



**SPUR**

SAN FRANCISCO  
PLANNING + URBAN RESEARCH  
ASSOCIATION

# **ORGANIZING FOR ECONOMIC GROWTH:**

## A NEW APPROACH TO BUSINESS ATTRACTION AND RETENTION IN SAN FRANCISCO

### **SPUR REPORT**

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## ORGANIZING FOR ECONOMIC GROWTH: A NEW APPROACH TO BUSINESS ATTRACTION AND RETENTION IN SAN FRANCISCO

This paper proposes the creation of a new public-private entity to attract businesses to San Francisco and encourage them to stay here.

SPUR conducted background research on existing economic development activities in San Francisco and looked at best practices in other cities, profiling Opportunity Austin, “Enterprise Seattle,” and the Metro Denver Economic Development Corporation.

### **Based on this analysis we make the following recommendations:**

1. Use the update of the City’s Economic Strategy, which takes place every three years, to create consensus about the right organizational structure and approach to actually carrying out business formation, retention, and attraction work. Instead of just identifying strategic opportunities for growth, our Economic Strategy should propose the structure for carrying out this work and answer some of the key choices about what approaches will likely have the greatest impact.
2. Create a new, independent economic development organization. There is a need for an independent organization to carry out economic development efforts in collaboration with the public and private sectors. This organization should promote the city as it is rather than engage in attempts to influence public policy.
3. Fund this work with a stable, recurring, non-discretionary revenue stream. Economic development takes a long time. It is something that is in the long-term interests of the entire city but does not benefit any specific businesses or elected officials in a narrow way. The only way we will be able to be successful is if we set up an institution that is able to carry out work without having to go “hat in hand” for donations each year or make it through the annual appropriations process at City Hall. The goal here is to create a non-political organization that sells the virtues of San Francisco itself to help foster job creation, much in the same way that the Convention and Visitors Bureau promotes the city to stimulate tourism and convention business. We recommend a funding level approximately equivalent to \$4 per capita each year, or around \$3.2 million.

## INTRODUCTION

Economic development is one of the least understood yet most important components of a thriving city. Economic development plays an integral part in stimulating local employment and in providing a stable economic base to support local government services and projects.

Economic development sometimes takes care of itself when employers think that a community has a competitive environment in which to grow their businesses. This healthy business climate makes it easy for employers to make decisions to expand operations and hire new workers.

In many ways, economic development in San Francisco has relied heavily on its reputation as a creative city and as the urban and cultural center nearest to the world's most important and well-known innovation district – Silicon Valley. The city of San Francisco is second only to Seattle in the level of education of the workforce, and its access to employees throughout the region is very good because of many generations of investment in regional transportation infrastructure. All of these assets are balanced against widely held perceptions of a negative business climate stemming from high costs for real estate, labor, and taxes; time-consuming local permitting processes; and significant legislative oversight over business activities. These negative attributes contribute to a degree of economic uncertainty that many firms and industries are not willing to endure.

San Francisco has successfully adjusted to many economic changes in the past. During the 1960s and 1970s San Francisco's historic maritime industry relocated to Oakland. In response, the city was able to build on its historic role as the financial center and headquarter town of the west coast. Later, as many headquarter firms moved away or consolidated, the city was able to replace most of the office jobs with higher-end, specialized knowledge industry jobs. San Francisco remained a center for business and professional services (such as consulting, law, accounting and finance) and also successfully developed its tourism sector, which became the leading local industry.

Despite slow growth after 1970, the city did not experience a major job loss until the dot-com bust, when 94,000 jobs disappeared. That sudden loss of jobs was an impetus to more aggressively pursue economic development. In 2002, the Chamber of Commerce created a "Center for Economic Development" funded with donations from private businesses. Then in 2004, the voters approved a ballot measure (Proposition I) that called on the City to develop an economic strategy with updates every three years. In subsequent years, Mayor Gavin Newsom reinvigorated a dormant City economic development office, now called the "Office of Economic and Workforce Development."

But the economic development system is not yet working as it needs to. The financial model for the private sector economic development entity (the San Francisco Center for Economic Development) has not proven to be successful. The CED has never been able to secure enough funding to carry out the work that needs doing and the City's economic development and small business activities are regularly under threat of de-funding. As result, San Francisco faces a major question about how to organize and pay for economic development work.

This SPUR policy paper explores what the appropriate model should be for carrying out business formation, retention, and attraction work in San Francisco. It is concerned primarily with evaluating the appropriate organizational and funding model for a private sector entity that undertakes economic development at a citywide scale. This type of entity exists in nearly every major city in the United States.

### **The paper has five sections:**

1. Defines economic development and argues that economic development is an important activity that should receive support from both public and private sources

2. Describes the structure for economic development in San Francisco and some of the challenges that system faces
3. Discusses lessons from other cities in the United States that have organized themselves to carry out economic development
4. Explores the pros and cons of various options for structuring an independent economic development organization
5. Gives SPUR's recommendations and conclusions

After studying various alternatives, we conclude that there is one viable option: to create a standalone, public-private economic development corporation. This entity would be funded through a stable, non-discretionary revenue stream such as a surcharge on business licenses. This funding source could also provide limited revenues for public sector citywide economic development and small business activities.

## **WHY IS ECONOMIC DEVELOPMENT IMPORTANT?**

### **OUR DEFINITION OF ECONOMIC DEVELOPMENT**

Economies grow or develop in cities and regions due to a wide range of factors. These factors include the quality of the local workforce, the entrepreneurial instincts and market knowledge of business owners, the access to innovation or commercially-viable R&D, the availability of risk capital, the responsive of the public sector, the fundamentals of the quality of life (which includes diverse factors like climate, neighborhoods, public schools and open space), or even the nonstop destinations accessible from the local airport. Given this range of reasons why economies succeed, it is often hard to pin down exactly where “economic development” begins and ends.

This paper focuses on an approach to economic development that is citywide, as opposed to on the neighborhood scale, and that makes strategic decisions about allocating resources toward the most promising parts of the economy. This approach to economic development can cut across activities related to assisting the formation, retention, or attraction of firms in targeted sectors of the city's economic base (i.e. its export sectors). In particular, we are interested primarily in a set of functions whereby economic development professionals help individual companies or groups of companies move to or expand in San Francisco by helping resolve challenges they face. One set of challenges can be short-term in nature and includes overcoming specific regulatory hurdles or accessing a skilled workforce. Other challenges are longer-term strategic issues, which include the use of a major piece of real estate or developing and marketing a brand identity. These activities may support small businesses or large ones, but are focused on firms in the “basic” or “export” sector of the economy.

For San Francisco in particular, the “export sector” means selling locally developed software, art, video games, architectural designs, financial tools and other goods and services to clients beyond the boundaries of the city. From a narrow economic development standpoint, there is little difference between selling services to the East Bay and selling to a client halfway across the world. There is a key factor to maintaining economic competitiveness: having goods and services that are valuable to people in other markets.

