have difficulty in implementing submission of permit applications or renewal online due largely to difficulties in implementing online payment. For example, in May 2008 the Mayor announced online permit renewal for businesses with sidewalk café permits, but as of January 2010, or more than 18 months later, the Department of Public Works was only in the initial phase of implementing online credit card payments for these permits.

The Executive Summary to the *Management Audit of the Office of Small Business and Consolidation of City Departments' Small Business Functions* summarizes the Budget Analyst's five findings.

We would like to thank the management and staff of the Office of Small Business and the City departments who provided us information during this management audit.

Respectfully submitted,



Harvey M. Rose
Budget and Legislative Analyst

cc: Supervisor Alioto-Pier
Supervisor Avalos
Supervisor Campos
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Elsbernd
Supervisor Mar

Supervisor Maxwell
Supervisor Mirkarimi
Clerk of the Board
Cheryl Adams
Greg Wagner
Controller
Executive Director, Office of Small Business
Director, Economic and Workforce Development

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Executive Summary

Overview: Small Business Functions in the City and County of San Francisco

A. The Small Business Commission and Office of Small Business

In November 2003, San Francisco voters approved Proposition D establishing the Small Business Commission, which is responsible for (1) formulating and evaluating the goals, objectives, plans, and programs, and (2) setting policies for the City regarding small businesses. In doing so, the Commission reviews pertinent small business legislation and makes recommendations to the sponsor of the legislation.

In November 2007, San Francisco voters approved Proposition I, amending the Administrative Code and establishing the Office of Small Business under the direction of the Small Business Commission to:

- Coordinate and centralize information on City departments' services to small businesses;
- Operate the Small Business Assistance Center, providing information and assistance to San Francisco businesses with 100 or fewer employees on starting a business, obtaining financing, bidding on City contracts, and obtaining zoning approval and required City permits; and
- Provide services benefitting small businesses as directed by the Small Business Commission.

Under the Administrative Code, other City departments are to provide information and assistance to the Office of Small Business on compliance with Municipal Code provisions impacting small businesses.¹ The Administrative Code required the Office of Small Business to issue a report analyzing the existing laws, regulations, roles, procedures and responsibilities of all City departments that impact small businesses and make recommendations regarding the streamlining and consolidation of such departmental functions under the Office of Small Business within four months of the initial hiring of any new staff.

The Office of Small Business is also required to:

- Report to the Mayor and Board of Supervisors twice each year on services provided by the Small Business Assistance Center to small businesses; and

¹ The City departments are: Assessor, Building Inspection, Environment, Fire, Human Rights Commission, Mayor's Office of Community Development, Office of Labor Standards Enforcement, Parking and Traffic, Planning, Police, Public Health, Public Works, Purchasing, Treasurer/Tax Collector, and such other departments as directed by the Mayor.

- Conduct an annual survey of small business clients in conjunction with the Controller's Office, evaluating the performance of the Small Business Assistance Center.

The Office of Small Business is under the direction of the Small Business Commission, of which four members are appointed by the Mayor and three members are appointed by the Board of Supervisors. However, the Office of Small Business is organizationally part of the Office of Economic and Workforce Development, whose Director reports directly to the Mayor.

B. Municipal Codes Regulating Small Business Development and Use

The City of San Francisco's various Municipal Codes contain multiple ordinances governing business development and use. While the Administrative Code establishes the Small Business Commission and the Office of Small Business, other Municipal Codes do not specifically address small business development and regulation. Rather, small business development is an adjunct to other City regulations and processes, such as zoning, building, health, or fire requirements. The Office of Small Business assists small businesses in navigating the City's regulatory processes. Other City departments are responsible for enforcing specific Municipal Code requirements applicable to small businesses, but no single City department is specifically responsible for regulating small businesses.

The Business and Tax Code provides for (1) business taxes generating general City revenue, including an annual business registration fee and payroll expense tax, and (2) business licenses for specific business activities at specific locations. Under the Business and Tax Code the Tax Collector collects the business registration fee, payroll expense taxes, and annual business license fees. Other City departments oversee small business activities and issue permits based on Business and Tax Code and other Municipal Code requirements.

C. Small Businesses in San Francisco

The Business and Tax Code defines small businesses as those with annual payrolls less than \$250,000. In 2008, 63,563 businesses qualified for a small business tax exemption, or 72.6 percent of the City's 87,546 registered businesses.

Finding #1: The Office of Small Business Needs a More Strategic Approach to Small Business Assistance

The Office of Small Business began formally in May 2008 with the opening of the Small Business Assistance Center, providing one-on-one assistance to small businesses and compiling basic information on the City's business registration, zoning, and permitting requirements. Although the Office of Small Business has established an operational framework for providing information and referral assistance to Small Business Assistance Center clients as mandated by Proposition I, the Office needs a more strategic approach to effectively address the issues faced by small businesses. A strategic approach means using client data and other analytical resources to plan how the Office of Small Business can best meet the objectives set by Proposition I.

The Office of Small Business Has Not Established a Strategic Approach to Streamlining the City's Complex Small Business Functions

Because Office of Small Business staff's time has mostly been spent on the Small Business Assistance Center's day-to-day information and referral functions, the Office has not developed a strategic approach to streamlining the City's complex regulatory and permitting processes related to small businesses. Although the Small Business Commission identified streamlining the City's permitting process for small businesses as a goal during their February 2009 retreat, the Office of Small Business has not moved forward in implementing this goal due to staff turnover, including an Executive Director vacancy for eight months, from September 2008 through May 2009, at which time the Mayor permanently appointed the current Executive Director.

The Office of Small Business has not yet formally defined its role in working with City departments to improve services to small businesses. The Administrative Code requires (1) the Office of Small Business to prepare a report on the City's existing laws and regulations governing small businesses, and (2) City departments to provide information and assistance to the Office of Small Business. The Office of Small Business has not yet compiled the required report or solicited information and assistance from other City departments. Preparing this report and gathering this information would be a first step in identifying how the City's various Municipal Codes impact small businesses.

To address two systemic issues affecting small businesses in the City, the Office of Small Business has proposed two interdepartmental projects:

- Establishing a work group with other City departments to review City policies and requirements for push carts and mobile food vendors; and
- Organizing a pilot interdepartmental consultation team comprised of relevant City departments to work with new restaurant businesses through the restaurant development process, including application, permit and inspection, and construction

At the time of the management audit, the Office of Small Business had not yet actively implemented either of these projects. As discussed below, because the Executive Director of the

Office of Small Business has neither the legislative authority nor the resources to require City departments to participate in these projects, the Mayor's Office needs to ensure City department participation.

The Office of Small Business Has Not Used Available Data and Tools to Strategically Plan and Provide Services

The Office of Small Business should begin using the client data that it is collecting to make more informed decisions about its programs and priorities. While the Small Business Assistance Center maintains data on each business contact, such as the types of businesses accessing the Center and the types of services requested, the Office of Small Business has not used this data to plan services. For example, 66.9 percent of Small Business Assistance Center clients requested counseling on how to start a business (1,735 out of 2,595 clients from July 2008 through October 2009) while only 8.6 percent requested assistance with the City's zoning, business tax registration, or permit requirements (222 out of 2,595 clients), but the Office of Small Business has not geared its work efforts to the apparent needs of its clients based on this information.

Also, the Office of Small Business has not maximized its use of its website nor of the 311 Call Center website. For example:

- The Office of Small Business's website provides information on the Small Business Commission, Office of Small Business programs, Small Business Assistance Center services, and news or events of interest to small businesses. While this information could be useful to small business, the website currently does not include key features, such as direct links to small business-related electronic forms, information on City programs available to small businesses (such as neighborhood market profiles and energy efficiency), and customer surveys; nor does it link to resources available on the 311 Call Center website, such as demographic and economic data or information on how to start specific types of businesses.
- The 311 Call Center's website, which small businesses are likely to access before the Office of Small Business's website in attempts to determine the City's requirements for their business, does not describe the services and functions of the Office of Small Business or the Small Business Assistance Center, although it provides a link to the Office of Small Business website under the title "Starting a Business".

Finding #2: The Office of Small Business Lacks Reliable Data and Sufficient Performance Measures to Effectively Track and Measure Its Performance

The Office of Small Business has limited ability to effectively track its performance and ensure the quality of its operations and activities. For example, most of the performance measures currently tracked are for workload measures but not outcomes, which limits the Office of Small Business's ability to assess the efficiency and effectiveness of its services and programs. In addition, the Office of Small Business does not track the number of small businesses obtaining

City contracts and their dollar amount. Tracking and reporting on a set of balanced and complete performance measures that include workload, efficiency, and effectiveness measures would allow the Office of Small Business to better plan services, identify the effectiveness of its services, and determine policies that effectively promote City contracting with local businesses.

The Office of Small Business Does Not Ensure that Service Data is Reliable

The Office of Small Business tracks Small Business Assistance Center client contacts. The client database includes information on dates of service, business name and location, type of business, type of service provided, number of contacts, method of contact (telephone, walk-in, referral), staff member assisting client, and other information describing services. While this is useful information to collect, the Small Business Assistance Center staff do not consistently collect or enter key client data, such as the Supervisorial District where the business is located; the number of employees; and the type and number of interactions with the client, which can be useful for monitoring the Center's activities and determining how to more effectively allocate its resources.

Also, although the Administrative Code requires that the Office of Small Business conducts a client survey annually, the Office has not surveyed clients to assess the adequacy of the Office's operations and activities. Client satisfaction surveys help identify successes as well as areas for improvement. The Office of Small Business should, therefore, coordinate with the Controller's Office to create and administer an annual survey of small businesses that use the Small Business Assistance Center to evaluate the Center's performance.

Finding #3: The City Does Not Coordinate the Multiple Points of Entry for Small Business Registration and Permits

Many small businesses must obtain various permits from several different City departments to comply with Municipal Code requirements. For example, a new restaurant must obtain a business registration certificate from the Treasurer/Tax Collector's Office, zoning approval from the Planning Department, a health permit from the Department of Public Health, and a public assembly permit from the Fire Department for occupancy of more than 50 people. However, City department staff who process permits at the first point of entry do not have comprehensive information on the City's business permitting process. Consequently, a small business submitting an application to one of the City departments serving as the first point of entry will not receive information on the many steps in the process, including which permits are required, and permitting timelines and fees. According to interviews with business representatives, lack of information can leave small businesses unprepared for the time required to process permits and the amount of fees charged. Some businesses - such as a new restaurant providing entertainment and sidewalk seating - need to obtain permits and pay fees to up to 10 City departments. The Planning Department, Department of Public Health, Department of Building Inspection, and Treasurer/Tax Collector's Office can all serve as the first point of entry for a small business applying for City permits.

The Office of Small Business' Original Goal of Creating a Physical One-Stop Permit Center Is Inefficient; Services Could Be Better Integrated Through Technology

While the original concept of the Office of Small Business was to establish a one-stop business permitting center, creating a physical one-stop center is not efficient. Because City departments that require permits for a operating business process only three to nine permits per day on average, relocating staff to a central location would increase costs without necessarily providing improved service to small businesses.

The Department of Building Inspection has recently expanded the one-stop construction permit center located at 1660 Mission Street to 40 work stations, and several City departments, including the Fire Department and Department of Public Works Bureau of Street Use and Mapping, assign staff at 1660 Mission Street to review plans and issue permits related to construction projects. However, business applicants for operational permits - such as permits for sidewalk tables and chairs issued by the Bureau of Street Use and Mapping or a public assembly permit issued by the Fire Department - must apply for these permits at other locations.

Most City departments issue too few operational permits per day to locate staff efficiently at the 1660 Mission Street one-stop building permit center. As an alternative, discussed below, City departments could streamline the permitting process and increase public access through improved use of information systems.

Additionally, the Office of Small Business could foster information sharing and increase City department staff's comprehensive knowledge of the permitting process through training and ongoing group discussions. City department staff have indicated that regular interdepartmental meetings aid in understanding each department's role in the permitting process. As an early step, the Office of Small Business should provide ongoing training on required permits, fees, and interdepartmental permitting procedures to the City departments that frequently serve as the first point of contact to the City's permitting process for small businesses: Planning Department, Department of Building Inspection, Treasurer/Tax Collector's Office, and Department of Public Health.

Finding # 4: No City Entity is Responsible for Monitoring and Improving the Impact of Permitting Timelines, Duplicated Administrative Processes, and Redundant Fees on Small Businesses

While the Office of Small Business is responsible for compiling and coordinating information on various Municipal Code and other legal requirements, the Office of Small Business does not have the legislative authority or resources to coordinate interdepartmental processes nor does any other City department or entity play such a role. If a business requires only business registration, the Treasurer/Tax Collector's Office can approve the business registration upon application and receipt of the fee. However, many businesses must obtain permits from several different City departments, such as the Planning Department, Department of Public Health, Fire Department,

and Police Department. There are 250 different permit and fee requirements in the City and at least ten City departments administering them.

The interdepartmental permitting process can be both lengthy and costly for small business applicants. For example, a new restaurant could require permits from the Treasurer/Tax Collector's Office, Planning Department, Department of Public Health, and Fire Department, requiring at least four months (or 127 days) for approval, as shown in Table 1, and \$2,705 in fees, as shown in Table 2 below.

Table 1
Estimated Number of Days to Process a
Permit Application for a New Restaurant
FY 2008-09

| Permit or Approval | Department | Special Procedures | Average Days to Process Application |
|---------------------------|-------------------|------------------------------|--|
| Conditional Use Permit | Planning | Planning Commission Approval | 85 |
| Health Permits | Public Health | Inspection | 42 |
| Total | | | 127 |

Source: Planning Department, Department of Public Health

If the new restaurant required renovation or construction, the business applicant would need to obtain building, electrical, and plumbing permits from the Department of Building Inspection, with the timelines for permit approval and site inspection determined by the (a) type of permit, (b) complexity of the construction project, and (c) scheduling of construction inspections.

Table 2
Estimated Permit Fees for a New Restaurant
FY 2008-09

| Department | Fee | Amount |
|-------------------------|------------------------|----------------|
| Treasurer/Tax Collector | Business Registration | \$25 |
| Planning | Conditional Use | 896 |
| Public Health | Application Fee | 323 |
| Public Health | Health Permit | 1,129 |
| Public Health | Referral to Planning | 114 |
| Fire | Referral Inspection | 110 |
| Public Works | Café Tables and Chairs | 108 |
| Total | | \$2,705 |

Source: Planning Department, Department of Public Health, Department of Public Works

Delays in Inspections and Permit Approvals Can Place Significant Financial Pressure on New Restaurant Businesses

According to the Executive Director of the Golden Gate Restaurant Association, new restaurant businesses can face significant financial pressure if building projects are delayed due to delays in construction inspections. Although the Building Code generally quantifies building requirements, building inspectors have some discretion in measuring building specifications. According to interviews with business and City department representatives, different inspectors may interpret building requirements differently at different stages of the building project, resulting in construction delays.

The Office of Small Business is initiating a planning process with City department and business representatives, and the Mayor's Chief of Staff to implement a pilot interdepartmental consultation team to assist new restaurant businesses through the pre-application, permit approval, and inspection process. The consultation team would assist new businesses in obtaining planning and building permit approval, and facilitate building inspection sign-off of construction projects. However, the Mayor's Office, Office of Small Business, and respective City departments have not yet developed a specific plan for the consultation team.

Multiple Agencies Charging Fees for Business Permits Results in Duplicate Administrative Costs

Departments may charge fees to recover City department costs for processing permits, conducting inspections, and other permit-related activities. Because each department has an independent permitting process, administrative costs for permitting are duplicated. For example, the Department of Public Health and Fire Department inspect a restaurant for compliance with respective Health Code and Fire Code requirements, with each department incurring administrative costs for application processing, inspection scheduling, information systems, and department overhead.

Mobile Caterer Permits and Fees

Both the Police Code and the Health Code require mobile food caterers to obtain permits. The Police Code requires that the Police Department issue permits to mobile food caterers operating in public streets and charge a permit fee, a portion of which is to be allocated to the Department of Public Health to cover the costs of health inspections. The Department of Public Health Environmental Health Services conducts health inspections of mobile food caterers but does not currently receive an allocation of the Police Department permit fee charged to mobile food caterers operating in City streets. Additionally, under the Police Code, mobile caterers operating in public streets pay a one-time tax of \$7,500 on approval of the mobile caterer permit, which is General Fund revenue. Total initial mobile caterer permit and tax costs are \$8,427, including \$7,500 for the one-time tax and \$927 for the Police Department permit application.

The \$7,500 one-time tax on new mobile caterer businesses was entered into the Administrative Code in 1981 as a source of General Fund revenue, in response to the California Constitution

provision prohibiting local jurisdictions from administering fees for services that exceed the cost of providing services. Because the City does not assess a comparable tax on other new businesses, the Board of Supervisors should eliminate this tax.