Jim King (2000) elaborates: “Local serving businesses ... can only grow if there is a growing the income in the region and/or a growth in population, which brings with it additional wealth and expands the labor force. In contrast, some firms sell most of their goods and services outside the region. These firms are called export businesses. ... The distinction is important because local

serving businesses do not bring additional wealth into the region. Only export businesses bring in new wealth.”<sup>1</sup>

This point is particularly important in the context of San Francisco because it explains why orienting economic development policy toward export-oriented businesses is crucial for the growth and prosperity of a city.

## **WHAT TYPES OF ECONOMIC DEVELOPMENT THIS PAPER DOES NOT ADDRESS**

This paper is not focused on economic development efforts aimed at filling vacant storefronts in neighborhoods, providing technical assistance in business planning or helping secure loans for aspiring small business owners. Those are important activities for the city’s economy. But they are different in focus and function from efforts to grow the “basic” or “export” sector of the economy, which is what brings wealth into our community from other places. The difference between the two approaches is primarily one of scale. The first approach can be done at the company or neighborhood level and can be duplicated by many different organizations. The second approach is necessarily done at a citywide level (if not an even larger scale) to ensure a unified strategic approach.

This paper is also not focused on workforce development as a specific activity. While having an effective workforce development system is a core part of economic development, this must be the subject of a different white paper.

## **A RESPONSE TO CRITICS OF ECONOMIC DEVELOPMENT**

Some people in San Francisco are critical of an approach to economic development that focuses on the city’s leading export industries (i.e., its economic base). Firms in these industries often pay higher wages or require a higher level of education among their workforce than citywide averages. Critics suggest that this approach to economic development ignores the economic challenges facing low-income residents or neighborhoods. They are wrong.

The whole point of helping the economic base is to make sure that the city has a healthy economy to begin with. It is the spending by the economic base that creates the demand for the neighborhood-serving businesses that are the bulk of total employment.

If there are no export-oriented firms that sell beyond the city, the economy will decline. Consider the situation in Detroit with the demise of the auto industry. It was never replaced with another export-oriented activity. Fortunately for San Francisco, after the decline of maritime and manufacturing, job-rich professional services, law, tourism – and more recently, software, IT, medical care and biotech – replaced these industries.

Medium to large firms have created the bulk of the jobs for a wide range of occupations and skill levels – particularly for the 50 percent of adults without college degrees. The goal of focusing on start-ups in export industries is to help those companies grow and remain in San Francisco so that one day they will provide significant levels of employment. Most of the leading employers in San Francisco began in San Francisco as tiny startup firms.

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<sup>1</sup> King, Jim. 2000. “Directions of the New Economy”. Sacramento Community Colleges, Economic Development Program.

Thus, focusing on the economic base is key to a successful economy and must be the core of an economic development strategy.

Therefore the subject of this paper is not whether we should pursue economic development that supports the city's economic base, but how.

## **WHY WE FOCUS ON A PRIVATE SECTOR ECONOMIC DEVELOPMENT ENTITY**

It could be argued that the appropriate answer to the question of how to do better economic development in San Francisco is to strengthen and expand the public sector Office of Economic and Workforce Development to be a public led economic development entity.

There are some advantages to this approach. Many of the economic development issues in San Francisco inevitably fall back to public policy needs or concerns. For example, if a business requests help in its efforts to expand or relocate, it is likely because it needs something only the local government can provide (permit assistance, new infrastructure, a change to zoning, etc.). As a result, there must be people within the local government who can provide that role to the business sector, as only a public sector economic development office has these connections.

In addition, effective public sector economic development programs reinforce the message that the local community is supportive of economic growth. This is particularly true for business attraction efforts. Public sector support can change the perception of a city's "business climate" and can, in turn, attract more investment. For example, a company may choose to relocate based on past interactions with public sector representatives as they will have faith that future issues with the government will be successfully resolved. Public sector economic development also benefits from access to the bully pulpit of the mayor—something that is helpful with overall marketing efforts.

But there are also some drawbacks to an exclusive public sector program. First, a public economic development entity will be subject to civil service and contracting rules that will slow efforts to manage staff or act quickly to respond to leads. Second, local government fiscal constraints and deliberative budgeting process means it is not likely possible to fund trips to and booths at trade shows or to gather funds for major industry-specific marketing campaigns. Third, reliance on the City's General Fund to pay for staff resources creates a level of financial instability due to the annual budget appropriation process. Even with a two-year budget cycle, competing with other worthy services is a challenge given that economic development efforts often have longer-term impacts, unless a dedicated funding source is identified.

Finally, public sector economic development is often tied to the political interests of the mayor. The strategic focus of economic development work will shift with each administration (and perhaps more often). One of the primary challenges all local communities face is how to develop a longer-term strategy that cuts across mayoral administrations.

Ultimately, the question about the public sector role in economic development is not about a choice between a public and private sector entity but instead how the two will work together. Having staff members representing both the public and private sectors provides a wider range of options when working with employers.

### **Private entities are better able to provide several economic development functions:**

- Engage and convene the business community on major efforts. For example, in the city effort to secure the statewide Center for Regenerative Medicine (the stem cell institute) the private center

was able to secure pro bono support from the business community for various aspects of the package. The pro bono support ranged from free rent to architecture, design and marketing. While members of the City staff could also have organized such pro bono efforts, this is often easier done when requested by the private sector.

- Fundraise for marketing and business attraction campaigns. For example, it is costly to attend major trade fairs and conferences. In addition to travel costs there are costs to put together booths and develop marketing material to hand out to prospective employers. While some argue about the efficacy of such efforts, it is likely that these will never be funded from the public purse and will require private monies for there to be a San Francisco presence.
- Meet regularly with groups of local firms. This could be done by industry cluster or by lifecycle (i.e. fast-growing firms with space needs between 20,000 and 50,000 square feet). One major advantage for private sector leadership in this effort is to ensure that the discussion does not always devolve to regulatory or policy problems. When the government leads the discussion, it is too tempting and easy to only focus on the areas that the government has the authority to fix. Yet much of economic development requires private sector collaboration irrespective of policy change.

## WHAT IS THE CURRENT SYSTEM OF ECONOMIC DEVELOPMENT IN SAN FRANCISCO?

There have been several publicly focused economic development efforts throughout the recent history of San Francisco,<sup>2</sup> including the 2004 passage of Proposition I that required the City to write an economic development plan to be updated every three years.

The first version of that report was written and finalized in 2007, but was never adopted as official City policy. Nevertheless, it is the working document used by the City's Office of Economic and Workforce Development. The OEWD's mission is to "support the ongoing economic vitality of San Francisco." It does this through business assistance (including industry-specific programs), neighborhood commercial revitalization, international business and development, workforce development, and shepherding major development projects.