Other Permits and Fees

Although several departments charge fees for the same function, the City has no process to evaluate duplication of permits and fees among City departments. While each City department issues permits and charges fees to comply with specific Municipal Code requirements, specific departments have no process for identifying which part of their permitting process may duplicate another City department's permitting process. For example:

- The Planning Department charges \$1,229 for a conditional use permit for a business with extended hours of operation and the Entertainment Commission charges \$1,576 for a business to obtain an extended hours permit. While one fee is for land use approval and the other is for regulatory compliance, both permits can include enforcement functions.
- The Fire Department issues permits and charges fees to vehicle wrecking yards for compliance with the Fire Code while the Police Department issues permits and charges fees to auto wreckers for background investigations to deter criminal activity.

Business applicants would benefit from coordination and streamlining of overlapping permits and fees. The Office of Small Business is planning to implement an interdepartmental workgroup to coordinate and streamline mobile caterer permits. The Office of Small Business should evaluate the effectiveness of this interdepartmental workgroup in order to apply effective workgroup procedures to future workgroups reviewing other overlapping permitting processes. The Mayor's Office, through the Chief of Staff and the Director of the Office of Workforce and Economic Development, which oversees the Office of Small Business, will need to ensure City departments' participation and follow through in this process.

Finding #5: City Departments Lack Permit Systems that Provide Extensive Online Access to Business Applicants or Link to Other City Departments

City Departments Lack Online Application Procedures

Each of the City departments involved in the permitting process includes information about permits and fees on their websites. The Office of Small Business website provides links to each City department's website to obtain information on different permit requirements and fees. However, while most City departments provide online forms for permit applications, the actual applications must be submitted in hard copy. Only the Department of Building Inspection provides for online submission of permit applications: applicants may submit applications for electrical or plumbing permits online if they licensed contractors and registered users.

City departments have experienced technical difficulties implementing credit card and other online payment procedures, resulting in delays in implementing online permit renewals. For example, in May 2008 the Mayor announced a plan to implement online permit renewal for businesses with sidewalk café permits, but as of January 2010, or more than 18 months later, the Department of Public Works was only in the initial phase of implementing online credit card payments for these permits.

City Departments Lack Comprehensive Permit Systems

The various City departments involved in the small business permitting process lack permit systems that can process permits electronically, from application through approval, or link to other City departments. Most permit applications are hard-copy, and interdepartmental permitting processes are still performed manually. City departments often exchange permit application through postal or interdepartmental mail or hand delivery rather than electronically, potentially slowing the small business permitting process and increasing staff costs for manually processing permits.

Although City department systems are generally stand-alone systems, various technical solutions could allow communication between systems. For example, the Department of Building Inspection generates a data extract of building permit information that the Fire Department can download daily, reducing the need for manual re-entry of data.

However, without a formal process to coordinate information exchange and link systems, City department staff have no means to increase system communication. Minimally, City departments should exchange permit information electronically to speed information exchange and reduce manual entry of information, reducing both processing time and the chance of clerical errors. Optimally, City departments would be able to electronically access other departments' permit information for interdepartmental permits and track permit status.

In order to address the problems of permit tracking and data exchange, the Department of Building Inspection and Planning Department are developing a new Permit Tracking System to electronically process and track construction permits. The Board of Supervisors has previously appropriated \$8.8 million for the new Permit Tracking System, of which 70 percent is funded by the Department of Building Inspection and 30 percent is funded by the Planning Department. The Department of Building Inspection and Planning Department issued a Request for Proposal (RFP) for a new Permit Tracking System in January 2009. In April 2009 an intent-to-award was issued, and negotiations commenced. As of January 2010 negotiations have been suspended, pending completion of internal process reviews.

Initially, the new Permit Tracking System will integrate Department of Building Inspection and Planning Department planning and construction permits, as well as construction permits processed by the Department of Public Works, Fire Department, and other City departments. Eventually, the Department of Building Inspection hopes to integrate other City departments' operational permits, such as Department of Public Works Bureau of Street Use and Mapping sidewalk encroachment permits or Fire Department public assembly permits.

An executive steering committee consisting of various departments is overseeing the Permit Tracking System implementation. Although the Department of Building Inspection and Planning Department are responsible for integrating building and planning permits into the new Permit Tracking System, the Mayor's Office through the Director of the Office of Economic and Workforce Development needs to oversee future integration of other City departments. The Director of the Office of Economic and Workforce Development should take the lead on behalf of the Office of Small Business in both planning for City departments' long term participation in the new Permit Tracking System and finding short term solutions for enhanced interdepartmental information sharing and electronic exchange of information.

The Office of Small Business's Accomplishments

The Office of Small Business has provided a list of accomplishments, as follows:

- Since opening of the Small Business Assistance Center in May 2008, the Office of Small Business has served 3,429 clients; implemented the Salesforce Customer Relations Management (CRM) software to track client services and needs; and provided services to small businesses in Spanish and Chinese.
- The Office of Small Business website offers the "Start Your Business in Six Steps" portal, which provides the steps a business goes through to open a business, including links for existing businesses to access specific needs. The website is used by the business development team in OEWD.
- The Office of Small Business has integrated the Office's website with Salesforce to capture a business owner's information for the Mayor's Revolving Loan Fund.
- In August of 2008, the Office of Small Business issued its first newsletter, with the objective to connect small businesses to their local City government. Because of the success, many City departments are utilizing the newsletter to reach a cross section of San Francisco's small businesses. For example, one announcement to promote the bicycle rack program resulted in 30+ businesses requesting bicycle racks.
- The Office of Small Business has conducted outreach to different business communities, including: (1) April, 2009, World Journal, Sing Tao Daily, Announcement of the Mayors Revolving Loan Fund with Supervisor Carmen Chu; (2) June 2009, KVTO, Voice of the Orient 1400 AM, Cantonese Radio Show, Monday, "Best with the Best" Host Karman Liu, Services of the Small Business Assistance Center; (3) December 7, 2009, Radio program was "Hecho en California" with Marcos Guitierrez, Radio 1010AM, Services of the Small Business Assistance Center; (4) January 16, 2010, Univision 14 KDTV, Encuentro en La Bahia and Radio Informativa, Services of the Small Business Assistance Center; (5) January 17, 2010, TeleFutura 66 KFSF and Radio Informativa, Services of the Small Business Assistance Center.
- The Small Business Commission and Office of Small Business have conducted business and community workshops and outreach, including: (1) two workshops (July and December 2009) conducted by the Small Business Commission, targeting 30 certified public accountants with Spanish and Chinese speaking small business clients to educate them on Enterprise Zone Tax Credits and Jobs Now, resulting in translation of Enterprise Zone information into Spanish and Chinese; (2) presentations on Enterprise Zones and Tax

Credits by the Office of Small Business to 12 workshops and 5 Jobs Now events; (3) presentations on the Small Business Assistance Center services to 21 workshops and events; and (4) merchant walks in each Supervisor District, conducted jointly by the Office of Small Business and the Office of Labor Standards Enforcement.

- The Office of Small Business has worked with the Mayor and other City officials to promote (1) the Mayor’s Revolving Loan Fund; (2) the October 2008 Small Business Economic Forum; (3) the December 2009 Jobs Now presentation hosted by Mayor Newsom; and (3) regular communication with 49 merchant associations and small business organizations, including soliciting comments on legislation and policy decisions impacting small businesses, such as the Municipal Transportation Agency’s proposal to extend parking meter hours.
- The Small Business Commission has conducted: (1) a joint meeting with the Mayors Office on Disability on the implementation of California State Senate Bill 1608, *A New Approach for Disability Access to Small Businesses*, November 2009; (2) the Joint Entertainment and Small Business Commissions Forum, *The Night Time Economy - Survive and Thrive*, March 2009; and (3) a hearing regarding the proliferation of Americans with Disabilities Act (ADA) lawsuits targeting very small businesses, July 2008.
- The Office of Small Business has participated in (1) the Shop Local Campaign to promote local businesses, and (2) Small Business Week 2009, including hosting with the Mayor, *Flavors of San Francisco*, the signature kick off event for Small Business Week at City Hall.

The Written Responses from the Executive Director of the Office of Small Business and the Director of the Office of Economic and Workforce Development

The Executive Director of the Office of Small Business and the Director of the Office of Economic and Workforce Development have provided a written response to the management audit report and the Budget and Legislative Analyst’s recommendations, in which they agree or partially agree with the 21 recommendations. The written response begins on page 51 of this report.

For four recommendations, the Executive Director of the Office of Small Business and the Director of the Office of Economic and Workforce Development agreed to implement the recommendation if additional funding is provided.

- The Executive Director of the Office of Small Business “agrees if funded” with Recommendation 3.2 to “develop a training plan, schedule, and written materials on the City’s permitting process for the Treasurer/Tax Collector’s Office, Department of Public Health Environmental Health Services, Planning Department, and Department of Building Inspection staff”, stating that “OSB will need additional resources to develop training and resource materials”.
- The Director of the Office of Economic and Workforce Development “agrees if funded” with (1) Recommendation 4.2 to “begin long term planning for City departments’ participation in the new Permit Tracking System, including working with the Executive

Director of the Office of Small Business and the Department of Technology to map the small business permitting process and identify City departments' permit system needs"; (2) Recommendation 4.3 to "establish a formal work group that includes management and information technology representatives from the City departments involved in the small business permit process to identify short term solutions to interdepartmental exchange of electronic permit information, including the costs of implementing a common business identifier"; and (3) Recommendation 4.4 to "work with the Executive Director of the Office Small Business and the Department of Technology as appropriate to facilitate implementation of online permit application or renewal for permits pertaining to small businesses, including online payment of permit fees", stating that "this cannot be done without additional resources".

These recommendations support the mission of the Office of Small Business as defined by the Administrative Code and approved by the voters in November 2007 (Proposition I). The Director of the Office of Economic and Workforce Development should assign existing resources to implement these recommendations, including evaluating budget priorities and reassigning resources if necessary. Minimally, the Director of the Office of Economic and Workforce Development could reassign the Office of Small Business position, currently working for the Office of Economic and Workforce Development Neighborhood Marketplace Initiative, to the Office of Small Business.

Acknowledgement

We would like to thank the Executive Director of the Office of Small Business and her staff in assisting us with this report. We would also like to thank representatives from the Human Rights Commission, Treasurer/Tax Collector's Office, Office of Economic and Workforce Development, Department of Technology, Department of Public Health, Department of Public Works Bureau of Street Use and Mapping, Fire Department, Police Department, Entertainment Commission, and other City departments who provided information for this report.

Introduction

Purpose and Scope of the Management Audit

The purpose of this management audit is to evaluate the City and County of San Francisco's (City's) small business functions. In particular, this management audit evaluates the role of the Office of Small Business in serving small businesses and Citywide interdepartmental coordination in permitting small businesses and establishing fees. The scope of this management audit includes City departments' compliance with applicable laws, rules, regulations, and Government Code provisions; conformance to policies, procedures, and established best practices; and overall economy, efficiency, and effectiveness of the City's small business functions.

Audit Methodology

The management audit was conducted in accordance with *Government Auditing Standards, 2007 Revision*, issued by the Comptroller General of the United States, U.S. Government Accountability Office. In accordance with these requirements and standard management audit practices, we performed the following management audit procedures:

- Conducted interviews with the Executive Director of the Office of Small Business, her staff, City department representatives, and small business representatives to gain an understanding of the Citywide small business functions.
- Reviewed the City codes and regulations, and other documents governing small businesses.
- Conducted field work, including (a) collecting and analyzing workload, tax, permitting, fee, and other data; (b) evaluating Office of Small Business efforts to implement Administrative Code provisions, coordinate Citywide small business functions, and provide assistance to small businesses; (c) evaluating the City's interdepartmental small business permitting processes; (d) evaluating the City's fees charged to small businesses; (e) reviewing City departments' automated permitting systems; and (f) reviewing studies of City department processes.
- Prepared a draft report based on analysis of the information and data collected, containing our initial findings, conclusions and recommendations, and submitted the draft report on January 20, 2010 to the Executive Director of the Office of Small Business and report sections as applicable to representatives from other City departments.
- Conducted an exit conference with the Executive Director of the Office of Small Business on January 26, 2010, and discussed report findings and recommendations applicable to other City departments with representatives from the respective departments. We revised the draft report based on exit conference discussions and new information provided by the Executive

Director of the Office of Small Business and other City departments, and submitted the final draft report to the Director of the Office of Small Business on February 3, 2010. The final report was submitted to the Board of Supervisors on February 10, 2010.

Municipal Codes Regulating Small Business Development and Use

The City of San Francisco's Municipal Codes contain multiple ordinances governing business development and use. The Administrative Code establishes the Small Business Commission and Office of Small Business. While other Municipal Codes regulate functions pertaining to small businesses, the Municipal Code provisions do not specifically address small business development and regulation. Rather, small business development is an adjunct to other City processes, such as zoning, building, health, or fire prevention requirements. Specific City departments are responsible for enforcing Municipal Code requirements but no single City department is specifically responsible for regulating small businesses.

Business and Tax Code

The Business and Tax Code provides for:

- Business taxes generating general City revenue. This includes an annual business registration fee and payroll expense tax.
- Permits for conducting specific business activities at specific locations.
- Business license fees.

City Departments' Responsibilities for Implementing the Business and Tax Code

Under the Business and Tax Code,

- The Tax Collector collects the business registration fee, payroll expense taxes, and business license fees.
- The Planning Department verifies zoning compliance for all new businesses, and the City Planning Commission approves all new business applications when the new business is not clearly prescribed by zoning requirements.
- The Department of Public Health conducts annual health inspections and issues health permits for food service businesses.

City Departments' Responsibilities for Implementing Other Municipal Codes

Several City departments regulate businesses in accordance with other Municipal Codes, including the Health Code, Building Code, Fire Code, and other Municipal Codes. For example:

- The Department of Public Health inspects and issues permits for food service businesses, massage parlors, medical cannabis dispensaries, and other businesses.
- The Department of Building Inspection and Fire Department inspect and issue permits for business facilities to ensure compliance with Building, Fire, and other Municipal Code requirements.
- The Department of Public Works issues permits for business activities in the public right of way, such as sidewalk cafes and merchandise stands.
- The Entertainment Commission issues permits for extended business hours and other entertainment uses.
- The Municipal Transportation Agency issues permits for curb colors for valet services and other business uses.
- The Police Department issues permits for a range of activities governed by the Police Code, including conducting background investigations for businesses to ensure that the business has no prior criminal record.

Business Registration and Payroll Expense Tax

Businesses in San Francisco pay an annual business registration fee and a tax equal to 1.5 percent of their payroll expense. Businesses with no San Francisco payroll pay an annual registration fee of \$25 and businesses with payroll less than \$670,000 pay an annual fee of \$150. As shown in Table 1, businesses with payroll less than \$670,000 comprise 95 percent of all registered businesses in San Francisco.

Table 1
Number of Registered San Francisco Businesses
2005 to 2009

| Payroll Expense: | 2005 | 2006 | 2007 | 2008 | 2009 | Increase 2005 to 2009 | Percent Increase |
|--|---------------|---------------|---------------|---------------|---------------|--------------------------------------|-----------------------------|
| Less than or equal to \$1: | 47,695 | 48,954 | 56,768 | 56,918 | 55,850 | 8,155 | 17.1% |
| Greater than \$1 and Less than or equal to \$670,000: | 25,563 | 26,186 | 26,124 | 26,575 | 25,952 | 389 | 1.5% |
| Subtotal | 73,258 | 75,140 | 82,892 | 83,493 | 81,802 | 8,544 | 11.7% |
| Percent of Total Businesses | 95.3% | 95.4% | 95.6% | 95.4% | 95.1% | - | - |
| Greater than \$670,000 and less than or equal to \$3,333,000 | 2,818 | 2,812 | 2,935 | 3,052 | 3,148 | 330 | 11.7% |
| Greater than \$3,333,000 | 808 | 824 | 881 | 1,001 | 1,063 | 255 | 31.6% |
| Subtotal | 3,626 | 3,636 | 3,816 | 4,053 | 4,211 | 585 | 16.1% |
| Percent of Total Businesses | 4.7% | 4.6% | 4.4% | 4.6% | 4.9% | - | - |
| Total | 76,884 | 78,776 | 86,708 | 87,546 | 86,013 | 9,129 | 11.9% |

Source: Treasurer/Tax Collector's Office

The Business and Tax Code provides a small business tax exemption (see below) for businesses with payroll less than \$250,000. As shown in Table 2, more than 63,000 businesses qualified for the small business tax exemption in 2008.

Business Tax Exemptions

The Business and Tax Code provides tax exemptions, credits or exclusions for the following types of businesses to encourage business development. The number of businesses participating in these exemptions, credits, or exclusions increased from 2004 through 2008.