The report, called the San Francisco Economic Strategy, describes the economic challenges and opportunities for the city. It makes the case for focusing on the economic drivers and for reducing disparity by expanding job opportunities for those without a college degree. The strategy also focuses on preserving and enhancing small businesses, creating job opportunities for disabled and vulnerable populations, and growing the City's tax base. Specifically, Proposition I directed the strategy to focus on

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<sup>2</sup> For example, the City previously supported a program called "SFbiz info". Sfbizinfo.org was created during the Brown administration to serve as a virtual one-stop shop for business assistance. The website was co-managed by the Treasurer and Tax Collector's Office, along with what was then the Mayor's Office of Economic Development. The SFbiz info phone line was staffed by trained personnel who are dedicated to coordinating information and responding to business needs. In addition, www.sfbiz.org and a hotline were established to provide an online tool for business leaders to find answers to their questions and concerns. However, the website was not maintained, and by the start of the Newsom administration, the content was incomplete and outdated. The site was taken off-line in 2006. Its functions have now been replaced by the 311 line and the Small Business Assistance Center.

identifying and developing industries that have the potential to create jobs that align with the skills and education of San Francisco's residents.

The strategy has a series of recommendations but does not describe in detail the responsibilities of each economic development organization in implementing the plan. Further, while supported by many private sector entities, the strategy process that led to the report was largely driven by the public sector. As a result, it did not lead to any major new economic development efforts financed by the private sector.

Recently, there has been the launch of a new initiative that is supported by both the public and private sectors – ChinaSF. Because of requirements of the Chinese partners, the effort is housed at the San Francisco Center for Economic Development, not the City.

## **WHAT IS THE PRIVATE SECTOR ROLE IN ECONOMIC DEVELOPMENT?**

There is only one citywide private sector economic development entity in San Francisco, the Center for Economic Development. Housed at the San Francisco Chamber of Commerce, the CED is the economic development arm of the chamber that is functionally integrated with but financially independent of the chamber. That is, the CED reports to the chief executive officer of the chamber and the chamber's board of directors, and also participates in staff meetings of the chamber, but it must pay rent and fees directly to the chamber (approximately \$50,000 per year) and do all its own fundraising.

The Center for Economic Development emerged out of the economic challenges after the dot-com bust and the adverse impact on the tourism industry from the Sept. 11 attacks. In 2002 alone, San Francisco lost 60,000 jobs.

At that time, the main private entity involved in economic development was the San Francisco Partnership. The Partnership was a 501(c)(3) nonprofit with a board that included City officials, CEOs of private companies, and leaders of other nongovernmental business organizations. With the dot-com collapse and growing dissent among funders of the partnership, there was interest in establishing a new economic development entity that did not compete with existing organizations. In short, the critique of the Partnership was that it had serious "mission creep" and was engaged more in lobbying efforts than economic development. Ultimately, key funders of the Partnership pulled out and the organization dissolved.

Initially, the remaining funds from the San Francisco Partnership (approximately \$1.5 million) were given to the Committee on Jobs who then paid them out to the Chamber of Commerce to establish a "Center for Economic Development". After several years when this money ran out, chamber leadership decided to pursue a different fundraising model for the CED.

The Chamber hired consulting firm NCDS to conduct a study about how to structure the funding for an economic development entity. Based on the study, the Chamber and CED staff approached investors who made a four-year commitment to the CED "subject to annual review and approval". The value proposition to investors was that the CED would help create over 16,000 jobs over four years in San Francisco (between 2004 and 2008).

The proposed model of the CED relied on the Chamber to subsidize cost of operations and the ability to attract outside investors. As of Spring 2009, the CED had 48 investors. Of these investors, 15 percent of investors do not hold membership in both the Chamber and the CED.

The CED focuses primarily on business attraction and retention efforts and has identified biotechnology/life sciences, environmental technology, digital media and entertainment, information technology, professional and international services as the greatest industry growth prospects for the

region. The CED provides outreach to its investors through annual reports, semi-annual investor meetings and monthly newsletters.

## CHALLENGES OF THE CURRENT MODEL

The CED has some elements reflective of best practices in structuring private sector economic development entities. It is co-located with the Chamber and thus in theory can be fully integrated with its operations. It has access to investors that are distinct from the Chamber's members and from whom it seeks multiyear funding. However, it has not been successful at capturing sufficient funds throughout the years and remains under-funded.

CED staff must commit significant time and resources to fundraising at the expense of business retention and or attraction work. This in turn affects fundraising as some of the investors have a hard time identifying their return on investment.

This challenge often afflicts economic development efforts that receive insufficient financial support. By its nature, economic development is a longer-term activity that is harder to measure than lobbying or political efforts. While funders may expect immediate results, the impact of successful economic development plays out over time as a series of business investment and hiring decisions by firms. Some of the funders never directly interact with any economic development professionals and must rely on the CED website with data on the San Francisco economy.

## WHAT CAN WE LEARN FROM OTHER CITIES AND REGIONS?

To determine what might work best for San Francisco, we explored economic development organizations in several places. The cities were chosen because they offered something specific to San Francisco. We chose to analyze Enterprise Seattle because it is a county-level organization in a metropolitan area where the central city has a relatively small share of the overall regional economy (similar to San Francisco and the Bay Area). In addition, Enterprise Seattle is an independent group physically housed within the Chamber of Commerce, – **a situation similar to that of the San Francisco Center for Economic Development.**” We chose to also look at Austin and Denver because both have robust economic development programs. While their geographic scope is regional, they have succeeded in fully integrating economic development into a chamber of commerce and in raising significant funds for implementing economic development.

Finally, we explored the economic development entities in neighboring parts of the Bay Area – the subregional groups East Bay Economic Development Alliance and Joint Venture Silicon Valley, as well as the Oakland Chamber of Commerce and the San Jose Silicon Valley Chamber of Commerce.

**For each city and its economic development entity, we analyzed several issues:**

- **Scope/geography:** Where do they work? Are they city-focused? Regionally-focused?
- **History:** How were they formed? What were the economic and organizational conditions that led to their formation? Was there a collaborative strategy to define their structure?
- **Structure:** How are they organized and governed? Are they part of the local chamber of commerce or are they independent? What legal corporate forms do they use? Do they have

members? Are those members the same as the chamber's? Who is on their boards? Who makes the decisions?

- **Functions/responsibilities:** What do they do?
  - Publish economic studies of industries
  - Organize and carry out marketing campaigns
  - Conduct direct contact with businesses in a specific industryWhat is their focus of economic development (formation, retention, attraction or clusters)? How do they balance reactive vs. proactive strategies? What special powers do they have, if any? (This is usually the case only if the organization is quasi-public.)
  - Low cost financing
  - Tax exempt bondsHow is the staff organized? By industry specialization or by economic development function?
- **Funding:** How do they pay for themselves? What funding options are available to these groups?
  - Chamber membership dues
  - Independent funding from several big firms that make a multiyear commitment
  - Public sector funding

## LESSONS LEARNED

Based on the reviews of these cities and their economic development organizations, some key best practices emerged:<sup>3</sup>