- Small businesses
- Businesses in enterprise zones
- Biotechnology businesses
- Clean technology businesses

Small Business Tax Exemption

The Business and Tax Code provides a tax exemption for small businesses with low payroll expense. Prior to 2009, businesses with payroll of \$167,000 or less qualified for the small business tax exemption. The number of businesses qualifying for the small business tax

exemption increased by more than 15 percent from 2004 through 2008. Beginning in 2009, the small business tax exemption will apply to businesses of \$250,000 or less, increasing the number of small businesses qualifying for the tax exemption.

Table 2
Small Businesses Qualifying for Small Business Tax Exemption
2004 to 2008

| | 2004 | 2005 | 2006 | 2007 | 2008 | Increase 2004 to 2008 | Percent Increase |
|--|--------|--------|--------|--------|--------|-----------------------------|---------------------|
| Number of Businesses Qualifying for the Small Business Tax Exemption | 55,149 | 60,419 | 61,572 | 67,960 | 63,563 | 8,414 | 15.3% |

Source: Treasurer/Tax Collector's Office

Enterprise Zone Tax Credit

The Business and Tax Code provides a credit against the payroll expense tax for each new job created by businesses located in San Francisco enterprise zones.¹ In July 2008, the Board of Supervisors amended the Business and Tax Code to expand business' eligibility for the enterprise zone tax credit. Twenty businesses qualified for the tax credit in 2008, as shown in Table 3.

Table 3
Businesses Qualifying for Enterprise Zone Tax Credit
2004 to 2008

| | 2004 | 2005 | 2006 | 2007 | 2008 | Increase 2004 to 2008 | Percent Increase |
|----------------------|----------|----------|----------|----------|-----------|-----------------------------|---------------------|
| Number of Businesses | 12 | 12 | 16 | 17 | 20 | 8 | 66.7% |
| Tax Credit | \$22,557 | \$11,663 | \$32,595 | \$49,094 | \$144,625 | \$122,068 | 541.2% |

Source: Treasurer/Tax Collector's Office

Biotechnology Exclusion

The Board of Supervisors amended the Business and Tax Code in 2004, allowing businesses in San Francisco with 100 or fewer employees to exclude the pay of employees directly engaged in

¹ The State has established an enterprise zone program that provides incentives to businesses that locate and create jobs within specified economically-disadvantaged zones.

the biotechnology business from the payroll expense tax. In 2008, eight businesses qualified for the tax exclusion, as shown in Table 4.

Table 4
Businesses Qualifying for Biotechnology Tax Exclusion
2004 to 2008

| | 2004 | 2005 | 2006 | 2007 | 2008 | Increase 2004 to 2008 |
|-----------------------------|----------|-------------|--------------|--------------|--------------|-----------------------------|
| Number of Businesses | 1 | 4 | 6 | 7 | 8 | 7 |
| Payroll Expense Excluded | \$54,333 | \$1,764,726 | \$16,796,900 | \$21,274,886 | \$24,333,555 | \$24,279,222 |
| Payroll Tax Excluded | \$815 | \$26,471 | \$251,954 | \$319,123 | \$365,003 | \$364,188 |

Source: Treasurer/Tax Collector's Office

Clean Technology Business Exclusion

The Board of Supervisors amended the Business and Tax Code in 2006 to include a payroll tax exclusion for San Francisco businesses engaging in clean technology. The clean technology payroll tax exclusion applied only to businesses with 100 or fewer employees, and according to the Treasurer/Tax Collector's Office, only two businesses qualified for the tax exclusion. In December 2008, the Board of Supervisors expanded the definition of businesses qualified to receive the clean technology business exclusion and applied the payroll tax exclusion to qualified businesses with any number of employees. According to the Business and Tax Code, clean technology businesses are those in which 75 percent of business activities are allocated to research, development, or manufacturing for (1) production, distribution, or storage of clean energy, (2) materials and products powered by clean energy, (3) materials and products that improve energy efficiency, water conservation, or air quality, and (4) solar panel production or installation. Six businesses qualified in 2008.

Table 5
Businesses Qualifying for Clean Technology Tax Exclusion
2004 to 2008

| | 2006 | 2007 | 2008 | Increase 2004 to 2008 |
|--------------------------|-------------|-------------|--------------|--------------------------|
| Number of Businesses | 2 | 2 | 6 | 4 |
| Payroll Expense Excluded | \$1,526,900 | \$2,386,129 | \$15,127,037 | \$13,600,137 |
| Payroll Tax Excluded | \$22,904 | \$35,792 | \$226,906 | \$204,002 |

Source: Treasurer/Tax Collector's Office

1. Strategic Approach to Small Business Assistance

- **The Office of Small Business was approved by the voters in November 2007 to (a) provide assistance to small businesses in starting a business or navigating the City’s regulatory system, and (b) coordinate information on services to small businesses provided by City departments. The Mayor directed the Office of Economic and Workforce Development to lead the design and implementation of the Office of Small Business, including creation of the Small Business Assistance Center, which resulted in the Office of Small Business’s functional and operational framework. The Office of Small Business began with the opening of the Small Business Assistance Center in May 2008.**
- **Because the Office of Small Business staff’s time has mostly been spent on the Center’s day-to-day work with clients, the Office of Small Business has not developed a more strategic approach to address the issues faced by small businesses. For example, although the Administrative Code requires the Office of Small Business to prepare a report on the City’s existing laws and regulations governing small businesses and make recommendations on streamlining the City’s small business functions, the Office has not yet begun such a study. The Office of Small Business has been hampered by staff turnover, including the original Executive Director in September 2008, with the current Executive Director in a temporary acting position for eight months from September 2008 until her permanent appointment in May 2009.**
- **Additionally, the Administrative Code requires City departments to provide information and assistance to the Office of Small Business, but the Office of Small Business has not yet formally defined its role in working with City departments. The Office has begun preliminary discussions with other City departments on two potential projects but has not called initial meetings: (1) an interdepartmental consultation team to assist new restaurant businesses through the City’s planning, construction permit, and other permitting requirements; and (2) an interdepartmental work group to identify problems and recommend improvements in the Citywide permitting process for mobile food caterers.**
- **Also, the Office of Small Business has not used available data and tools to plan and provide services more effectively and strategically, although the Office maintains data on each business contact. Further, the Office of Small Business has not maximized its use of available online resources, including those resources available in the Office’s website, the 311 Call Center’s website, and other City departments’ website, to ensure the provision of consistent, comprehensive, relevant and up-to-date information to small businesses in the City.**

The Office of Small Business’s mission is to “foster, promote and retain small businesses in the City and County of San Francisco.” According to the organization’s website, “by championing

‘business-friendly’ policies, marketing the contributions of the small business sector, and developing appropriate assistance programs, the Small Business Commission and Office of Small Business work to support and enhance an environment where small businesses can succeed and flourish.” As a General Fund department tasked with fostering, promoting, and retaining small businesses in the City, the Office of Small Business has an obligation to strategically, efficiently, and effectively use its limited resources in meeting its goals and mission. Although the Office of Small Business has established an operational framework for providing small businesses assistance, the Office needs a more strategic approach to fulfill its overall goals and mission of fostering, promoting and retaining small businesses in the City.

History and Functions of the Office of Small Business

History of the Office of Small Business

In November 2003, San Francisco voters approved Proposition D establishing the Small Business Commission, consisting of seven members, of whom four are appointed by the Mayor, and three are appointed by the Board of Supervisors. The Small Business Commission is responsible for formulating and evaluating the goals, objectives, plans, and programs of and setting policies for the City regarding small businesses. In doing so, the Commission reviews pertinent small business legislation and makes recommendations to the sponsor of the legislation, as well as oversees and directs the City’s Office of Small Business.

In 2006, the Small Business Commission sponsored a report on how the City should streamline its small business permitting process. This Commission report described the difficulty that many small businesses may face in obtaining business permits, and found that there (a) is no single City department responsible for providing Citywide permit information, and (b) are “twelve separate agencies that all too often operate as separate silos giving conflicting information and instructions to customers.” This report also found that the City had no requirement for City departments regulating small businesses to coordinate their services.

In November 2007, San Francisco voters approved Proposition I, amending the Administrative Code to establish the Office of Small Business and the Small Business Assistance Center under the direction of the Small Business Commission, and allocating \$750,000 for the first year of operation of this center. Proposition I defined the functions and duties of the Office of Small Business, including operating the Small Business Assistance Center to focus on the needs of San Francisco businesses with fewer than 100 employees.

After the passage of Proposition I in November 2007, the Mayor directed the Office of Economic and Workforce Development to lead the efforts in designing and implementing the Office of Small Business and the Small Business Assistance Center. As part of this effort, the Office of Economic and Workforce Development (a) interviewed and obtained feedback from the City’s various stakeholders, (b) reviewed the findings and recommendations of the previous report sponsored by the Small Business Commission, and (c) surveyed other jurisdictions for key lessons and best practices in the provision of small business assistance. This effort by the Office of Economic and Workforce Development consequently resulted in the functional and

operational framework that is currently used by the Office of Small Business and the Small Business Assistance Center, which began operating in May 2008.

While the Office of Small Business is under the direction of the Small Business Commission, the Office of Small Business is organizationally part of the Office of Economic and Workforce Development, whose Director reports directly to the Mayor.

The Office of Small Business FY 2009-10 budget totals \$697,812, of which, \$491,797, or 70 percent, represent the Office’s budgeted 5.0 budgeted full-time equivalent (FTE) positions, although only three positions are filled and assigned to the Office of Small Business, as shown in Table 1.1. The fourth position is assigned to the Office of Economic and Workforce Development’s Neighborhood Marketplace Initiative.

Table 1.1
Office of Small Business Staffing
FY 2008-2009 and FY 2009-2010

| Position | FY 2008-09 | | FY 2009-10 | | | Notes |
|-------------------------------|-------------|---------------------|-------------|---------------------|------------------|---|
| | FTE | Salary ¹ | FTE | Salary ¹ | Filled Positions | |
| Department Head I | 1.0 | \$133,835 | 1.0 | \$133,172 | 1.0 | Serves as the Executive Director as well as the Small Business Commission’s Secretary. |
| Administrative Analyst | 1.0 | \$75,521 | 1.0 | \$77,402 | 1.0 | Assistant Project Manager for the Neighborhood Marketplace Initiative within the Office of Economic and Workforce Development. |
| Senior Administrative Analyst | 3.0 | \$283,443 | 3.0 | \$281,223 | 2.0 | Two positions serve as case managers, with one also serving as the Center’s Supervisor and one also serving as the Office’s communications/web Project Manager. |
| Senior Management Assistant | 1.0 | \$79,708 | 0.0 | \$0 | 0.0 | This position was deleted as part of the Mayor’s mid-year budget reductions in FY 2008-09. |
| Total | 6.00 | \$572,507 | 5.00 | \$491,797 | 4.0 | |

Sources: Controller’s Office; Office of Economic and Workforce Development; and the Office of Small Business.

¹ Note: Salary does not include mandatory fringe benefits.

Office of Small Business Functions

With general direction from the Small Business Commission, the Office of Small Business and its Small Business Assistance Center function as the City's central point of information and referral for small businesses located in the City and County of San Francisco. Proposition I amended the Administrative Code, defining the functions and duties of the Office of Small Business and requiring the Office of Small Business to operate a Small Business Assistance Center to focus on the needs of San Francisco businesses with fewer than 100 employees.

According to the Administrative Code, the Office of Small Business is to:

- Coordinate and centralize information on City departments' services to small businesses;
- Operate the Small Business Assistance Center, providing information and assistance to San Francisco businesses with 100 or fewer employees on starting a business, obtaining financing, bidding on City contracts, and obtaining zoning approval and required City permits; and
- Provide services benefitting small businesses as directed by the Small Business Commission.

Under the Administrative Code, other City departments are to provide information and assistance to the Office of Small Business on compliance with Municipal Code provisions impacting small businesses.¹ The Administrative Code required the Office of Small Business to issue a report analyzing the existing laws, regulations, roles, procedures and responsibilities of all City departments that impact small businesses and make recommendations regarding the streamlining and consolidation of such departmental functions under the Office of Small Business within four months of the initial hiring of any new staff.

The Office of Small Business is also required to:

- Report to the Mayor and Board of Supervisors twice each year on services provided by the Small Business Assistance Center to small businesses; and
- Conduct an annual survey of small business clients in conjunction with the Controller's Office, evaluating the performance of the Small Business Assistance Center.

In addition to operating the Small Business Assistance Center, the Office of Small Business hosts and co-sponsors events and outreach activities to promote and retain small businesses in San Francisco, including the Small Business Week and Shop Local Campaign. Office of Small Business staff maintain a website with an array of small business-related information, as well as send out weekly e-mail updates on event announcements and other related topics. Furthermore,

¹ The City departments are: Assessor, Building Inspection, Environment, Fire, Human Rights Commission, Mayor's Office of Community Development, Office of Labor Standards Enforcement, Parking and Traffic, Planning, Police, Public Health, Public Works, Purchasing, Treasurer/Tax Collector, and such other departments as directed by the Mayor.

Office of Small Business staff work with non-profit organizations, State agencies, and federal agencies on an ongoing basis in terms of small business outreach and programming.

Small Business Assistance Center Functions

The Office of Small Business has primarily provided services through the Small Business Assistance Center. The Office of Small Business has had significant staff turnover, including the original executive director. Of the original staff, only the business counselor who serves as the Small Business Assistance Center supervisor remains in position.

The Small Business Assistance Center's two existing business counselors are bilingual in Spanish and Chinese. The business counselors are available by appointment and walk-in to discuss business topics ranging from business registration and permitting requirements to the City's zoning controls and public hearing regulations. The counselors have identified liaisons in City departments for referring questions and developed information on the City's regulatory processes. The Small Business Assistance Center is a central directory of resources including technical assistance and incentive programs:

- Customized Information – Clients receive one-to-one assistance and are assigned a counselor who provides a customized checklist of local, state and federal requirements by business type. Counselors may continue to work with client through the subsequent stages of business development
- Technical Assistance – Counselors coordinate with city and non profit organizations to provide technical assistance and business training for clients as needed, including business plan development, financing options, legal and tax counseling, and procurement and certification assistance.
- Businesses Programs – Counselors provide information on business programs, including tax credits and incentives, energy saving and rebates, façade programs and others, and assist business in accessing programs
- On-line and Print Resources – The Office of Small Business maintains a website with information from starting a business to procurement, and publishes the popular guide book “How to Start a Business in San Francisco” (formerly Getting a Business Started)

The Office of Small Business Needs a More Strategic Approach to Small Business Assistance

In February 2009, the Small Business Commission, which oversees the Office of Small Business, held a retreat to discuss the focus of the Small Business Commission, including streamlining the City's permitting process for small businesses. According to the Executive Director, following up on the Commission's goals for streamlining the City's permitting process has been difficult due to staff turnover. Of the five budgeted positions, the Office of Small Business has three filled

positions². The current Executive Director began in an acting capacity in September 2008 and was appointed as the permanent Executive Director in May 2009. Of the two counselor positions, one position has been working with the Small Business Commission since 2001 and the other position began in the fall of 2009.

Because Office of Small Business staff's time has mostly been spent on day to day information and referral, the Office has not developed a more strategic approach to fulfill its overall goals and mission of fostering, promoting and retaining small businesses in the City. Office of Small Business staff activities have not been effectively linked to organizational objectives, especially in evaluating how to streamline and consolidate the City's small business permitting functions.

The Office of Small Business has not yet formally defined its role in working with City departments to improve services to small businesses. Until now, the Office of Small Business' relationship with other City departments has been largely through the Small Business Assistance Center, including identifying City department contacts to assist with client questions and providing City department information to clients. Preliminary efforts are underway to address two systemic issues affecting small businesses in the City, including:

- Establishing a work group with other City departments to review City policies and requirements for push carts and mobile food vendors; and
- Organizing a pilot interdepartmental consultation team comprised of relevant City departments to work with new restaurant businesses through the restaurant development process, including application, permit and inspection, and construction.

The Office of Small Business needs to take a more strategic approach to the work of the Office and assignment of staff resources. At a minimum, this strategic approach should address the following:

1. Identifying and analyzing the City's ordinance, code provisions, and other regulations impacting small businesses and making recommendations regarding the streamlining and consolidation of the City's various departmental functions related to small businesses. As part of this process, the Office of Small Business should assess the strengths and weaknesses of the City's current processes for helping small businesses;
2. Evaluating Small Business Assistance Center data to better plan and improve its programs, consistent with its program goals and objectives; and
3. Enhancing the Office of Small Business's use of available online resources, including those resources available in the Office's website, the 311 Call Center's website, and other City departments' website, to ensure the provision of consistent, comprehensive, relevant and up-to-date information to small businesses in the City.

² As shown in Table 1.1, one position is vacant and one position has been reassigned to the Office of Economic and Workforce Development's Neighborhood Marketplace Initiative.