- **Build from a strategy:** The most effective economic development organizations operate with a strategy that was developed with high-level support from the business community. A strategy can define a focus on a particular industry as well as a focus on businesses with certain other characteristics (such as a focus on helping the fast-growing firms stay in town). Those strategies often identify specific implementation projects (such as establishing a business retention program focused on firms that are growing 10 percent a year and are getting close to 15 to 20 staff people, since these are the types of firms most likely to move out). With specific programs identified, key business leaders are able to fundraise for implementation. The value proposition to businesses that contribute to these efforts is that they are paying for implementing a specific economic development strategy with clear metrics and quarterly reporting. In the case of Austin, the money raised then supports staff at the Austin Chamber of Commerce. **(See Opportunity Austin in Appendix A as an example.)**
- **Enlist key respected business leaders to engage others:** The best strategies are those that have a respected business leader as the initial advocate. That advocate then inspires other business and government leaders to support the strategy. For example, Austin found a leader at a title company who got other firms to give seed money for an initial economic development strategy. That strategy included specific metrics for each goal and a price tag (i.e. a return on investment target for the strategy's implementation). With that information, key business leaders solicited their peers to support the five-year implementation of "Opportunity Austin." They raised

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<sup>3</sup> See the appendices for longer case studies of each city.

over \$10 million. Opportunity Austin, a registered 501(c)(6) organization, now contracts its services to the chamber to implement. They are now fundraising for the next five years with a goal of raising \$22 million.

- **Maintain economic development as core function of a chamber:** Economic development is typically a core function of chambers of commerce. Many of the most successful chambers typically have three main functions: economic development, membership services and public policy. The rest of the chamber’s operations partly subsidize each branch.
- **Share results of economic development with general business networking functions of a chamber:** Good economic development efforts at chambers of commerce (particularly business retention and expansion programs) provide information and intelligence to support other functions of a chamber. For example, if the business retention staff is meeting annually with the top 400 employers in the economy, the information the staff gathers reinforces other efforts done by the chamber and creates staffing efficiencies.
- **Make use of economic crisis to build consensus for new model:** Most successful economic development entities across the United States emerge out of a time of economic crisis for the local community: for example, the loss of a major employer, or a recession that forces the chamber to restructure. That crisis provides the opportunity to forge consensus on the way forward and makes it much easier to raise money for a shared strategy.

To review the specific case studies for Austin, Seattle, and Denver, see the appendices.

## OPTIONS FOR STRUCTURING ECONOMIC DEVELOPMENT WORK

The following section discusses the advantages and disadvantages of different options for an economic development entity and provides the SPUR recommendation for the most likely best-case model.

Below are several tables summarizing the various organizational options for structuring an economic development organization in San Francisco. Most of the options described below are interchangeable with each other under various versions of an “ideal” model. Following the tables, we explore the pros and cons of each option.

**Issue A: Governance**

Question	Independent	Co-located with chamber	Fully integrated with chamber
<b>Where is it located? How is it organized?</b>	New, fully independent organization. No integration with any one group, but close ties to many.	Physically located within the chamber offices but structurally an independent organization. Might or might not use the chamber’s 501(c)(3) foundation as its “fiscal sponsor.”	Operates as one of the departments of the chamber. Fully integrated into their operations.
<b>Who makes decisions? To what is it accountable?</b>	Staff and the board to which they are accountable make decisions. Board represents public and private interests, and leaders of other existing business groups.	Have a director and a board of directors who are the investors. Accountable to those directors. Chamber has no direct oversight but will have lots of daily interaction, will coordinate on strategy and will likely have some overlapping board members.	Economic development entity has a director but is accountable to the chamber CEO and the board of the chamber.

**Issue B: Funding**

Question	Dedicated public source	Investments from major donors	Funded by chamber of commerce
<b>Who pays for it?</b>	Funded through a recurring, non-discretionary source such as a surcharge on business licenses or a citywide business improvement district.	Secure multiyear commitments from major investors.	Receives integrated funding with chamber, and from a portion of the chamber of commerce membership dues. Could also have outside funders who pay into the foundation. Still, this model is based on the chamber treating this entity as one of its core lines of business.

**Issue C: Focus and Staffing**

Question	General business retention and attraction-focused	Industry cluster-focused
<b>What does it do?</b>	Focus is primarily business retention of existing companies with some attraction efforts as firms make requests to relocate to the city. Uses a database service to track retention visits to companies and share that information.	Focuses on industry clusters. Provide full range of services from new business formation to retention/expansion and attraction.
<b>How is it staffed?</b>	Staffed by economic development generalists who are each business development managers. At least one staff person is primarily a data person.	Staffed by industry-cluster specialists. Each person is an expert on issues and needs of that cluster and industries within that cluster. Each cluster may have different strategies for attraction and retention, among other issues.

## ISSUE A: GOVERNANCE

### Where is it located, how is it organized and who makes the decisions?

A number of questions arise when considering the governance of any new economic development organization for San Francisco. Should this new entity be independent or co-located with or integrated into an existing organization? What is its relationship to existing economic development and business organizations? Who should be on its board or make decisions about its focus?

There are a series of options that range from a fully independent organization to one that is fully integrated into the chamber of commerce.

### OPTION 1. CREATE A NEW AND INDEPENDENT ECONOMIC DEVELOPMENT ORGANIZATION.

This entity would be modeled after other organizations in the region, such as the East Bay Economic Development Alliance or the San Mateo County Economic Development Association. It could have a board of directors composed people from both the public and private sectors that would guide its decisions. It would serve as a direct interface between the private and public sector economic development efforts, ensuring complete coordination. Under this model, some of the duties performed by the staff of the City economic development effort (particularly cluster building efforts) could be shifted to this new organization.

To make this model successful, it would be crucial for the organization to avoid efforts to change public policy. If it could keep out of public policy, it could continue to be regarded as non-political entity. This would remain a challenge.

#### PROS

##### Advantages of the independent model:

- Given the lack of overall support for economic development in San Francisco, a new independent entity would be able to start its efforts without any prior political baggage and have the greatest amount of neutrality. This is likely necessary for gaining general political support for economic development efforts.
- An independent entity is not politically affiliated with the San Francisco Chamber of Commerce or elected officials. This insulates the entity from accusations that it is focused on a specific political agenda.
- An independent entity could act quickly and efficiently to attend trade fairs, set up marketing campaigns and engage in other business attraction efforts. This is because an independent entity is solely focused on economic development and best able to set priorities among various efforts to achieve economic development outcomes.
- This approach is consistent with other organizations in the Bay Area, such as the East Bay Economic Development Alliance.

#### CONS

- Drawbacks of the independent model:
- This entity would require an entirely new source of funding. It seems unlikely that a new entity would be able to secure long-term philanthropic funding in San Francisco. Many funders of

business organizations argue that there is already an over saturation of business organizations in the city, and they would not likely write a check to fund a new one. It would require a dedicated, non-discretionary funding source, such as a surcharge on business licenses or a business improvement district.

- It is possible that a new independent organization could experience “mission creep” over time. This means that although the organization would be designed to focus specifically on business retention and attraction, it could easily wade into public policy debates. Once this happens, the new economic development entity would be in direct competition with the other existing business organizations and would not be viewed by City officials as a politically neutral agency concerned only with attracting and retaining new businesses.
- Effective economic development requires collaboration and close connection among people doing similar work for business. Under this option, the structural independence from existing organizations may result in the new entity pursuing work that is not aligned with the efforts of other business groups. It is a management challenge within any organization to share work plans among its own staff, and it is harder still if those groups are independent from each other.

## **OPTION 2. ALLOW THE ECONOMIC DEVELOPMENT ENTITY TO SHARE OFFICE SPACE WITH THE SAN FRANCISCO CHAMBER OF COMMERCE, BUT MAINTAIN IT AS A FUNCTIONALLY INDEPENDENT ENTITY.**

This option is closest to the current model of the Center for Economic Development. The CED functions as the economic development effort of the San Francisco Chamber of Commerce and operates from within the Chamber’s offices. However, it has separate staff, organizational identity, web site, investors and advisers. It is also financially independent from the Chamber. The co-location model allows staff of the Chamber and the economic development entity to meet regularly to coordinate.

### **PROS**

#### **Benefits of the co-location model include:**

- Co-location allows for the sharing of information and the coordination of efforts between the economic development entity and the Chamber of Commerce. For example, if the economic development entity is planning to host a visit for clean energy firms looking to invest in San Francisco, they could coordinate with the Chamber to ensure that someone from the Chamber is available to talk about local policy issues and incentives.
- Some businesses are willing to support economic development but are not necessarily interested in being members of the Chamber of Commerce. For example, 15 percent of the funders of the CED are not Chamber members. Some of these firms are interested in supporting citywide economic development but do not agree with all the policy views of the Chamber. This suggests that an independent yet closely connected economic development entity can access a pool of funders that is distinct from the Chamber.
- Independence from the Chamber of Commerce insulates the economic development entity from the political efforts of the broader business community. The hope is that this would allow the economic development entity to effectively collaborate with the City staff without being accused of promoting a policy agenda not shared by the entire City government.
- Co-location allows for the sharing of resources between the Chamber and the economic development organization. For instance, the economic development entity can access the

Chamber's general administrative services, such as shared common spaces, boardrooms and meeting rooms, computer hardware and repair, and office supplies, as well as legal, accounting, auditing and other professional services.

- Many foreign businesses, consuls and trade associations expect local economic development activities to be conducted from the offices of the Chamber of Commerce.

## **CONS**

### **Drawbacks of the co-location model:**

- Co-location with functional independence removes economic development as a core concern of the Chamber of Commerce. That, in turn, reduces the incentive for the Chamber (or other business groups) to frame their policy issues around long-term economic development (as opposed to shorter term arguments about the immediate impact on existing firms).
- This model treats economic development as a funding source for the Chamber, not as one of its duties. It makes it much more difficult for the Chamber to ever make its economic development efforts a high priority. This means that the Chamber is less likely to communicate economic development issues to its members or marshal its public policy efforts to economic development priorities.
- This puts the Chamber in competition with the economic development entity for membership dollars, which further reduces the incentive for the two organizations to collaborate and support one another.
- This model works best in cities with clear economic development strategies that have defined the roles for the various business organizations and created consensus on the part of the business community for those roles. San Francisco does not yet possess this clarity.
- Whatever the theoretical merits of this model, its long-term feasibility has been disproven by the experience of the CED, which has not been able to attract sufficient funding to carry out its mission. It appears that the businesses in San Francisco may be willing to fund the start up of a new entity but not continue writing checks indefinitely to support it.

## **OPTION 3. INTEGRATE AN ECONOMIC DEVELOPMENT ENTITY WITHIN THE SAN FRANCISCO CHAMBER OF COMMERCE AS PART OF ITS CORE MISSION AND ONE OF ITS MAIN FUNCTIONS.**

This concept would create an Economic Development branch as one of the four main functions of the Chamber of Commerce in addition to Public Policy, Membership and Marketing/Events.) The model is similar to the models in many other cities. Even within this structure there are a range of organizational types – from total integration to having the appearance of two separate organizations. This model also recognizes that economic development often has direct public policy concerns, however, it treats those functions as separate in order for the economic development staff to frame issues from a longer-term perspective on the economy.

Many Chambers with this type of system have a robust business retention program in which economic development staff makes outreach calls to groups of businesses on a regular basis. For example, they may choose to meet with all companies that have at least 15 employees but are growing quickly. The information they hear from these companies could then be entered into a database that is shared with the Chamber's policy and membership arms. These organized types of outreach programs are possible only

using an economic development approach, as they are not based on who is or is not a member of the Chamber. Rather, these programs focus on what types of firms or industries are most important to an economic growth strategy.

## **PROS**

### **Benefits of the integration model include:**

- The stated mission of the San Francisco Chamber of Commerce is “to attract, develop and retain business.” This is the basis of economic development. As such, it would be appropriate for the Chamber to make economic development part of its core activities and fund it as one of its main functions. Economic development would complement the Chamber’s other core functions, such as public policy, and membership and operations.
- The Chamber’s membership and funding base reflects the broadest cross-section of the city’s economy. Therefore, it has the strongest connection with the business community to act in its long-term interests to expand jobs and investment through business formation, retention and attraction.
- In a city with a lot of existing business organizations, this would avoid having to create a new one.

## **CONS**

### **Drawbacks of the integration model include:**

- The Chamber’s policy work would hamper the efforts of the economic development staff. To the degree that the Chamber wants to serve as the political voice of the business community, it will not be viewed as a neutral entity by other interest groups or the elected leaders that are tied to those other groups. More importantly, serving as the political voice for the business sector by necessity requires a focus on immediate legislative or political issues affecting business. This might run counter to the long-term focus required for economic development.
- There is a real conflict in messaging between protesting public policies that are bad for business, on the one hand, and selling the virtues of San Francisco, on the other. The economic development entity needs to “sell” San Francisco, as it is, and be positive about the virtues of the city in its messaging and outlook.
- There may be an inherent tension in the business retention issues for established firms and the long-term goals of building the next generation’s economy in San Francisco. On one hand, some businesses in San Francisco might be principally focused on the cost of business for a specific industry. On the other hand, the long-term economic development needs of the City may dictate a focus on making investments in new infrastructure to attract a new cluster of firms. But that may inevitably push some existing firms out. Those firms might be members of the Chamber who are more interested in maintaining low costs for existing operations.
- The Chamber has many activities and programs to fund – from public policy to business networking. If its basic functions were expanded to include funding economic development, some other important activity would need to be cut. Said another way, it is not at all clear where the extra money to pay for serious business attraction and retention work would come from in this model.
- There are some businesses that may want to support economic development but do not want to support the Chamber. By forcing the economic development efforts under the Chamber, it might eliminate some potential funders who do not agree with the Chamber’s political positions.

## ISSUE B: FUNDING

### WHO PAYS FOR IT?

Ongoing financing for economic development is a challenge for economic development. Issues include: Does the entity have an independent source of funding or does it receive funding or subsidies from an existing group like the Chamber? Is the funding annual or multi-year? Is it a stable and permanent source of funding? How contingent is the funding on changes in local politics? Is the funding reliant on a few large contributions or many smaller ones?