Identifying Existing Regulations

Article XVI, Section 2A.241 of the San Francisco Administrative Code requires the Office of Small Business to issue a one-time report that analyzes the existing laws, regulations, roles, procedures, and responsibilities of all City departments that impact small businesses and make recommendations regarding the streamlining and consolidation of such departmental functions under the Office of Small Business. According to the Executive Director of the Office of Small Business, the Office has not yet been able to implement this project due to staff turnover and lack of staff resources. The Office of Small Business needs to begin compiling this information as part of its work with other City departments to better coordinate the City's permitting process. As part of this process of evaluating solutions, the Office of Small Business should assess the strengths and weaknesses of the City's current processes for helping small businesses in order to derive specific recommendations that would clearly define the steps needed in streamlining and consolidating the City's small business functions.

Improving Small Business Center Programs Based on Data

The Office of Small Business should begin using the client data that it is collecting in making more informed decisions about its programs and priorities, consistent with the Office's goals and objectives. Although the Office of Small Business maintains data on Small Business Assistance Center contacts, the Office of Small Business does not currently use this data to make strategic or informed decisions on programs and services provided to small businesses. The Small Business Assistance Center data includes (a) types of businesses, (b) types of services requested, (c) number of contacts with each client and type of contact (telephone, walk in, referral from other City department), and (d) other information, allowing the Office of Small Business to design services by type of business, type of services requested, or frequency of contacts. As discussed in Section 2 of this report, the Office of Small Business currently lacks sufficient quality controls for ensuring client data reliability, which can adversely affect the Office's ability to assess how well it is serving its clients. However, even with the current limitations on the overall reliability of its client data, the current database maintained by the Office of Small Business still provides some helpful information in terms of the description and extent of its services, which can be used for service planning and prioritization.

For example, based on the Budget Analyst's review of the client database, the Small Business Assistance Center serves a wide range of businesses. Although restaurant and food handling businesses make up 13 percent of clients, the Small Business Assistance Center needs to provide general information for nearly 30 categories of clients, as shown in Table 1.2.

Table 1.2
Types of Businesses Served by the Small Business Assistance Center
July 2008 through October 2009

| Type of Business | Number of Clients | Percent |
|---|--------------------------|----------------|
| Not Classified | 901 | 35% |
| Restaurant, Café and Food Handling Services | 333 | 13% |
| Retail | 301 | 12% |
| Farmer's Market, Vendor, Push Cart | 194 | 7% |
| Attorney, Consulting, Other Professional Services | 115 | 4% |
| Art and Design | 103 | 4% |
| Contractor, Construction, Trades, Handyman | 77 | 3% |
| Non Profit and Government Organizations | 69 | 3% |
| Hair and Salon Services | 49 | 2% |
| Cleaning and Janitorial | 39 | 2% |
| Real Estate, Business, and Merchant Associations | 39 | 2% |
| Technology and Media | 32 | 1% |
| Massage and Acupuncture | 31 | 1% |
| Automotive Services | 30 | 1% |
| Manufacturer and Supplier | 29 | 1% |
| Medical | 27 | 1% |
| Clothing and Accessories Store | 27 | 1% |
| Child and Adult Care Services | 25 | 1% |
| Pet Services | 21 | 1% |
| Taxi and Limousine | 21 | 1% |
| Education and Vocational Training | 20 | 1% |
| Import/Export | 19 | 1% |
| Entertainment | 19 | 1% |
| Grocery and Food Vendor | 18 | 1% |
| Medical Cannabis | 17 | 1% |
| Dance and Fitness | 13 | 1% |
| Banking and Financial Services | 12 | 0% |
| Hotels and Inns | 7 | 0% |
| TOTAL | 2,595 | 100% |

Source: Office of Small Business Salesforce Database

Also, while most Small Business Assistance Center clients have one visit with a counselor (88 percent), certain types of clients have more than one visit. For example, clients requesting

“counseling on how to start a business” or “assistance with compliance with laws” had more follow up visits than other clients.

- Most services provided by the Small Business Assistance Center to clients were “counseling on how to start a business” (1,735 out of 2,595 clients from July 2008 through October 2009, or 67 percent). Of these clients, 15 percent had more than one visit (234 of 1,735 clients).
- Only a small number of clients requested “assistance with compliance with laws” (33 out of 2,595 clients), but of these clients 15 percent had three visits (5 of 33 clients).

Given the importance of identifying patterns in client demands and characteristics, the Office of Small Business should routinely compile and analyze Small Business Assistance Center client data to identify patterns of use and to more effectively and strategically plan and provide small business services in the City. At a minimum, the Office of Small Business should use client data, as well as the results of its client survey (which is discussed in Section 2 of this report), to determine the effectiveness of its functions and programs, including the various Small Business Assistance Center functions (e.g., information and referral services), as well as the Office’s small business advocacy and outreach efforts.

Enhancing Online Features & Tools to Provide Assistance

As technology advances and as citizens are becoming more reliant on technology and the internet for information and to conduct business, the organization should utilize available information technology resources in providing services and information to its clients. Despite the increasingly crucial role of technology in service provision, the Office of Small Business has not maximized its use of available online resources, including those resources available in the Office’s website, the 311 Call Center’s website, and other City departments’ website, to ensure the provision of consistent, comprehensive, relevant and up-to-date information to small businesses in the City. For example, the Office of Small Business could enhance the contents and features of the organization’s website to ensure the provision of comprehensive information to small businesses.

The Office of Small Business currently maintains a website that contains an array of small business-related information, including:

- Background Information: This section includes such information as the mission and goals of the Office of Small Business and the Small Business Commission; the Small Business Assistance Center’s contact information; the legislation creating the Small Business Commission and the Office of Small Business; and links to the Office’s newsletters.
- News and Events: This section provides information on upcoming events, presentations, and training sessions; and news updates on relevant programs, laws, and policies.
- Small Business Assistance Center: This section describes the services provided by the Center, as well as the Center’s contact information. In addition, this section provides a variety of links to the most requested small business services, including those pertaining

to (a) pre-startup or startup information (e.g., steps to start the business, permits and licenses, technical assistance, how to start a restaurant, and how to start a non-profit organization); (b) information on existing or expanding business (e.g., business management, tax credit and incentive programs, business certification, selling to the government, greening issues, etc.); (c) closing the business (e.g., closing a local business, selling a business, etc.); and (d) site selection or relocation (e.g., Planning Department's zoning, commercial real estate sources, tips on negotiating commercial leases, etc.).

- Small Business Commission: This section provides information on the Commission's functions and contact information; list of Commissioners and their background information; Commission meeting schedule, agenda, and minutes; and links to legislations that impact small businesses to be heard before the Commission.
- Office of Small Business Programs: This section provides information on the Office of Small Business' events and activities, including the Shop Local Campaigns and Small Business Week.

The Office of Small Business could provide more information to its clients and better align online features with the needs of small businesses. For example, the Office of Small Business's website currently does not include the following information and features³:

- Direct link to the City's demographic data;
- Direct links to all small business-related electronic forms, especially those that are most requested by clients;
- A customer satisfaction survey or feedback form;
- A section that provides information about various City programs that are available to help small business, such as graffiti removal, neighborhood market profiles, becoming more energy efficient, employment services, and others; and
- Links and tips on how to navigate City processes and bureaucracies.

At a minimum, the Office of Small Business should incorporate these online information and features to provide a more comprehensive online information to small businesses

Developing and Using Online Tools

The Office of Small Business should develop an online tool that enables members of the public to obtain a customized list of typical City, State, and Federal requirements for any types of business, as well as customized information on incentives that are available for various types of businesses, particularly those that are most common. In 2008, Office of Small Business and

³ These website features were found in the websites for the jurisdictions surveyed, which included the City of Chicago's Department of Business Affairs, the City of Dallas's Office of Economic Development Small Business Initiatives, and the City of New York's Small Business Services.

Department of Technology staff worked with a consultant, Ciber, to develop an online “restaurant tool”. Development of the restaurant tool involved collecting relevant information from different departments, including the Department of Public Health, Planning Department, Department of Building Inspection, and Fire Department, among others, to determine which fees, licenses, and inspections are needed. The restaurant tool was designed to ask the client a series of questions regarding the proposed business and to determine the necessary fees, inspections, and documentation to start the business. The restaurant tool was added to the Office of Small Business’ website in January 2010.

Working with the 311 Call Center

The Office of Small Business has not effectively collaborated with the City’s 311 Call Center to improve small business information to City residents. The 311 Call Center’s aims to “connect residents, businesses, and visitors to Customer Service Representatives ready to help with general government information and services.” The 311 Call Center also maintains a website with information on City functions and services, including those pertaining to businesses.

Although the Small Business Assistance Center functions as the City’s central point of information and referral for entrepreneurs and small businesses in the City, the 311 Call Center’s website does not mention the services and functions of the Office of Small Business or the Small Business Assistance Center. In addition, some small business-related information and resources included in the 311 Call Center’s website do not appear in the Office of Small Business’s website, even though these online resources can be useful, including:

- SFProspector: The SFProspector is a free on-line tool aimed at businesses looking to open or expand their operations in San Francisco and members of the general public interested in obtaining demographic and economic data. This link allows visitors to access City-wide demographic and business data, as well as perform site selection searches for retail space in select neighborhoods targeted through the Mayor’s Office’s Neighborhood Marketplace Initiative. Despite the potentially useful data that SFProspector can provide small business, the Office of Small Business reported that the demographic and economic data contained in this website is not always up-to-date.
- Information on How to Start Specific Businesses: This link provides information on how to start various types of businesses as well as business-related resources, including information on the steps to qualify a business, steps to implement the business, local resources, and compliance information. Some of the types of business profiled in this website include businesses related to food, retail/wholesale, medical, and property-related.

The Office of Small Business should collaborate with the City’s 311 Call Center to establish a more streamlined approach to providing small business-related information to City residents and to ultimately avoid possible duplication of efforts. At a minimum, the Office of Small Business should compile all relevant information available in other City departments’ websites, including those contained in the 311 Call Center’s website, and incorporate them into the Office’s website.

In addition, 311 Call Center’s website should directly provide a link to the Office of Small Business’s website and provide information on the services provided by and functions of the Small Business Assistance Center. Further, the Office of Small Business should also work with 311 Call Center staff and other relevant City staff to ensure that all small business-related information that is linked or included in its website is as up-to-date, accurate, and complete as possible.

Conclusion

The Office of Small Business currently plays an important role in the provision of information and referrals to entrepreneurs and small businesses in the City. However, because the Office staff’s time is mostly spent on information and referral functions, a more strategic approach to fulfill its overall goals and mission of fostering, promoting and retaining small businesses in the City does not regularly occur. The Office of Small Business has not compiled a report on the City’s existing ordinances and regulations governing small businesses, although this report would be a first step in identifying the overall impact of disparate regulations on businesses. The Office of Small Business also does not regularly or strategically identify patterns of Small Business Assistance Center contacts to plan services, nor does it maximize the use of technology in addressing small business needs. Establishing a more strategic approach for providing assistance to and advocating for small businesses is necessary in order to maximize the use of the Office of Small Business’s limited resources, especially given today’s environment of decreasing budgets.

Recommendations

The Executive Director of the Office of Small Business should work with the Small Business Commission, the Office of Economic and Workforce Development, and other City departments⁴ to:

- 1.1 As required by the Administrative Code, prepare a report analyzing existing laws, regulations, roles, procedures, and responsibilities of all City departments that impact small businesses and develop recommendations regarding the streamlining and consolidation of the City’s various departmental functions related to small businesses. As part of this process, the Office of Small Business should assess the strengths and weaknesses of the City’s current processes for helping small business.
- 1.2 Routinely compile and analyze Small Business Assistance Center client data to identify patterns of use and to more effectively and strategically plan and provide small business services, consistent with its program goals and objectives. At a minimum, the Office of Small Business should use client data, as well as the results of its client survey (which is discussed in Section 2 of this report), to determine the effectiveness of its functions and programs, including the various Small Business Assistance Center functions (e.g.,

⁴ At a minimum, and as appropriate, “other City departments” include the following: Assessor, Building Inspection, Environment, Fire, Human Rights Commission, Mayor’s Office of Community Development, Office of Labor Standards, Purchasing, and Treasurer/Tax Collector.

information and referral services), as well as the Office's small business advocacy and outreach efforts.

- 1.3 Incorporate more comprehensive features and information on the Office of Small Business's website, including (a) direct link to the City's demographic data; (b) direct links to all small business-related electronic forms, especially those that are most requested by clients; (c) a customer satisfaction survey or feedback form; (d) a section that provides information about various City programs that are available to help small business, such as graffiti removal, neighborhood market profiles, becoming more energy efficient, employment services, and others; and (e) links and tips on how to navigate City processes and bureaucracies.
- 1.4 Collaborate with the City's 311 Call Center to establish a more streamlined approach to providing small business-related information to City residents and to ultimately avoid possible duplication of efforts. At a minimum, the Office of Small Business should compile all relevant information available in other City departments' websites, including those contained in the 311 Call Center's website, and incorporate them into the Office's website. In addition, 311 Call Center's website should directly provide a link to the Office of Small Business's website and provide information on the services provided by and functions of the Small Business Assistance Center. Further, the Office of Small Business should also work with 311 Call Center staff and other relevant City staff to ensure that all small business-related information that is linked or included in its website is as up-to-date, accurate, and complete as possible.

Costs and Benefits

Implementation of all recommendations should be accomplished using existing resources. The benefits include having a clear direction in terms of how to fulfill the Office of Small Business's mission of fostering, promoting, and retaining small businesses in the City. By enhancing the website, the Office of Small Business can more effectively use its limited resources by focusing on more strategic matters and other key priorities.

2. Performance Measures and Quality Controls

- **The Office of Small Business lacks sufficient performance and quality control measures, limiting management’s ability to effectively track and measure its performance and accomplishments, as well as ensure the quality of its operations and activities. Most of the performance measures currently tracked involve workload but not outcomes, which would indicate the Office of Small Business’s effectiveness. The Office should work with the Small Business Commission in revising its list of performance measures to ensure that more meaningful indicators are in place.**
- **Although the Office of Small Business is required by the San Francisco Administrative Code to conduct a client survey and regularly report on the number of City contracts awarded to small businesses, the Office of Small Business has not conducted regular survey efforts to assess the adequacy of the Office’s operations and activities. Client satisfaction surveys help identify strengths and weaknesses, as well as organizational improvements. The Office of Small Business should, therefore, coordinate with the Controller’s Office to create and administer an annual survey of small businesses that use the Small Business Assistance Center to evaluate the Center’s performance in serving small businesses.**
- **The Office of Small Business collects data on Small Business Assistance Center clients but doesn’t consistently collect complete data or ensure that all data is reported correctly. Consequently, client data may not be sufficiently reliable for tracking and reporting the Office of Small Business’s operational activities and performance measures. For example, the Small Business Assistance Center client database includes a field for the type of business, including if the business is a non-profit organization or government entity, but Small Business Assistance Center staff do not record this information for all clients. Further, the Office of Small Business reports all contacts as “small businesses served by case managers and the Office of Small Business” whether the contact was a small business, non-profit organization, or government entity served by the Small Business Center, or a contact during a neighborhood merchant walk or attendee at a presentation given by the Office of Small Business. In order to more accurately capture the total number of small businesses and other individuals that receive assistance from the Center, the Office of Small Businesses should keep track of the types of clients (e.g., small businesses, non-profit organizations, non-small businesses, outreach event attendees, etc.) receiving services and report the number of clients by type of client.**

Performance measures and quality controls are important tools for ensuring accountability, integrity, and reliability of any governmental entity. Having sufficient and robust systems for measuring performance and accomplishments, as well as ensuring quality services and operations, can result in the effective and efficient use of City resources. Despite these standards, however, the Office of Small Business:

- (a) Lacks performance measures that accurately measure the Office’s mission goals and objectives as approved by the voters and incorporated in the Administrative Code;
- (b) Lacks sufficient quality controls for ensuring client data reliability;
- (c) Does not regularly conduct client satisfaction surveys; and
- (d) Does not have adequate policies and procedures for its day-to-day operations.

Performance Measures

Performance measures are important to government as a means of providing accountability for the services rendered. Good performance measures are those that generally relate to the organization’s strategic plan, mission, goals and objectives; focus on results and not processes; are measurable; are balanced among several types of measures, including workload, efficiency, and effectiveness; and include comparisons to targets and external entities.

The performance measures currently tracked by the Office of Small Business are limited and do not adequately measure the Office’s accomplishment of its goals and objectives. Article XVI, Section 2A.241 of the San Francisco Administrative Code requires the Office of Small Business to report by March 1 and September 1 of each year to the Mayor and Board of Supervisors on the (a) the number of small businesses served by case managers and the Office of Small Business, (b) the types of services provided, (c) the number of small businesses obtaining City contracts and their dollar amount, and (d) other performance measures as determined by the Small Business Commission. Most of the measures currently tracked by the Office of Small Business are workload-related/output measures, which means that performance measures related to efficiency (e.g., increased outreach, cost per small business established, cost per small business obtaining City contract) and effectiveness/outcome (e.g., percent of satisfied customers, percent increase of certified small local businesses) are currently not being tracked. Table 2.1 below shows the Office of Small Business performance measures, including the values for some of these measures and references to other tables in which they are presented.