The question here is how to pay for economic development given that there will always be many pressing local needs, and how to maintain a focus on economic development through the inevitable ups and downs of the economic cycle.

Based on discussions with other communities, San Francisco should pursue a funding model that provides at least \$4 per capita each year. In other words, annual support for public/private economic development should be at least \$3.2 million.

The options for financing range from full public funding to full private funding that is built into a standard Chamber of Commerce membership. There are advantages and disadvantages to each option that are identified below.

### **OPTION 1: RECEIVE PUBLIC FUNDING FROM A DEDICATED PUBLIC SOURCE SUCH AS A SURCHARGE ON THE BUSINESS LICENSE FEE OR A CITYWIDE BUSINESS IMPROVEMENT DISTRICT.**

San Francisco charges an annual business license fee of between \$25 and \$500 for all registered businesses in the city. For most, the business license fee is a nominal expense. A firm needs over \$3.3 million in payroll to reach the \$500 annual fee. This low business license fee is in sharp contrast to the 1.5 percent payroll tax for firms with greater than \$250,000 in payroll. One option to raise revenue for a citywide economic development organization would be to impose a modest surcharge on the business license fee. For example, there are approximately 80,000 business licenses issued in San Francisco. A staggered increase depending on business size, from \$15 to \$300, would raise \$3.7 million. Since such a change to the business license fee is considered a tax, it could only be enacted by a vote of the people.

Another “public” funding option is to create a special type of community benefit district or business improvement district. The district would make an assessment on properties to pay for the services of managing a public-private economic development organization. Such districts are established by the vote of a majority of property owners, and sometimes businesses. After this vote, the Board of Supervisors must approve any such district. The geography of this special-purpose BID or CBD would be citywide, ideally. If it were citywide it could be assessed on every commercially zoned property in the city. This would include everything from downtown commercial to light industrial to neighborhood commercial districts. If the geography of the BID or CBD were not citywide, it could focus more narrowly on the downtown and South of Market areas. This model is similar to what is being proposed for the city’s eastern neighborhoods, where all property owners in a particular area will help fund an economic development organization with a much broader approach to economic development than the standard community benefits district. But it differs from the more traditional CBDs, which focus more on

replicating and enhancing basic services provided by government (such as street cleaning and security, as well as signage).

## **PROS**

### **Benefits of the public funding model:**

- Both the business license surcharge and the special-purpose business improvement district are paid for by private businesses, but they are not subject to the vagaries of the annual City budget process or annual fundraising for voluntary donations. That means these funding models are likely to be as stable and predictable as possible. No economic development effort in San Francisco has had such a guaranteed source of funds before.
- The model is not in direct competition with other worthy public services or other membership-based non-governmental organizations.
- Because economic development benefits everyone in a place (because more jobs means more job opportunities and more revenues means more or better services), the public funding model reduces the free rider problem that results from a narrow list of funders.
- Business license fees are extremely low in San Francisco relative to surrounding communities, so a small surcharge would not have a negative impact on the city's business climate.<sup>4</sup>

## **CONS**

### **Drawbacks of the public model:**

- Securing an increase in the business license fee would require a vote of the public and annual appropriation by the Board of Supervisors. A risk is that the funding source could be used as a tool in political fights. For example, it could set up a potential conflict among businesses of differing sizes and industries: While growth of the overall economy benefits all businesses, it is unlikely that the public-private economic development entity would be engaged in work that has any immediate or direct impact on the majority of business establishments. This will be particularly evident if the new entity is focused on emerging industries such as digital media, clean energy, green architecture and buildings, and biotech. Neighborhood bookstores, nurseries, hardware stores and many others will not perceive efforts to help emerging export-oriented firms with their business as beneficial to their own interests, and could openly challenge the legitimacy of the new entity. They might even force a political concession in which the new entity must devote a portion of its time to local-serving businesses, and thus dilute the benefits of a strategic approach to economic development.
- Accepting public funds could open the organization up to political scrutiny. It could be counterproductive for the staff of the economic development effort to testify at Board of Supervisors hearings on their activities if this creates the perception that businesses thinking of moving to San Francisco could have their names revealed to the press in the areas where they have been doing business.
- It could be difficult to win a citywide election for a BID or CBD. Many businesses and property owners may not have an interest in economic development. Making the connection between growing the economic base and the benefits this provides to neighborhood businesses will be a tough sell. Given that other CBDs already exist in San Francisco, current property owning

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<sup>4</sup> See SPUR analysis at: <http://spur.org/publications/library/article/moreworklesswaste09012008>

members of CBDs would have to pay a double assessment. This might limit the likelihood of success for efforts to create a new district.

## **OPTION 2: SECURE INVESTMENT FROM MAJOR FUNDERS FOR MULTIYEAR FUNDING.**

This option would involve several large contributors making a commitment to fund the effort over four to five years during a start-up phase, while being willing to renew and expand these commitments if the organization is successful. This could happen even if the entity is fully integrated with the Chamber, but is more likely if it is separate. Successful fundraising efforts using this model put the business leaders themselves in the lead on the fundraising, rather than relying on the staff of the economic development entity to ask for money. Often, requests for funding by peers within an industry are the best way to secure support. For example, the economic development strategy in Austin raised more than \$14 million in one year using this approach. Even if San Francisco raised half that amount, it would be an improvement on the current system.

While the model assessed here is conceived of as being entirely reliant on the high level funding from a small group of funders, this approach could also be combined with a public funding source.

### **PROS**

#### **Benefits of the investor model:**

- By focusing on fewer funders, this model does not require the staff to spend as much effort on fundraising. This is in contrast to the membership and events model that requires a significant outlay of time and effort by the staff of an organization, simply to produce the events and maintain contact with a wide range of members.
- The more that economic development is tied to a group of investors, the more it requires the economic development effort to be transparent about its efforts and make the case that it is providing value. This is a good discipline for any organization, particularly one that purports to help economic growth.

### **CONS**

#### **Drawbacks of the investor model:**

- Focusing on fewer investors means the organization is both more beholden to a smaller group of stakeholders and lacks a diversified funding stream.
- Even with multiyear funding, most funders will make a commitment subject to annual review. That means that the loss of several large investors could pose serious financial concerns for the organization.
- It is a truism of fund raising that it is much easier to raise money to start something new than to sustain something over the long haul. Donors lose excitement and tend to want to move on to the next project over time. Given that economic development is an ongoing need, it is in some ways not well matched to the model of philanthropy by major investors.
- Given the fundraising difficulties of the Center for Economic Development, it appears clear that businesses in San Francisco are not willing to make voluntary contributions of a significant amount to pay for economic development. In short, there is some strong evidence that this approach simply will not work, in spite of its apparent advantages on paper.

### **OPTION 3: BECOME EMBEDDED WITHIN THE CHAMBER OF COMMERCE AND FULLY SUBSIDIZED BY THE CHAMBER'S MEMBERSHIP SYSTEM.**

This option requires the San Francisco Chamber of Commerce to effectively take over the Center for Economic Development and restructure its organization so that the CED's economic development director reports directly to the Chamber's chief executive officer. It would also require the existing Chamber members to fund the economic development effort. For example, there could be a check off on the membership form to support economic development. Such a check off may not provide the totality of the funding for economic development. This suggests that the Chamber would have to subsidize the economic development efforts from within its existing operational budget.