Table 2.1

Office of Small Business Performance Measures

| Performance Measures | Required by the San Francisco Administrative Code ¹? | Value in FY 2008-2009 |
|---|--|------------------------------|
| 1) Number of small businesses served by case managers and the Office of Small Business | Yes | 3,158 |
| 2) Types of services provided | Yes | See Table 2.2 |
| 3) Number of small businesses obtaining City contracts and their dollar amount | Yes | See Table 2.3 |
| 4) Number of outreach events | No | 65 |
| 5) Number of ordinances, resolutions, motions and policies initiated or reviewed by the Small Business Commission | No | 59 |

Source: Performance measure information provided by the Office of Small Business.

¹ Note: Administrative Code refers to Article XVI, Section 2A.241 of the San Francisco Administrative Code

According to the Office of Small Business, a total of 3,158 small businesses were served by the Office’s case managers, which was comprised of 1,950 clients directly served by the Small Business Assistance Center and 1,208 estimated number of individuals whom Office of Small Business staff encountered during neighborhood merchant walks and presentations to the small business community given by Office of Small Business staff. Because a portion of the reported 3,158 total represents general estimates of attendees, and because not all individuals present during the merchant walks and presentations are small business owners, the number reported by the Office of Small Business (i.e., number of small businesses served by case managers) may not be completely accurate or valid. In order to report a more accurate and valid number for this particular performance measure, the Office of Small Business should separately track and report on the number of small businesses directly served by the Office’s case manager, as specified by the Administrative Code.

The Office of Small Business currently keeps track of the services it provides to its clients through its database. Based on the Budget Analyst’s review of the client data provided by the Office of Small Business, most (or 68 percent) of the Small Business Assistance Center clients were given counseling on how to start a business or restaurant. Table 2.2 below shows the breakdown of the types of services provided to its clients, based on the Budget Analyst’s review of the client data for the period between July 2008 and October 2009.

Table 2.2
Types of Services Provided by the Office of Small Business

| Type of Service | Number of Clients | Percent |
|---|-------------------|-------------|
| Counseling on How to Start a Business or Restaurant | 1,776 | 68% |
| Other (Not Specified) | 414 | 16% |
| Business Licensing & Registration, Zoning/Permits Information, Assistance with Compliance with Laws, Other Licensing and Permitting | 222 | 9% |
| Information on Access to Financing, Financial Services, Tax Credits and Incentives | 108 | 4% |
| Selling to the City/Procurement | 27 | 1% |
| Technical Assistance Provided by Community Based Organizations | 11 | 0% |
| Business Workshop Resources and Business Programs | 10 | 0% |
| Demographic Data for San Francisco | 8 | 0% |
| Legislative and Policy Inquiries | 8 | 0% |
| Hiring and Employment Training Needs | 7 | 0% |
| Start Up or Relocation Site Selection | 4 | 0% |
| Total | 2,595 | 100% |

Source: Budget Analyst's review of Office of Small Business Salesforce data, July 2008 and October 2009.

The Office of Small Business has not reported statistics on the number of small businesses obtaining City contracts and their dollar amount, even though the San Francisco Administrative Code specifies that the Office of Small Business reports such statistics to the Mayor and the Board of Supervisors twice per year. The Office relies on information from the Human Rights Commission in tracking this performance measure. The Office of Small Business should, therefore, regularly collaborate with the Human Rights Commission to ensure that this performance measure is regularly and systematically tracked and reported.

The Human Rights Commission has not compiled comprehensive information on Local Business Enterprise contracts with City departments but has reported on the number of Local Business Enterprise (or LBE)¹ certified businesses that had contracts with the four of the largest City departments, as shown in Table 2.3. Sixty-seven Local Business Enterprises contracted with the Airport, Port, Department of Public Works, and the Public Utilities Commission for the six

¹ Chapter 14B, also known as the Local Business Enterprise (LBE) and Non-Discrimination in Contracting Ordinance, applies to all contracts solicited on or after September 1, 2006. Its purpose is two-fold: (a) to assist small local businesses; and (b) to prohibit discrimination in the award of public contracts

month period from January 2009 through June 2009, compared to 63,563 San Francisco businesses that qualify for the City's small business payroll tax exemption.²

Table 2.3

**Number of Local Business Enterprise (or LBE) Certified Businesses that
Obtained City Contracts, by Department
January 2009 through June 2009**

| Department | Number of Contracts | Contract Award Amount |
|-----------------------------|--------------------------------|--------------------------------------|
| Public Utilities Commission | 25 | \$266,424,103 |
| Public Works | 20 | \$31,822,589 |
| Airport | 15 | \$14,897,371 |
| Port | 7 | \$2,512,242 |
| TOTAL | 67 | \$315,656,305 |

Note: Data provided by the Human Rights Commission. Purchasing, Controller's Office, Police, Fire, Juvenile Probation, Department of Public Health and departments with federal/state projects are not included.

In conformance with relevant Administrative Code requirements, the Office of Small Business should report by March 1 and September 1 of each year to the Mayor and Board of Supervisors on all the performance measures specified in the Code. In addition, to ensure that the performance measures tracked by the Office are as robust, balanced, and meaningful as possible, the Office of Small Business should work with the Small Business Commission in reviewing and revising its list of performance measures in order to reflect a set of performance indicators that, at a minimum, (a) relate to the organization's mission, goals and objectives that should be developed through the organization's strategic planning process; (b) focus on results rather than workload and process; (c) are balanced among several types of measures, including workload, efficiency, and effectiveness; and (d) include comparisons to targets and external entities. At a minimum, some of the performance measures that the Office of Small Business should consider include (a) increased outreach; (b) Office of Small Business costs per small business established; (c) percent of satisfied customers, and (d) percent increase of certified small local businesses obtaining City contracts.

Data Reliability

One crucial element of any performance measuring system is the availability of a reliable (i.e., accurate and complete) dataset. Data reliability is critically important in program planning and in assessing an organization's performance. A reliable dataset helps administrators in making

² The City's requirements for Local Business Enterprise certification are based on the business's gross annual receipts, while the City's requirements for the small business payroll tax exemption are based on the business's payroll.

informed management decisions about its performance and staffing allocations that would better maximize the use of available resources in order to ultimately improve its operations. Even though data on Small Business Assistance Center clients are currently being maintained using the Office of Small Business' Salesforce data system, the Office of Small Business lacks sufficient quality controls for ensuring that the client data is accurate and complete. As a result, the client data currently maintained may not be sufficiently reliable for the purposes of tracking and reporting the Office of Small Business's operational activities and performance measures.

For example, Small Business Assistance Center staff do not consistently collect or enter key data fields pertaining to its clients. While staff always entered data on the "type of service provided", staff frequently did not enter data on the Supervisorial District where the business is located; the status of the business (e.g., soon-to-be business, new business, old business); the number of employees; the type of interaction involved (e.g., walk-in, e-mail, telephone); the number of times the client has previously contacted the Center; and how the client found out about the Center, just to name a few. Such data fields can be useful for monitoring the Center's activities and operations, tracking the demand for the Center's services, and determining how to more effectively use and allocate its limited resources.

Furthermore, the data currently maintained by the Small Business Assistance Center staff may not be completely reliable. For example, as part of the Budget Analyst's limited survey of individuals that received assistance from the Center between July 2008 and October 2009, the Budget Analyst found that the database indicated that one of the respondents contacted the Center about "how to start a business," even though the respondent contacted the Center about matters related to his existing restaurant that has been in operation for 16 years. Because incomplete and inaccurate client data can adversely affect the Office of Small Business's ability to assess how well it is serving its clients, the Office of Small Business should, therefore, (a) include key client data fields, such as those previously mentioned, as part of its data collection efforts, and (b) establish and implement quality controls and procedures to ensure that key client data fields are tracked and that the data inputted into the data system are as accurate and complete as possible.

Client Satisfaction Survey

Client satisfaction surveys are important measures of how well an organization is serving its client base by identifying the organization's strengths and weaknesses, potential change and improvements, and other client needs and demands. Even though the Office of Small Business is required by the San Francisco Administrative Code to conduct a survey of its clients, it currently does not conduct a client satisfaction survey. Article XVI, Section 2A.241 of the San Francisco Administrative Code requires the Office of Small Business, in coordination with the Controller's Office, to create and administer an annual survey of small businesses that use the Small Business Assistance Center to evaluate the Center's performance in serving the City's small business community. Despite this requirement, however, no regular survey efforts have been done to assess whether Office of Small Business operations and activities are adequately meeting the small business community's needs in San Francisco.

As previously mentioned, the Budget Analyst conducted a limited scope survey of a sample of individuals that received some form of assistance from the Small Business Assistance Center between July 2008 and October 2009.³ Below are some of the self-reported information provided by the ten survey respondents:

- When asked whether the client was overall satisfied with the services provided by the Small Business Assistance Center, four responded “Very Satisfied”; two responded “Satisfied”; one responded “Neutral”; and four did not provide an answer.
- Most of the respondents received information on how to start a business in the City or referrals to other City departments and/or non-profit organizations.
- Two respondents reported that they first found out about the Small Business Assistance Center when they were filing permits and registration in City Hall.
- Two respondents reported that the Small Business Assistance Center should provide more assistance to small businesses in obtaining work/contracts with City departments.
- One respondent reported that more should be done in terms of making the City more business friendly, including curbing the high cost of mandatory garbage pick-up; implementing small business incentives (e.g., tax breaks, loans for renovations, special retrofitting programs, etc.); and increasing free public parking spaces in the City.
- One respondent reported that the Small Business Assistance Center’s services are very limited and that, at one point, the Center’s staff did not return the respondent’s call despite multiple attempts.

Even though this self-reported information came from a relatively small number of clients, it provides helpful feedback regarding the adequacy and effectiveness of the services provided by the Center, as well as for determining possible improvements to the Center’s functions and operations. The Office of Small Business should, therefore, coordinate with the Controller’s Office to create and administer an annual survey of small businesses that use the Small Business Assistance Center to evaluate the Center’s performance in serving small businesses.

³ The Budget Analyst obtained a copy of the Office of Small Business’ (OSB) client database from the Salesforce system, which contained a list of clients served by the Small Business Assistance Center (SBAC) from July 2008 through October 2009. The Budget Analyst then derived a limited convenient sample of 103 clients, representing various Supervisorial Districts, types of businesses, types of assistance received, and other factors. The Office of Small Business then provided the Budget Analyst with the contact information (i.e., telephone numbers and e-mail addresses) for these sampled clients. The Budget Analyst sent e-mail messages on November 6, 2009 to a total of 71 unique clients (which represented those with available e-mail addresses). Out of these 71 clients that were sent a survey via e-mail, two clients responded via e-mail and eight other clients provided responses through a follow-up process, resulting in a total of 10 survey respondents. This survey did not oversample to account for non-English speaking clients, nor was the survey translated into a language other than English.

Policies and Procedures

Policies and procedures provide a strategic link between the organization's goals and visions and its day-to-day operations. By establishing and implementing policies and procedures, the organization benefits by allowing managers the freedom to concentrate on strategic issues because policies and procedures are in place to guide the normal-day-to-day operations. The Office of Small Business has not established formal policies and procedures that would guide its day-to-day operations, including those pertaining to (a) the Small Business Assistance Center staff roles and responsibilities, (b) customer service processes, (c) client follow-up, (d) staff training requirements, (e) client data maintenance and data reliability, and (f) departmental performance measures, just to name a few. Well-written policies & procedures allow all responsible entities to understand their roles and responsibilities within predefined limits; enable management to guide operations without constant management intervention; provide staff with a clear and easily understood plan of action; and help eliminate common misunderstandings and potentially costly decisions by clearly identifying job responsibilities, boundaries and guidelines.

Conclusion

Having sufficient and robust performance and quality control systems would allow the Office of Small Business to sufficiently assess whether or not its organizational goals and mission are being met, and determine whether clients are satisfied with the services rendered by the Center. The Office of Small Business currently lacks robust performance measures, policies and procedures, and a systematic means for assessing client satisfaction, which ultimately limit the organization's ability to effectively track and measure its performance and accomplishments, as well as ensure the quality of its operations and activities. It is important to ensure that City resources are used effectively and that sufficient tools for enhancing organizational accountability and effectiveness are in place.

Recommendations

The Executive Director of the Office of Small Business should:

- 2.1 Collaborate with the Small Business Commission in reviewing and revising its list of performance measures in order to reflect a set of performance indicators that, at a minimum, (a) relate to the organization's mission, goals and objectives developed through the strategic planning process; (b) focus on results and not processes; (c) are balanced among several types of measures, including workload, efficiency, and effectiveness; and (d) include comparisons to targets and external entities.
- 2.2 Once the list of performance measures has been revised, report by March 1 and September 1 of each year to the Mayor and Board of Supervisors on all the performance measures established.

- 2.3 Separately track and report to the Small Business Commission, the Board of Supervisors, and the Mayor on the number of small businesses directly served by the Office's case manager.
- 2.4 Regularly collaborate with the Human Rights Commission to ensure that the Office regularly and systematically tracks and reports statistics on the number of small businesses obtaining City contracts and their dollar amounts.
- 2.5 At a minimum, include the following key data fields as part of its ongoing client data collection efforts: (a) types of clients receiving services (e.g., small businesses, non-profit organizations, non-small businesses, outreach event attendees, etc.); (b) relevant neighborhood and Supervisorial Districts; (c) status of the business (e.g., soon-to-be business, new business, old business); (d) number of employees; (e) type of interaction involved (e.g., walk-in, e-mail, telephone); (f) number of times the client has previously contacted the Center; and (g) how the client found out about the Center.
- 2.6 In coordination with the Controller's Office, create and administer an annual survey of small businesses that use the Small Business Assistance Center, as required by the Administrative Code, to evaluate the Center's performance in serving the City's small business community.
- 2.7 Establish and implement formal policies and procedures, including those pertaining to (a) the Small Business Assistance Center staff roles and responsibilities, (b) customer service processes, (c) client follow-up, (d) staff training requirements, (e) client data maintenance and data reliability (i.e., accuracy and completeness), and (f) departmental performance measures.

Costs and Benefits

Implementation of all recommendations should be accomplished using existing resources. The benefits include vastly improved monitoring procedures, better quality client and activities data, and enhanced accountability measures, which have the potential to result in less staff costs through better staff accountability and more efficient use of staff hours and resources. In addition, the Office staff would be equipped with the tools necessary to determine how to better allocate staff time and resources. Furthermore, establishing key quality control measures, including more robust performance measures, comprehensive policies and procedures, and client satisfaction surveys could result in increased efficiency and reduced unnecessary costs through enhanced staff and overall program accountability.

3. The City's Interdepartmental Business Permitting Processes

- **The City does not have specific small business regulations nor a specific City department responsible for regulating small businesses. Rather, several City departments are responsible for enforcing Municipal Code requirements - such as Health, Police, or Fire Code requirements - that impact small businesses.**
- **Small businesses must obtain various permits to comply with Municipal Code requirements, depending on the type of business. While several City departments may serve as the first point of entry for small businesses to obtain their permits, none has a comprehensive understanding of the City's permitting process or can assist the permit applicants with all Citywide requirements. Some businesses - such as a new restaurant providing entertainment and sidewalk seating - need to obtain permits and pay fees to up to ten City departments.**
- **The City lacks a central agency to monitor and reduce permitting timelines, duplicated administrative processes, and redundant fees. While the Office of Small Business is responsible for compiling and coordinating information on various Municipal Code and other legal requirements, the Office of Small Business does not have the legislative authority or resources to coordinate interdepartmental processes.**
- **Several City departments process permits and charge fees for the same business activity but for different purposes. For example, a new restaurant could require permits from the Treasurer/Tax Collector's Office, Planning Department, Department of Building Inspection, Department of Public Health, and Fire Department, requiring four months for approval and \$2,705 in fees. Because each department has an independent permitting process, administrative costs for permitting are duplicated. The Department of Public Health and Fire Department inspect a restaurant for compliance with respective Health Code and Fire Code requirements, with each department incurring administrative costs for application processing, inspection scheduling, information systems, and department overhead.**
- **The Office of Small Business has planned for but not yet begun two work groups to (1) evaluate the interdepartmental mobile caterer permit process, and (2) establish an interdepartmental consultation team for complex small business permit applications. The Director of the Office of Economic and Workforce Development, which oversees the Office of Small Business and reports directly to the Mayor, should ensure City departments' successful participation in these projects.**

Although the Business and Tax Code governs most business activities in the City, several City ordinances and municipal codes regulate business development and use. Regulation of small businesses is generally part of other City regulations, such as zoning, building, health, or fire regulation. No City department is responsible for regulating small businesses, although various City departments are responsible for enforcing City ordinances and Municipal Code requirements that impact small businesses. City departments do not specifically track permitting or services to small businesses. Rather, City departments track specific types of permits or functions, such as property or building inspections for compliance with California Building Code and Health and Fire Code provisions.