#### **PROS**

##### **Benefits of the Chamber membership-financing model:**

- Many chambers of commerce throughout the United States have made economic development efforts part of their core mission. Some communities put far greater support into economic development than other activities, such as events or public policy.
- Economic development efforts provide outreach that supports Chamber membership goals. But only financial integration allows for this to be realized. Without financial integration, the economic development entity has no incentive to cross-sell Chamber membership to the targets of its business attraction or retention efforts.

#### **CONS**

##### **Drawbacks of the Chamber membership-financing model:**

- There are some funders or investors that will want to support economic development but may not want to be a part of the Chamber. Currently, 15 percent of the CED's investors are not Chamber members.
- The CED provides approximately \$50,000 annually in funding to the Chamber. This covers costs including rent (\$30,000), professional services (about \$10,000) and equipment (about \$10,000s). If economic development activities were a central responsibility of the Chamber, it would have to raise funds to cover these costs and staff costs. It is not clear that the Chamber can increase its budget sufficiently to support an increase in economic development.
- Full integration into the Chamber reduces the incentive for economic development efforts to provide support for firms that are not already Chamber members. This not only could hurt economic development goals, but also could harm the Chamber's reputation if it is perceived as playing favorites in economic development.

## **ISSUE C: FOCUS AND STAFFING**

### **WHAT DOES AN ECONOMIC DEVELOPMENT ORGANIZATION DO, AND HOW IS IT STAFFED?**

The third issue revolves around what the economic development entity does. What is its focus on the continuum of business formation, retention and attraction? Does it have industry specific initiatives?

What are the marketing efforts – regionally, nationally or internationally? What is the presence at trade shows? How does it get involved with issues of local or state policy?

The available options are not mutually exclusive. With sufficient funding, an economic development entity could focus on all of them. Nonetheless, given the differences in the skill sets these options require from an organization’s staff, most economic development organizations tend to choose to either have staff members who are business development generalists or ones who are more knowledgeable about specific industries.

### **OPTION 1: HAVE GENERALIST STAFF FOCUSED PRIMARILY ON BUSINESS RETENTION AND EXPANSION, AND TO A LESSEr EXTENT ON BUSINESS ATTRACTION.**

This option suggests that staff members should be generalists in economic development rather than cluster specialists. This means that the focus of their work should be on meeting directly with existing firms to learn about their challenges and needs. Sometimes the needs require better communication with city agencies, and sometimes they require better communication with related companies. Either way, this type of economic development work is called “business retention.” A business retention effort could be organized into an outreach program to firms by size or growth rate (that is, the largest 50 employers or the fastest-growing firms with less than 100 employees).

The generalist staff could also focus on “business attraction.” A business attraction focus includes both reactive work that responds to requests from companies seeking information, and proactive work that goes out to attract companies across different industries. This type of effort includes staffing calls as they come in and maintaining a web site with the opportunity to tailor data for specific industries. It also involves attending conferences and trade fairs.

The staff duties in an organization operating under this model would be divided into either retention or attraction.

#### **PROS**

##### **Benefits of the generalist approach:**

- If industries and clusters are regional, then a city-based economic development focus can never effectively engage with that cluster on its own. Therefore, it may make more sense to identify the role of the city within the regional economy and focus instead on growing or attracting companies that best serve that role (such as headquarters).
- It is typically understood that it is better and easier to retain a company with 100 jobs than attract a new company with 100 employees. Existing firms are more likely to remain and be stable. They typically better understand the local environment and their market opportunities. Further, most economic development professionals argue that most job creation comes from existing employers.
- Business retention is one of the major economic challenges facing the San Francisco. The city is a great place to start companies, but the problem is that the companies leave when they start to grow.

#### **CONS**

##### **Drawbacks of the generalist approach:**

- Having a business retention effort focused on listening to the needs of existing companies could result in efforts that amount to specific favors for individual firms, without a strategic filter about which actions will have the biggest impact. It might be hard for the staff to distinguish among requests unless there is a very effective filter system and database by which to evaluate requests, as well as a defined process for identifying when and how to respond to such requests.
- In an increasingly global world, business location decisions often are made at far-away corporate headquarters. As a result, there is often little a local economic development can do to change minds about shifting jobs, particularly if they relate to factors such as salaries or real estate costs that are beyond the control of any specific organization. This means that efforts to retain existing firms – or attract new ones from outside – may be less effective than focusing more directly on improving the attributes of the city as a general business location.
- By focusing on retention and attraction, this approach provides too little focus on new business formation and development. Any successful economy requires having seed industries to become the employers of the next generation. Often, cluster approaches are more attuned to the needs of emerging industries than general business retention and attraction efforts.

## OPTION 2: HAVE AN INDUSTRY CLUSTER FOCUS

An industry cluster approach is one where the economic development effort focuses on a range of activities to grow and expand the leading and emerging industries in the city.<sup>5</sup> For example, an industry cluster approach might start with an economic analysis of one of the city's clusters, such as digital media. This analysis would identify the types of firms, their size, growth prospects, reasons for locating in San Francisco, competitive challenges and competitors in other cities. The staff would focus on resolving some of the competitive challenges while simultaneously understanding what is being done in other places to lure and grow firms in this cluster. The cluster approach also relies on close collaboration with stakeholders such as universities, research institutes and community colleges. This is an approach that is often used in innovation driven industries.

The staff of the City's Office of Economic and Workforce Development is engaged in some cluster development efforts today. However, there are limits to what the City staff can do in a cluster process. The model in this paper assumes that the private entity would lead the cluster strategy process. Not only does city leadership on a cluster process tend to result in an overemphasis on policy and regulatory issues, but also it is also typically much harder to engage neighboring cities and communities where the cluster is also located.

San Francisco's successful efforts to promote biotechnology are the closest local effort to a cluster strategy. This approach combines a major land development process with tax policy, public sector leadership and marketing.

### PROS

#### Benefits of the cluster approach:

- Provides a strategic focus for staff activities that streamline the ability to differentiate among retention and attraction requests that are a long-term fit for San Francisco.

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<sup>5</sup> Among the case studies SPUR analyzed, the Seattle model most closely resembles an industry cluster approach.

- San Francisco’s economy increasingly includes emerging innovative firms (such as Twitter). An industry cluster approach is best suited to these firms because it can focus on the broad set of attributes that support economic competitiveness. For example, a cluster approach can simultaneously work on improving local inputs most affected by policy (such as infrastructure, workforce development and quality of life) as well as factors such as supply chain development and market access. This dual approach is best suited to improve economic competitiveness of a cluster.