Restaurant and Other Small Business Permitting

New businesses applying for City permits can encounter several different departments, depending on the type of business and complexity of the permitting process. Some businesses - such as a new restaurant providing entertainment and sidewalk seating - need to obtain permits and pay fees to up to ten City departments.

All business applicants need to obtain registration, permits or other approvals from:

- The Tax Collector. Every City business must obtain a business registration within 15 days of operation.
- The Planning Department. Every City business must ensure that their business activities are consistent with City zoning regulations.

If the business is using a name other than their legal name, then the business must apply for a Fictitious Business Name registration through the County Clerk.

Additionally:

- Restaurants, other food handling businesses, massage parlors, tobacco concessions, laundry or dry cleaning, and other businesses must obtain permits from the Department of Public Health.
- Businesses constructing or renovating a facility must obtain a building permit, which requires review by the Department of Building Inspection, and other City departments, including the Fire Department and Department of Public Works Bureau of Street Use and Mapping, depending on the type of occupancy and scope of work.
- Businesses that require operational permits under the Fire Code, such as a public assembly permit for a restaurant with occupancy of 50 or more, must obtain permits from the Fire Department.
- Mobile food caterers, antique and second hand dealers, auto wreckers, towing companies, and other businesses must obtain permits from the Police Department.

- Businesses with entertainment or extended hours must obtain permits from the Entertainment Commission; businesses with sidewalk cafes or merchandise must obtain permits from the Department of Public Works Bureau of Street Use and Mapping; and businesses with white or other curb colors must obtain permits from the Municipal Transportation Agency.

Development of the Restaurant Tool

In 2007 several City department staff and representatives from San Francisco Planning and Urban Research (SPUR) and the Golden Gate Restaurant Association formed a group to review the City's permit process for small businesses. The group focused on permitting for restaurants, mapping the City's permit process for opening or expanding a restaurant. The group developed a flow chart and permitting checklist for new or expanding restaurants.

Office of Small Business staff further developed the permitting flow chart and checklist into an online "restaurant tool". In 2008 the Office of Small Business hired a consultant, Ciber, to work jointly with Department of Technology and Office of Small Business staff to develop the online restaurant tool, which was recently posted on the Office of Small Business website.

According to participants in the original workgroup, the group meetings were the first time that various City department staff had met to discuss and understand the interdepartmental permitting process for restaurants. During the development of the restaurant tool, Office of Small Business staff worked with representatives from City departments to further map each department's permitting process.

The City Does Not Coordinate the Multiple Points of Entry for Small Business Registration and Permits

A new business owner can begin the permitting process at several different points in the City process. The Office of Small Business's web page, *Start Your Business in SIX STEPS*, lists "check with City Planning" as Step 3¹.

The Planning Department and Department of Public Health

New businesses that plan to construct or renovate a building or change the use of an existing building need to ensure that the business complies with the City's zoning requirements. The Planning Department can be the first point of entry for these businesses.

Planning Department and Planning Commission Approval

Because of the complexity of the City's zoning requirements, business applicants must locate a specific property before the Planning Department can provide information on zoning requirements. While some businesses, such as retail, can be located in most commercial districts,

¹ Step 1 is information on setting up the business as sole proprietor, limited liability entity, or other business structure, and Step 2 is information on developing a business plan.

other businesses, such as restaurants, cannot be located in many special use districts that restrict certain commercial uses.

Most business applications to the Planning Department are for conditional use permits, requiring Planning Commission approval. Restaurants and entertainment were among the most frequent conditional use applications for the 20-year period from 1987 through 2006. The City began requiring conditional use applications for liquor stores in 2000, and liquor stores were the most frequent conditional use application for the five-year period from 2002 through 2006.

Department of Public Health Referrals to the Planning Department

For several types of permits, more than one City department will need to approve the application, which may result in a referral from the department where the permit application is initially submitted to another department which must also approve the application. For example, restaurants and food handling or other businesses may apply to the Department of Public Health for a health permit as the first point of entry. The Department of Public Health refers the application to the Planning Department for zoning approval. The Department of Public Health does not issue a health permit prior to obtaining Planning Department approval.

The Treasurer/Tax Collector's Office and County Clerk's Office

The *Start Your Business in SIX STEPS* web page lists "registering the business" as Step 4, linking the business to the Treasurer/Tax Collector's Office's website. Step 5 of the *Start Your Business in SIX STEPS* web page links the business to the County Clerk's Office's website.

Under the Business and Tax Code, a business must first register with the Treasurer/Tax Collector's Office before filing the Fictitious Business Name Statement. The Treasurer/Tax Collector's Office is often a new business's first point of entry into the City's registration and permitting process. The Treasurer/Tax Collector's Office, County Clerk's Office, and Office of Small Business are all located on the first floor of City Hall, and physical proximity allows for exchange of information among the three Offices. The Treasurer/Tax Collector's Office refers new business applicants to the Office of Small Business if the business applicant has significant questions about the process, and references the Office of Small Business in Treasurer/Tax Collector's Office publications when appropriate, although brochures or other written information on the Office of Small Business are not displayed in the Treasurer/Tax Collector's Office in Room 140 of City Hall. Also, according to Treasurer/Tax Collector's Office staff, the staff provide information to the Office of Small Business staff who are assisting new business applicants.

Information for New Business Applicants

The Planning Department, Department of Public Health, Treasurer/Tax Collector's Office, Department of Building Inspection, Office of Small Business, or other City departments potentially serve as the first point of contact with the City's business registration and permitting process. With the exception of the Office of Small Business, City department staff do not have comprehensive information on the City's business permitting process. Consequently, a small

business owner submitting an application to one of the City departments serving as the first point of entry to the City's permitting process will not receive comprehensive information on the process, such as the types of required permits, and permitting timelines and fees.

The Office of Small Business has developed a contact list for City departments and other public agencies involved in permitting or regulating businesses. While the Small Business Assistance Center within the Office of Small Business has identified a liaison in each of the City departments involved in the permitting process, the Office of Small Business has not developed these liaisons as comprehensive resources on the City's permitting process.

City department liaisons and the Office of Small Business do not have regular meetings or training sessions. According to the Executive Director of the Office of Small Business, City department staff do not routinely call the Office of Small Business for questions on the business permitting process, although she is working with City departments to strengthen the working relationship.

One-Stop Permitting Center

Initially, the Office of Small Business considered creating the Small Business Assistance Center within the Office of Small Business as a one-stop center in which City department staff would be available at a single location to process permits. Small businesses could submit their applications and receive permits at one location. By co-locating at one site, City department staff could provide more comprehensive information on the small business permitting process.

The Office of Small Business has not moved forward with the one-stop permitting center. The Executive Director of the Office of Small Business has considered piloting an intake project, in which the Office of Small Business would be the first stop in the City's business permitting process but has not developed specific plans for this pilot project.

The One-Stop Center for Building Permits

City departments issue two general categories of permits: building (or construction) and operations. The City has a one-stop center for building permits, located at 1660 Mission Street.

The Planning Department staffs the Planning Information Center on the first floor of 1660 Mission Street, providing information on the Planning Code and receiving planning permit applications. The Planning Department can give over-the-counter permit approval for applications for minor alterations, or that have no zoning, use, or other planning issue. Applications requiring zoning, conditional use, or other approvals are submitted to and reviewed by Planning Department staff.

The Department of Building Inspection opened a new one-stop building permit center on the fifth floor of 1660 Mission Street in November 2009. The one-stop center has 40 work stations and houses staff from the Department of Building Inspection, Public Utilities Commission, Department of Public Works Bureau of Street Use and Mapping, and the Fire Department.

According to the Director of the Department of Building Inspection, the Planning Department may locate some staff on the fifth floor beginning in February 2010.

Intake staff route building permit applicants to the appropriate permit work station. Staff issue most basic permits over-the-counter although more complex projects must be submitted for plan review, corrections, and approval.

Barriers to Expanding the 1660 Mission Street One-Stop Building Permit Center to Operational Permitting

City department staff at the one-stop building permit center do not issue permits for operating functions. For example, the Department of Public Work Bureau of Street Use and Mapping staff located at 1660 Mission Street issue street space permits for construction projects but not sidewalk use permits for café tables and chairs or merchandise display, which must be obtained at 875 Stevenson Street. Fire Department staff located at 1660 Mission Street review building plans for compliance with California State Fire Marshal Building Code requirements, but do not review applications for operation permits for compliance with Fire Code requirements (such as public assembly permits), which must be obtained at 698 Second Street.

Most City departments issue too few operational permits per day to locate staff efficiently at the 1660 Mission Street one-stop building permit center, as shown in Table 3.1.

Table 3.1
Average Number of Operational Permits Issued Daily
FY 2008-09

| | Average Estimated Number of Permits Per Day | Estimated Permits FY 2008-09 |
|--|--|---|
| Department of Public Health Environmental Health Division ¹ | 3.1 | 768 |
| Department of Public Works Bureau of Street Use and Mapping | 3.0 | 741 |
| Police Department ² | 4.9 | 1,198 |
| Fire Department ³ | 9.3 | 2,305 |
| Entertainment Commission ⁴ | 0.2 | 41 |

Source: City departments

¹ Restaurant and food handling permits

² Excludes fingerprinting permits

³ Estimated

⁴ Fixed place permits

According to discussions with Fire Department and Department of Public Works managers, several barriers exist to efficient processing of operational permits at 1660 Mission Street. For

instance, staff processing operational permits have different skills or experience than those processing building permits, which have different requirements. While each department could potentially relocate staff processing operational permits to 1660 Mission Street, each department would need to contract with the Department of Building Inspection or develop other procedures for collecting payments; many documents and supervisory support would remain at the original location; and each department may incur additional rent or other costs for 1660 Mission Street work stations.

As an alternative, discussed in Section 4, City departments could streamline the permitting process and increase public access through improved use of information systems.

Training for City Department Permit Staff

While the Small Business Assistance Center within the Office of Small Business can serve as the first point of contact with the City for business applicants, only a small percentage of Small Business Assistance Center clients seek business permitting information. Most of the Small Business Assistance Center's services are information on how to start a business. According to the Office of Small Business database, more than 68 percent of clients request information on "how to start a business" or "how to start a restaurant". Less than 10 percent of clients request information on business tax registration, permitting and licensing, zoning, policy and legislative requirements, or compliance with laws as shown in Table 2.2 (see Section 2).

City department staff have indicated that regular interdepartmental meetings, such as those held by the group evaluating the City's restaurant permitting process, aid in understanding each department's role in the permitting process. As an early step, the Office of Small Business should provide ongoing training on required permits, fees, and interdepartmental permitting procedures to the City departments that frequently serve as the first point of contact with the City's permitting process: Planning Department, Department of Building Inspection, Treasurer/Tax Collector's Office, and Department of Public Health.

No City Entity is Responsible for Monitoring and Improving the Impact of Permitting Timelines, Duplicated Administrative Processes, and Redundant Fees on Small Businesses

City permitting processes can involve multiple departments and permits. Both City zoning approval and City permitting can require several steps and take several weeks or months, depending on the type of business. If the business requires only business registration, the Treasurer/Tax Collector's Office can approve the business registration upon application and receipt of the fee. However, many businesses must obtain permits from several different City departments, depending on the type of business. The interdepartmental permitting process can be both lengthy and costly for small business applicants.

Permit Processing Timelines

The timelines for processing business registration and other permits vary by type of business and required permits.

- The Treasurer/Tax Collector's Office can process business registration applications over the counter or by mail, with approval upon receipt of the business registration fee.
- Under State law, Fictitious Business Names (processed by the County Clerk) must be advertised for four consecutive weeks before a business can legally assume the name.
- All police permits are considered at a public hearing. Police Department policy is to calendar the hearing within 14 days of the application.
- According to the Fire Department, fire inspectors can conduct the inspection within one to two days of the application. However, timelines for inspections of building projects can be extended if construction is not complete.
- The Department of Public Health's median timeline for processing health permits is 42 days, including site inspections, based on data provided by the Department of Public Health.
- The Department of Public Works issues permits for sidewalk merchandise display or sidewalk café tables and chairs once the Department has verified that the applicant meets the guidelines, has posted a public notice for 10 days, and provides proof of insurance. According to the Department of Public Works, average approval time for sidewalk merchandise display is two days and for sidewalk café tables and chairs is 6 days, once these conditions have been met.

The Municipal Codes require that some permits are processed consecutively while other permits may be processed concurrently. For example, a business applicant must apply for a business registration with the Tax Collector prior to applying for a Fictitious Business Name with the County Clerk. Also, a new business requiring a conditional use permit must receive Planning Commission approval prior to completing applications for health and other permits. However, other permits may be processed concurrently. For example, the Department of Public Health Environmental Health Services refers some applications to the Fire Department for approval of compliance with Fire Code requirements; the Department of Public Health and the Fire Department may process the applications for the respective health and fire permits concurrently.

City departments do not consistently measure timelines for processing permits, often due to the complexity of the permitting process or inadequacy of department systems. For example, the Planning Department's February 2008 *Management Study of the Planning Department* found that the Planning Department did not consistently meet its own timelines for processing planning permits. According to Planning Department staff, because the Department's system tracks the date that a planning permit application is submitted but cannot consistently track the date that the

planning permit application is deemed complete, application processing timelines are not consistently reliable.

Based on available data and as shown in Table 3.2, a new restaurant could take approximately four months (127 days) to complete the permitting process if the restaurant required:

- (1) A conditional use permit to operate but not a building permit for construction or renovation of a building (85 days); and
- (2) A health permit to operate (approximately 42 days).

Table 3.2
Estimated Number of Days to Process a
Permit Application for a New Restaurant
FY 2008-09

| Permit or Approval | Department | Special Procedures | Average Days to Process Application |
|---------------------------|-------------------|------------------------------|--|
| Conditional Use Permit | Planning | Planning Commission Approval | 85 |
| Health Permits | Public Health | Inspection | 42 |
| Total | | | 127 |

Source: Planning Department, Department of Public Health

New businesses that conform to the Planning Code and do not require a conditional use permit can receive permits more quickly. For instance, a new restaurant business that was replacing an existing restaurant business could receive zoning approval in 14 days or less, and a health permit in approximately 42 days, reducing total permit timelines from four months (127 days) to less than two months (56 or fewer days). However, if the new restaurant required renovation or construction, the business applicant would need to obtain building, electrical, or plumbing permits from the Department of Building Inspection, with the timelines for permit approval and site inspection determined by the type of permit, complexity of the construction project, and scheduling of construction inspections.

Delays in Construction Inspections and Approvals

According to the Executive Director of the Golden Gate Restaurant Association, new restaurant businesses can face significant financial pressure if building projects are delayed due to delays in construction inspections. Although the Building Code generally quantifies building requirements, building inspectors have some discretion in measuring building specifications.

According to interviews, different inspectors can interpret building requirements differently at different stages of the building project, resulting in construction delays.

The Office of Small Business is initiating a planning process with City department and business representatives and the Mayor's Chief of Staff to implement a pilot interdepartmental consultation team to assist new restaurant businesses through the pre-application, permit approval, and inspection process. The consultation team would assist new businesses in obtaining planning and building permit approval, and facilitate building inspection sign-off of construction projects. The Mayor's Office, Office of Small Business, and respective City departments have not yet developed a specific plan for the consultation team.

Potential Fee Duplication for Business Permits

City departments do not require permits or charge fees specific to small businesses. Rather, small businesses must obtain permits and pay fees if the business must comply with health, fire, public works, planning, building inspection, or other requirements established by the City's Municipal Codes and administered by City departments. At least ten City departments require permits and charge fees to small businesses with 250 different permits and fees:

- The Treasurer/Tax Collector's Office collects a business registration fee (or tax) ranging from \$25 to \$500 for a business registration certificate, depending on the amount of the business' payroll.
- The County Clerk's Office charges a fee of \$43 to file for a Fictitious Business Name.
- The Department of Building Inspection and the Planning Department have a complex fee structure for planning and building or other permits, plan review, and inspections. The Departments jointly conducted a study of their fee structure in April 2006, and based on the study have revised their fee structure to more fully recover costs. Both Departments most recently increased their fees in 2009.
- The Department of Public Health has approximately 80 fees for 11 categories of environmental safety programs, including food safety, laundry and dry cleaning, tattoo and massage, tobacco, pet care, and other programs. These fees, which were increased in 2009 and are intended to cover the Department's costs of processing permits and inspecting facilities, vary in amount and usage.
- The Fire Department has approximately 75 fees regulating an estimated 25 categories of operational fire permits, such as use or storage of combustible or hazardous materials, vehicle storage or wrecking, handling or storage of flammable liquids and gases, use of fireworks, operation of a dry cleaning plant. The Fire Department has standardized its fee structure, charging \$330 for most fire permits in FY 2009-10. The Fire Department also charges fees for plan review and inspections associated with building permits, annual high-rise inspections, and for referral inspections requested by the Department of Public Health. Fees are designed to cover the cost of providing the service.

- The Police Department has approximately 56 fees and the Entertainment Commission has approximately 20 fees, established by the Police Code and covering various activities. These fees vary in amount and usage. The Police Department increased fees in FY 2009-10 but the Entertainment Commission has not increased fees since FY 2007-08. Neither Department has determined if existing fees cover costs.
- The Municipal Transportation Agency charges fees to businesses for reserving curb space for business use, which include the green zone for short term parking and the white zone for passenger loading. These fees are intended to cover the cost of application processing, curb painting, and renewal or repainting.
- The Department of Public Works charges fees to businesses for sidewalk use for outdoor cafes, merchandise display, new racks, flower markets, and other commercial sidewalk use.

A new restaurant of less than 2,000 square feet requiring a conditional use permit (without construction or renovation of the building), fire and health permits, and sidewalk café permits, as discussed above, would pay an estimated \$2,705 in permit fees, as shown in Table 3.3. The new restaurant owner would submit the application to the Department of Public Health Environmental Health Services, who would then refer the application to the Planning Department for zoning approval, collecting a \$114 fee to the Planning Department to cover the costs of zoning approval. If the new restaurant required conditional use approval, the new restaurant owner would pay a \$896 fee to the Planning Department to cover the costs of evaluating and approving the conditional use application.

Table 3.3
Estimated Permit Fees for a New Restaurant
FY 2009-10

| Department | Fee | Amount |
|-------------------------|------------------------|----------------|
| Treasurer/Tax Collector | Business Registration | \$25 |
| Planning | Conditional Use | 896 |
| Public Health | Application Fee | 323 |
| Public Health | Health Permit | 1,129 |
| Public Health | Referral to Planning | 114 |
| Fire | Referral Inspection | 110 |
| Public Works | Café Tables and Chairs | 108 |
| Total | | \$2,705 |

Source: Planning Department, Department of Public Health, Department of Public Works

Estimated permit fees charged to small businesses, excluding Planning Department and Department of Building Inspection fees for planning or building and other permits for construction projects, were \$10 million in FY 2008-09. Department of Public Health permit fees for restaurants and other food handling businesses made up almost 65 percent of these fees, as shown in Table 3.4.

Table 3.4
Permit Fees Charged to Small Businesses
FY 2008-09

| Department | Permit Type | Estimated Fees Charged to Small Businesses |
|--|--|--|
| Planning | Conditional Use, No Construction, | <u>\$21,924</u> |
| Subtotal, Planning | | 21,924 |
| Public Health Environmental Health | Restaurant and Other Food Handling | 6,484,453 |
| | Massage Parlors | 451,947 |
| | Medical Cannabis | <u>89,818</u> |
| Subtotal, Environmental Health | | 7,026,218 |
| Public Works Bureau of Street Use and Mapping | Café Table and Chairs | 237,907 |
| | Sidewalk Display | 154,246 |
| | Sidewalk Flower Markets | 5,660 |
| | Newsrack Fees | <u>101,835</u> |
| Subtotal, Bureau of Street Use and Mapping | | 499,648 |
| Entertainment Commission | Place of Entertainment | 45,704 |
| | Place of Entertainment with Amendments | 516 |
| | Extended Hours | 7,880 |
| | Billiard and Pool Tables | 1,048 |
| | Mechanical Amusement Devices | <u>622</u> |
| Subtotal, Entertainment Commission | | 55,770 |
| Municipal Transportation Agency | New Curb Fees | 39,984 |
| | Renewal Curb Fees | <u>255,840</u> |
| Subtotal, Municipal Transportation Agency | | 295,824 |
| Police Department | Auctioneer | 1,060 |
| | Mobile Caterer | 10,779 |
| | Second Hand Dealer | 16,536 |
| | Fortune Teller | 2,120 |
| | Various Permits | <u>75,862</u> |
| Subtotal, Police Department | | 106,357 |
| Fire Department | Annual License Fee Renewal | 1,387,311 |
| | New Permit Fee | 622,335 |
| | Fire Referral Inspection | <u>60,161</u> |
| Subtotal, Fire Department | | 2,069,807 |
| Total Estimated Fees Charged to Small Businesses FY 2008-09 | | \$10,075,548 |

Source: Respective City Departments

Consolidating Permitting Functions and Fees

Permit fees may recover City department costs for processing permits, conducting inspections, and other permit-related activities. Because each department has an independent permitting process, administrative costs for permitting are duplicated. For example, the Department of Public Health and Fire Department inspect a restaurant for compliance with respective Health Code and Fire Code requirements, with each department incurring administrative costs for application processing, inspection scheduling, information systems, and department overhead. No City department is responsible for coordinating interdepartmental processes or ensuring that permitting and fees are efficient.

Mobile Caterer Permits and Fees

For example, both the Police Code and the Health Code require mobile food caterers to obtain permits. The Police Code requires that the Police Department issue permits to mobile food caterers operating in public streets and charge a permit fee, a portion of which is to be allocated to the Department of Public Health to cover the costs of health inspections. The Department of Public Health Environmental Health Services conducts health inspections of mobile food caterers but does not currently receive an allocation of the Police Department permit fee charged to mobile food caterers operating in City streets. Additionally, under the Police Code, mobile caterers operating in public streets pay a one-time tax of \$7,500 on approval of the mobile caterer permit, which is General Fund revenue. Total initial mobile caterer permit and tax costs are \$8,427, including \$7,500 for the one-time tax and \$927 for the Police Department permit application.

The \$7,500 one-time tax on new mobile caterer businesses was entered into the Administrative Code in 1981 as a source of General Fund revenue, in response to the California Constitution provision prohibiting local jurisdictions from administering fees for services that exceed the cost of providing services. Because the City does not assess a comparable tax on other new businesses, the Board of Supervisors should eliminate this tax.

The Office of Small Business is initiating an interdepartmental work group to evaluate the mobile caterer permitting process although the Office has not yet developed a formal plan. This work group should evaluate duplicative and inefficient permitting processes and fees and make recommendations to the Board of Supervisors on proposed Municipal Code revisions prior to June 30, 2010.

Other Permits and Fees

Although several departments charge fees for the same function, the City has no process to evaluate duplication of permits and fees among City departments. For example:

- The Planning Department charges \$1,229 for a conditional use permit for a business with extended hours of operation and the Entertainment Commission charges \$1,576 for a business to obtain an extended hours permit. While one fee is for land use approval and the other is for regulatory compliance, both permits can include enforcement functions.

- The Fire Department issues permits and charges fees to vehicle wrecking yards for compliance with the Fire Code while the Police Department issues permits and charges fees to auto wreckers for background investigations to deter criminal activity.

Business applicants would benefit from coordination and streamlining of overlapping permits and fees. The Office of Small Business should evaluate the effectiveness of the interdepartmental workgroup who are reviewing mobile caterer permits in order to apply effective workgroup procedures to future workgroups reviewing other overlapping permitting processes. The Mayor's Office, through the Chief of Staff and the Director of the Office of Workforce and Economic Development, which oversees the Office of Small Business, will need to ensure City departments' participation and follow through in this process.

Conclusion

Because several Municipal Codes govern small business functions and several different City departments are responsible for ensuring compliance with Municipal Code provisions, no single City department is responsible for overseeing small business permitting. The Office of Small Business is intended to provide assistance and information to small businesses but does not have authority to coordinate City department processes. However, the Office of Small Business could better assist business applicants at the many points of entry into the City's permitting system by providing training to City departments' staff on the overall process and engaging ongoing group discussions among City departments.

Recommendations

The Board of Supervisors should:

- 3.1 Revise Police Code Section 2.29 to eliminate the \$7,500 one-time tax on new mobile caterer businesses.

The Executive Director of the Office of Small Business should:

- 3.2 Develop a training plan, schedule, and written materials on the City's permitting process for Treasurer/Tax Collector's Office, Department of Public Health Environmental Health Services, Planning Department, and Department of Building Inspection staff.
- 3.3 Develop a work plan, schedule, and deliverables for the (1) the mobile caterer permit process work group, and (2) interdepartmental planning and building permit consultation team.
- 3.4 Evaluate the mobile caterer permit process work group procedures in order to apply effective work group procedures to future work groups for the review of other City permit processes.

The Director of the Office of Economic and Workforce Development should:

- 3.5 Ensure City department participation and successful follow through in (1) the interdepartmental work group to evaluate and streamline the mobile caterer permit process, and (2) interdepartmental consultation team to facilitate planning and building permits and inspections for business applicants.
- 3.6 Make recommendations to the Board of Supervisors to revise the respective Police, Health, and other appropriate Municipal Code provisions to streamline and consolidate the mobile food caterer and push cart food vendor permitting process and associated fees or taxes prior to June 30, 2010.

Costs and Benefits

Implementation of these recommendations is consistent with the mission of the Office of Economic and Workforce Development and Office of Small Business and should be attained within existing resources. Implementation is intended to improve the effectiveness and efficiency of interdepartmental permitting.

Eliminating the \$7,500 one-time tax on new mobile caterer businesses would result in an estimated decrease of \$30,000 annually in General Fund revenues, based on four new mobile caterer businesses in FY 2008-09.

4. City Departments' Permit Systems

- City departments do not provide extensive online access to the small business permitting process. City departments that require permits for small business functions provide permit and fee information on line, but small businesses cannot apply for permits online. With the exception of certain electrical and plumbing permits required by the Department of Building Inspection, small businesses must submit all permit applications in hard copy.
- City departments have difficulty in implementing submission of permit applications or renewal online due largely to difficulties in implementing online payment. For example, in May 2008 the Mayor announced online permit renewal for businesses with sidewalk café permits, but as of January 2010, or more than 18 months later, the Department of Public Works was only in the initial phase of implementing online credit card payments for these permits.
- The various City departments involved in the business permitting process lack permit systems that can process permits electronically from application through approval or link to other City departments. Most permit applications are hard-copy and interdepartmental permitting processes are still performed manually.
- The City lacks a process for interdepartmental coordination of information systems. City department systems are generally stand-alone systems, and although technical solutions exist for short-term improvements to interdepartmental information exchange, City department managers and information technology staff do not have a process for identifying and implementing solutions.
- Currently, the Department of Building Inspection and the Planning Department are jointly implementing a new Permit Tracking System to electronically process and track Department of Building Inspection and Planning Department permits initially and eventually integrate other City department permits into the system. An executive steering committee consisting of Department of Building Inspection, Planning Department, Controller's Office, Department of Technology, and Office of Economic and Workforce Development representatives, is overseeing the Permit Tracking System implementation, although the Office of Economic and Workforce Development does not have a consistent representative. The Office of Economic and Workforce Development needs to take the lead on behalf of the Office of Small Business in both planning for City departments long term participation in the new Permit Tracking System and finding short term solutions for enhanced interdepartmental information sharing and electronic exchange of information

City Departments Lack Permit Systems that Provide Extensive Online Access to Business Applicants or Link to Other City Departments

City Departments Lack Online Application Procedures

Each of the City departments involved in the permitting process includes information about permits and fees on their website. The Office of Small Business website provides links to each City department's website to obtain information on different permit requirements and fees.

While most City departments provide online forms for permit applications, the actual applications must be submitted in hard copy. Only the Department of Building Inspection provides for online submission of permit applications: applicants may submit applications for electrical or plumbing permits online if they are qualified contractors and registered users. All other building permit applications must be obtained from the one-stop building permit center at 1660 Mission Street and submitted in hard copy.

Several City departments plan for online permit renewals but none have yet implemented online renewals, largely due to unresolved problems in accepting permit payments online.

- In May 2008 the Mayor announced online permitting for renewal of the Department of Public Works Bureau of Street Use and Mapping permits for sidewalk cafes, but as of January 2010 the Bureau of Street Use and Mapping was still in the initial implementation of online credit card payments for sidewalk café permit renewals.
- The Treasurer/Tax Collector's Office received funding in FY 2009-10 for new software, which will fund the initial costs of developing online business registration renewal, payroll tax and other tax filings. The initial step is an online form that must be printed and mailed hard copy, but contains an electronic code allowing electronic uploading rather than manual entry into the Treasurer/Tax Collector's Office business tax system. The Treasurer/Tax Collector's Office does not currently have an online payment system for business registration renewal.
- The Department of Public Health Environmental Health Services plans to develop online payment for both new and renewal permits, beginning in 2010. This is part of Environmental Health Services plan to migrate all permitting information to the intranet.

Annual Business Registration or Permit Renewal

Businesses must renew their business registration and fire, police, or health permits annually. The Treasurer/Tax Collector's Office collects annual fees for renewing permits issued by the Department of Public Health, Police Department, and Fire Department. Once businesses have received their initial permit from the respective department, the permit information is forwarded to the Treasurer/Tax Collector's Office who then bills for the annual fee. Businesses can pay the annual fee by mail or in person.

Currently, the Treasurer/Tax Collector's Office sends separate invoices to each business that has more than one permit. The Treasurer/Tax Collector's Office has just begun to evaluate if the separate invoices from the Department of Public Health, Police Department, and Fire Department can be combined into one invoice, but has not yet met with these three departments or the Office of Small Business. These departments would have to resolve existing problems in their permit systems, including each department's permit system formatting data and listing the business name differently.

City Departments Lack Comprehensive Permit Systems

The various City departments involved in the business permitting process lack permit systems that can process permits electronically from application through approval or link to other City departments. Most permit applications are hard-copy and interdepartmental permitting processes are still performed manually.

Permitting for Operational and Construction Activities

City departments' process two major types of permits: (1) construction, and (2) operations. City departments issue construction or operation permits as follows:

Construction Permitting

Several City departments are involved in construction permitting, receiving applications at the building permit one-stop center located at 1660 Mission Street:

1. The Planning Department issues planning permits for development and other construction projects. While most of the Planning Department's conditional use permits are for development and construction projects, the Planning Department processes a small number of conditional use permits for business applicants that do not include construction.
2. The Department of Building Inspection issues building permits, plumbing and electrical permits, some types of fire permits and some types of public works permits, as well as inspects building construction projects to ensure code and safety compliance..
3. The Department of Public Works Street Use and Mapping issues street space permits for construction activities.
4. The Fire Department reviews building plans and inspects building construction projects for compliance with Fire Code requirements.

Operational Permitting

Several City departments issue permits for business operations. While some of these City departments also issue permits for construction activities, they do not issue operational permits at their 1660 Mission Street work stations.

1. The Department of Public Works Bureau of Street Use and Mapping issues permits for sidewalk use at 875 Stevenson Street.
2. The Fire Department issues operational permits for compliance with Fire Code requirements at 698 Second Street.
3. The Department of Public Health Environmental Health Division issues health permits at 1390 Market Street.
4. The Entertainment Commission issues entertainment permits at City Hall.
5. The Police Department issues various permits at 850 Bryant Street.
6. The Municipal Transportation Agency issues curb color permits by mail.

Additionally, the Treasurer/Tax Collector's Office issues business registration certificates at City Hall or by mail.

Implementation of the Permit Tracking System

In 2004 the Board of Supervisors approved an ordinance, amending the Administrative Code and requiring implementation of a new Permit Tracking System. According to the Administrative Code, the Department of Building Inspection was to provide an online system that allowed public access to Department of Building Inspection and Planning Department permit information.

According to the Budget Analyst's October 2007 *Management Audit of San Francisco's Information Technology Practices*, the Department of Building Inspection updated the department's portion of the Permit Tracking System in 2006 but did not consult the Planning Department. Subsequently, the Department of Building Inspection and the Planning Department began a formal process with the Department of Technology to plan for the new systems' business process requirements. According to the Director of the Department of Building Inspection, the Department of Building Inspection and the Planning Department are currently discussing a Memorandum of Understanding for the implementation of the Permit Tracking System.

The Department of Building Inspection's December 2007 *Business Process Reengineering Report* identified multiple deficiencies in the existing Permit Tracking System, including the inability to integrate data and information from other City departments. For example, many of the Fire Department's plan review and inspection procedures for building permits are not automated and information is not recorded in the Permit Tracking System database. Additionally, other City department information systems (Department of Public Works, Department of Public Health, Fire Department, and other City departments) track data differently and are not linked to the Permit Tracking System.

The Department of Building Inspection and Planning Department issued a Request for Proposal (RFP) for a new Permit Tracking System in January 2009. In April 2009 an intent-to-award was

issued, and negotiations commenced. As of January 2010 negotiations have been suspended, pending completion of internal process reviews.

The Permit Tracking System will be designed to address the Department of Building Inspection and Planning Department permitting requirements. The Department of Building Inspection is providing 70 percent of the \$8.8 million project costs with 30 percent provided by the Planning Department. An executive steering committee, consisting of executive staff from the Department of Building Inspection, Planning Department, Controller's Office, Department of Technology, and Office of Economic and Workforce Development, oversees project implementation.

The goal of the new Permit Tracking System is to implement a system that can electronically process and track permits, initially integrating Department of Building Inspection and Planning Department permitting processes and eventually integrating other City departments, as specified in the RFP. Initially, the Permit Tracking System will allow permit tracking by street address for all Department of Building Inspection, Planning Department, Fire Department, and Department of Public Works Bureau of Street Use and Mapping construction-related permits. Other Fire Department and Department of Public Works permits, which are not building permits, will not be included in the initial implementation of the Permit Tracking System.

Eventually, the new Permit Tracking System could incorporate all City permits, not just construction-related permits. However, City departments involved in the permitting process, including the Fire Department and Department of Public Works, are not currently represented on the executive steering committee. According to the Director of the Department of Building Inspection, although the Fire Department and Department of Public Works Bureau of Street Use and Mapping will be included in early discussions of the new system, implementation of the system will focus on the two funding departments - Department of Building Inspection and Planning Department. Once the new Permit Tracking System is implemented, which is expected to take two to three years, other City departments may be brought onto the system with minimal cost.

Other City Departments' Permit systems

Each City department involved in the permitting process has developed their permit systems independently. The City's permitting processes require exchange of permitting information between various City departments, but because the City departments' permit systems are stand-alone with limited communication with other City departments' systems, City departments generally share hard copy rather than electronic permit information.

- The Department of Public Health refers permit applications to the Planning Department for zoning approval and Fire Department for Fire Code approval. The Department of Public Health Environmental Health Services staff deliver hard copies of the application referrals to the Planning Department and Fire Department by interdepartmental mail or hand delivery.
- The Fire Department, Police Department, and Department of Public Health send permits to the Treasurer/Tax Collector's Office for annual renewal. These permits are sent in

hard copy by interdepartmental or postal mail or hand delivered. The Treasurer/Tax Collector's Office staff manually enter the permit information into the Treasurer/Tax Collector's system.

- The Police Department's permit system is "failure prone", according to a preliminary Department of Technology proposal for implementation of a new Police Department system. The goal of the proposed new system is to combine two existing Police Department permit systems into one system, increase electronic permit processing and reporting, and improve communication with the Treasurer/Tax Collector's Office. The Police Department's FY 2009-10 budget includes funds for the new permit system, and the Police Department proposes additional funds in FY 2010-11.
- The Entertainment Commission's permits are hard copy with information stored in excel spreadsheets. Although the Entertainment Commission shares information with the Police Department, neither department currently has a reliable permit system.

The City lacks a process for interdepartmental coordination of information systems. Although City department systems are generally stand-alone systems, various technical solutions exist that allow communication between systems. For example, the Fire Department currently receives building permit information electronically from the Department of Building Inspection. The Department of Building Inspection generates a data extract that the Fire Department can download daily, reducing the need for manual re-entry of data. The Fire Department is also in the process of setting up an electronic exchange of information with the 311 Call Center.

However, without a formal process to coordinate information exchange and link systems, City department staff have no means to effect increased system communication. Minimally, City departments need to exchange permit information electronically and reduce manual entry of information. Optimally, City departments should be able to electronically access other departments' permit information for interdepartmental permits and track permit status.

Implementing a Common Identifier

Currently, each City department identifies permits and licenses with a number or code specific to the department, preventing easy exchange of information between departments. For example, in implementing a single invoice for Fire Department, Police Department, and Department of Public Health annual licenses (see above), the Treasurer/Tax Collector's Office will need a identifier for each business that is common to the three departments. This common identifier could be the business registration name, but each department would need to record the business registration name in the same manner in the department's permitting system.

Alternatively, the common identifier could be the business address, although currently some City properties have more than one address recorded in City departments' systems. The Department of Technology has been working with the Assessor's Office, Department of Building Inspection, and Department of Public Works to identify property addresses to be included in a shared database, which could be the basis of a common identifier.

Conclusion

City departments' lack a formal process to facilitate information sharing between departments. City department information technology staff can participate in informal monthly meetings with other departments' staff, but no formal workgroup exists to solve problems in interdepartmental processes.

The Office of Economic and Workforce Development, which oversees the Office of Small Business, is a member of the Permit Tracking System executive steering committee. The Office of Economic and Workforce Development, which reports directly to the Mayor, needs to take the lead on behalf of the Office of Small Business in both planning for City departments long term participation in the new Permit Tracking System and finding short term solutions for enhanced interdepartmental information sharing and electronic exchange of information.

Recommendations

The Director of the Office of Economic and Workforce Development at the direction of the Mayor should:

- 4.1 Assign a consistent executive level staff member to participate actively in the new Permit Tracking System executive steering committee.
- 4.2 Begin long term planning for City departments' participation in the new Permit Tracking System, including working with the Executive Director of the Office of Small Business and the Department of Technology to map the small business permitting process and identify City departments' permit system needs.
- 4.3 Establish a formal work group that includes management and information technology representatives from the City departments involved in the small business permit process to identify short term solutions to interdepartmental exchange of electronic permit information, including the costs of implementing a common business identifier.
- 4.4 Work with the Executive Director of the Office Small Business and the Department of Technology as appropriate to facilitate implementation of online permit application or renewal permits pertaining to small businesses, including online payment of permit fees.

Costs and Benefits

Although Office of Economic and Workforce Development executive level staff currently participate in the Permit Tracking System executive steering committee, implementation of these recommendations would require increased commitment of executive level staff time. City departments' would incur costs for permit system improvements, some of which have been planned for or budgeted previously.

The Written Response from the Executive Director of the Office of Small Business and the Director of the Office of Economic and Workforce Development and the Budget and Legislative Analyst's Recommendation Matrix



February 8, 2010

To: Harvey Rose
Budget Analyst

From: Regina Dick-Endrizzi
Executive Director

RWDE

Subject: Response to the Management Audit and Recommendation and OSB Accomplishments

The Office of Small Business is pleased to have worked with the Budget Analyst for the first audit of the Office of Small Business. Four months after the Small Business Assistance Center opened the financial crisis hit the nation. This financial crisis not only affected San Francisco's small businesses, it also affected the City and County of San Francisco's budget which resulted in the loss of staff. Responding to the needs of small business in time and resources during this time of crisis could not have been predicted.

I and the Small Business Commission appreciate the opportunity to have an audit twenty months from opening of the Small Business Assistance Center, May 19, 2008. It is a timely opportunity to review the results of fulfilling the mandate of serving small business during a time of national financial crisis and the need to complete remaining mandates of Proposition I.

Included is the Office of Small Business's responses to the Budget Analyst's recommendations, most of which OSB and OEWD agrees or partially agrees with. Also included is a list of some of OSB accomplishments. Data driven accomplishments will be available April 2010 with the semi-annual report. The Office of Small Business will submit its written response to the audit under separate cover at a later date.

Enclosures: Response to recommendations
Office of Small Business Accomplishments

c.c. Severin Campbell, Budget Analyst
Jennifer Matz, Office of Economic and Workforce Development
Commissioner Janet Clyde
Commissioner Richard Ventura



Recommendation Priority Ranking

Based on the management audit findings, the Budget Analyst has made 19 recommendations which are ranked based on priority for implementation. The definitions of priority are as follows:

- Priority 1: Priority 1 recommendations should be implemented immediately.
- Priority 2: Priority 2 recommendations should be completed, have achieved significant progress, or have a schedule for completion prior to June 30, 2010. The Office of Small Business should submit information on recommendation implementation to the Chair of the Government Audit and Oversight Committee prior to June 30, 2010.
- Priority 3: Priority 3 recommendations are longer term and should be completed, have achieved significant progress, or have a schedule for completion prior to December 15, 2010. OCA or the responsible department should submit information on recommendation implementation to the Chair of the Government Audit and Oversight Committee prior to December 15, 2010.

| | Recommendation | Priority | Department Response | Implementation Status/ Comments |
|-----|---|-----------------|----------------------------|---|
| | The Director of the Office of Small Business should work with the Small Business Commission, the Office of Economic and Workforce Development, and other City departments¹ to: | | | |
| 1.1 | As required by the Administrative Code, prepare a report analyzing existing laws, regulations, roles, procedures, and responsibilities of all City departments that impact small businesses and develop recommendations regarding the streamlining and consolidation of the City’s various departmental functions related to small businesses. As part of this process, the Office of Small Business should assess the strengths and weaknesses of the City’s current processes for helping small business. | 2 | Partially Agree | OSB to have a work scope, schedule for completion date and some progress by June 30, 2010. Completed for a presentation at GAO committee is not possible, unless additional funds are allocated to data analysis. The funding amount is not less than \$30,000. |
| 1.2 | Routinely compile and analyze Small Business Assistance Center client data to identify patterns of use and to more effectively and strategically plan and provide small business services, consistent with its program goals and objectives. At a minimum, the Office of Small Business should use client data, as well as the results of its client survey (which is discussed in Section 2 of this report), to determine the effectiveness of its functions and programs, including the various Small Business Assistance Center functions (e.g., information and referral services), as well as the Office’s small business advocacy and outreach efforts. | 1 | Agree | The Director of OSB to work with the Small Business Commission and Controller to develop a survey that will aid in planning services, program goals and objectives for OSB. |

¹ At a minimum, and as appropriate, “other City departments” include the following: Assessor, Building Inspection, Environment, Fire, Human Rights Commission, Mayor’s Office of Community Development, Office of Labor Standards, Purchasing, and Treasurer/Tax Collector.

| | Recommendation | Priority | Department Response | Implementation Status/ Comments |
|-----|--|-----------------|----------------------------|---|
| 1.3 | Incorporate more comprehensive features and information on the Office of Small Business’s website, including (a) direct link to the City’s demographic data; (b) direct links to all small business-related electronic forms, especially those that are most requested by clients; (c) a customer satisfaction survey or feedback form; (d) a section that provides information about various City programs that are available to help small business, such as graffiti removal, neighborhood market profiles, becoming more energy efficient, employment services, and others; and (e) links and tips on how to navigate City processes and bureaucracies. | 2 | Agree | OSB has designed a website to serve the needs of the SBAC. All website development is done by staff and improvements and enhancements will always be need. Therefore, item (a), the Director of OSB will work with OEWD to best determine how to provide the City’s demographic data, since a decision was made at a higher level than OSB is not to maintain SFProspector. The Director of OSB is in agreement with b – e. |
| 1.4 | Collaborate with the City’s 311 Call Center to establish a more streamlined approach to providing small business-related information to City residents and to ultimately avoid possible duplication of efforts. At a minimum, the Office of Small Business should compile all relevant information available in other City departments’ websites, including those contained in the 311 Call Center’s website, and incorporate them into the Office’s website. In addition, 311 Call Center’s website should directly provide a link to the Office of Small Business’s website and provide information on the services provided by and functions of the Small Business Assistance Center. Further, the Office of Small Business should also work with 311 Call Center staff and other relevant City staff to ensure that all small business-related information that is linked or included in its website is as up-to-date, accurate, and complete as possible. | 2 | Agree | OEWD and OSB are currently working on updating the Business tab on SFGOV homepage, which will have full integration with 311. The estimated delivery date is end of April 2010. |

| | Recommendation | Priority | Department Response | Implementation Status/ Comments |
|-----|---|-----------------|----------------------------|--|
| | The Executive Director of the Office of Small Business should: | | | |
| 2.1 | Collaborate with the Small Business Commission in reviewing and revising its list of performance measures in order to reflect a set of performance indicators that, at a minimum, (a) relate to the organization’s mission, goals and objectives developed through a strategic planning process; (b) focus on results and not processes; (c) are balanced among several types of measures, including workload, efficiency, and effectiveness; and (d) include comparisons to targets and external entities. | 1 | Partially Agree | 2.1 will be handled at the March 2010 Commission retreat. Item (b) - In the 20 months of the SBAC providing services it is very clear that process is a core function of the SBAC. Results and process are not mutually exclusive as performance indicators. |
| 2.2 | Once the list of performance measures has been revised, report by March 1 and September 1 of each year to the Mayor and Board of Supervisors on all the performance measures established. | 2 | Agree | The March 2010 report will not be done until April 30, 2010 to begin to reflect the list of performance measures. |
| 2.3 | Separately track and report to the Small Business Commission and Board of Supervisors and Mayor on the number of small businesses directly served by the Office’s case manager. | 1 | Agree | The Office of Small Business will continue to track and report. |
| 2.4 | Regularly collaborate with the Human Rights Commission to ensure that the Office regularly and systematically tracks and reports statistics on the number of small businesses obtaining City contracts and their dollar amounts. | 1 | Agree | The Director of OSB plans to include OCA. |

| | Recommendation | Priority | Department Response | Implementation Status/ Comments |
|-----|---|-----------------|----------------------------|--|
| 2.5 | At a minimum, include the following key data fields as part of its ongoing client data collection efforts: (a) types of clients receiving services (e.g., small businesses, non-profit organizations, non-small businesses, outreach event attendees, etc.); (b) relevant neighborhood and Supervisorial Districts; (c) status of the business (e.g., soon-to-be business, new business, old business); (d) number of employees; (e) type of interaction involved (e.g., walk-in, e-mail, telephone); (f) number of times the client has previously contacted the Center; and (g) how the client found out about the Center | 1 | Partially Agree | The SBAC has reviewed and revised its data collection since opening May 08. The Director partially agrees with the recommended fields. The final data fields may not include all that is listed by the BA. |
| 2.6 | In coordination with the Controller's Office, create and administer an annual survey of small businesses that use the Small Business Assistance Center, as required by the Administrative Code, to evaluate the Center's performance in serving the City's small business community | 2 | Agree | The Director of OSB to work with the Controller to establish and design a survey that will aid in planning services, program goals and objectives. |
| 2.7 | Establish and implement formal policies and procedures, including those pertaining to (a) the Small Business Assistance Center staff roles and responsibilities, (b) customer service processes, (c) client follow-up, (d) staff training requirements, (e) client data maintenance and data reliability (i.e., accuracy and completeness), and (f) departmental performance measures. | 2 | Agree | |

| | Recommendation | Priority | Department Response | Implementation Status/ Comments |
|-----|---|-----------------|----------------------------|---|
| | The Board of Supervisors should: | | | |
| 3.1 | Revise Police Code Section 2.29 to eliminate the \$7,500 one-time tax on new mobile caterer businesses. | | | |
| | The Executive Director of the Office of Small Business should: | | | |
| 3.2 | Develop a training plan, schedule, and written materials on the City’s permitting process for Treasurer/Tax Collector’s Office, Department of Public Health Environmental Health Services, Planning Department, and Department of Building Inspection staff. | 1 | Agree, if funded | OSB has begun outlining the permitting steps for various business sectors. OSB will need additional resources to develop training and resource materials. |
| 3.3 | Develop a work plan, schedule, and deliverables for the (1) the mobile caterer permit process work group, and (2) interdepartmental planning and building permit consultation team. | 1 | Agree | OSB has met with departments involved to initiate the start of developing a work plan. |
| 3.4 | Evaluate the mobile caterer permit process work group procedures in order to apply effective work group procedures to future work groups for the review of other City permit processes. | 2 | Agree | |
| | The Director of the Office of Economic and Workforce Development should: | | | |
| 3.5 | Ensure City department participation and successful follow through in (1) the interdepartmental work group to evaluate and streamline the mobile caterer permit process, and (2) interdepartmental consultation team to facilitate planning and building permits and inspections for business applicants. | 1 | Agree | |

| | Recommendation | Priority | Department Response | Implementation Status/ Comments |
|-----|--|-----------------|----------------------------|---|
| 3.6 | Make recommendations to the Board of Supervisors to revise the respective Police, Health, and other appropriate Municipal Code provisions to streamline and consolidate the mobile food caterer and push cart food vendor permitting process and associated fees or taxes prior to June 30, 2010. | 2 | Agree | |
| | The Director of the Office of Economic and Workforce Development should: | | | |
| 4.1 | Assign a consistent executive level staff member to participate actively in the new Permit Tracking System executive steering committee. | 1 | Agree | |
| 4.2 | Begin long term planning for City departments' participation in the new Permit Tracking System, including working with the Executive Director of the Office of Small Business and the Department of Technology to map the small business permitting process and identify City departments' permit system needs. | 2 | Agree, if funded | This cannot be done without additional resources. |
| 4.3 | Establish a formal work group that includes management and information technology representatives from the City departments involved in the small business permit process to identify short term solutions to interdepartmental exchange of electronic permit information, including the costs of implementing a common business identifier. | 2 | Agree, if funded | This cannot be done without additional resources. |
| 4.4 | Work with the Executive Director of the Office Small Business and the Department of Technology as appropriate to facilitate implementation of online permit application or renewal for permits pertaining to small businesses, including online payment of permit fees. | 2 | Agree, if funded | This cannot be done without additional resources. |