## CONS

### Drawbacks of the cluster approach:

- Cluster efforts are often difficult to implement. It is also hard to identify how to measure success.
- Clusters tend to be regional and not neatly bounded within the geography of a city. Most cluster efforts are regional in nature. For example, a cluster strategy for biotech would invariably involve South San Francisco, given that Mission Bay and South San Francisco offer different benefits to the broader cluster.
- San Francisco’s economic challenges appear to be less grounded in specific clusters but more in the part of the value chain of firms or their particular size. For example, many firms move out when they reach a certain size, regardless of industry. Therefore a cluster model might not be able to focus on this retention issue, as it would be more concerned with the specific issues facing digital media companies.

## SPUR’S RECOMMENDATIONS AND CONCLUSIONS

### Based on its analysis, SPUR has developed some recommendations:

- 1. Use the City’s economic strategy update as an opportunity to create consensus about the best way to structure and organize the actual work of business attraction, retention and formation. The economic development strategy, which is required by Proposition I to be updated every three years, is the opportunity to create ongoing alignment and consensus among all the public and private people and organizations undertake economic development work.**

The economic strategy is the ideal place to sort through the pros and cons of the various ways of organizing and staffing the effort, and making decisions about which strategies are likely to be most productive. We hope the analysis in this document will be a useful starting place for a broader consensus-building process within the economic strategy.

- 2. Create a new, independent economic development organization. This organization should promote the city as it is, rather than engage in attempts to influence public policy.**

We believe that San Francisco needs a new, independent economic development organization. It could be totally distinct from the San Francisco Chamber of Commerce, or could operate from the same location as the Chamber. We do not believe it is viable to simply ask the Chamber to fund economic development work out of its normal membership dues.

Some would argue that the model of co-location has been disproved by the fact that the Center for Economic Development has not been able to grow to a size large enough to carry out its mandate. We believe, on the contrary, that it is the model of funding economic development by voluntary

donations that has been disproven.

That said, we understand that voters and elected officials may be reluctant to impose a new tax if they perceive it is going to go to a nonprofit organization such as the Chamber, with its own policy agenda. These concerns prompt some people to believe that an organization with more complete autonomy will be viewed as more neutral, more like the Convention and Visitors Bureau.

We conclude that either an independent or a co-located model could be effective, so long as the revenue stream has been determined.

- 3. Fund this work with a stable, recurring, non-discretionary revenue stream. The only way we will be able to be successful is if we set up an institution that is able to carry out work without having to go “hat in hand” for donations each year or make it through the vagaries of the annual appropriations process at City Hall.**

One promising option is a small surcharge on the business license fee each year, which would require a vote on the San Francisco ballot. Another option is a citywide business improvement district or community Benefits district, in which property owners impose an assessment on themselves. Both of these options would require that a broad segment of San Franciscans be willing to invest a small amount of money to pay for citywide economic development work. Certainly there are other funding options as well that could be explored.

## APPENDIX A: AUSTIN CASE STUDY

### HISTORY

Austin has been often noted as an economic development success story given the close collaboration among the city, the regional chamber of commerce, the local university and the state government in promoting the city as a high-tech center, particularly for semiconductor manufacturing.

Despite these prior successes, like many regions, Austin suffered after the dot com collapse. Between 2001 and 2003 the region experienced significant job losses and many plant closures. With loss of revenue, the chamber of commerce significantly reduced its economic development efforts.

During this time, the business community galvanized to find a new economic development initiative. Austin Chamber of Commerce volunteers and business leaders came together in support of researching, funding, and working for a new program; the result was an economic development strategy: Opportunity Austin.

An initial report, conducted by Market Street Services, determined the most effective approach to make Austin economically stronger. The Real Estate Council of Austin, a local non-profit organization, funded this first step. The Austin Chamber of Commerce, in conjunction with this research and analysis firm, determined the most logical and compelling economic sectors for Austin to pursue, the most effective way to utilize the area's economic development organizations, and also how to maintain the area's competitive advantages in workforce and quality of life. The four-month research process took the Austin community through five key phases to create and retain jobs, build the tax base, and invest in human capital and urban development.

The initial report was presented for discussion and approval to the Greater Austin Economic Development Council branch of the Chamber of Commerce Board. Market Street facilitated a discussion that allowed the board to revise and prioritize the goals, objectives, and action steps of the draft document. Based on the findings of these meetings, Market Street edited and finalized a strategy for the board. Once approved, The chamber, the EDC board, and Market Street jointly developed one-year and five-year timetables for the implementation plan. These timetables focused on short, medium, and long-term actions to best implement the strategy's goals and objectives. In anticipation of changing economic conditions and business and investor needs, a five-year time limit was applied to Opportunity Austin's economic plan.

By 2001, the framework for Opportunity Austin was established, at which point Gary Farmer, president of Austin-headquartered Heritage Title Company and Heritage Exchange Corporation of Texas, set in motion a preliminary funding strategy for Opportunity Austin based on peer-to-peer contacts. Since his initial support of Opportunity Austin, Gary Farmer has been an active recruiter to Austin and has helped raise millions of dollars over the years to support economic and education efforts in the area. This was an effective strategy in Austin because a respected business leader as the initial supporter inspired other business leaders, government leaders and investors to support the effort.

### SCOPE

In addition to marketing Austin wisely to potential companies, Opportunity Austin works closely with outlying communities to improve the economic well being and quality of life in the five-county Austin metro region. In addition to receiving fiscal support from surrounding regions, Opportunity Austin depends on political cooperation from the adjacent counties. This includes working with community officials to ensure that building permits are processed and businesses can otherwise navigate the regulatory environment. A regional scope also includes marketing company investment into a region. For

instance, when a prospective client visits the region, Opportunity Austin contacts its partners in the five-county region and invites them to presentations and meetings. The client is able to hear about each community and the whole area in terms of education, housing, and quality of life instead of merely hearing about resources within the Austin city limits. Opportunity Austin also holds monthly meetings with its regional partners.

## **GOVERNANCE AND STRUCTURE**

Opportunity Austin was a five-year plan that was able to successfully boost the number of jobs and employers in the area. After the five-year time limit, Market Street's work with Austin continued into 2007. Opportunity Austin 2.0, also known as the "Taking it to the Next Level" strategy, is another five-year strategy to further promote Austin's economy. The "Taking It to the Next Level" Opportunity Austin Strategy is guided by a steering committee, which includes public and private sector representatives from multiple aspects of the community. The steering committee's role is to review reports, provide insight and feedback, participate in discussions about the future direction of Greater Austin, and commit to the successful development of the Strategy. In Opportunity Austin 2.0, the committee evaluated the current economic environment, best industries to approach, and new techniques to retain existing businesses.

Opportunity Austin is a registered 501(c)(6) corporation. Its board of directors is independent from the Chamber of Commerce Board of Directors with the exception of a few overlaps. Currently, Heritage Title Company's Farmer serves as the chairman of the Greater Austin Economic Development Corporation, chairman of Opportunity Austin 2.0, and vice-chairman of economic development for the Austin Chamber of Commerce.

Opportunity Austin shares about half of its 12-member staff with the Austin Chamber of Commerce. All staff members listed under the chamber of commerce's economic development are on the staff of Opportunity Austin. There are three people whose job is economic development, including business attraction. There are four people on staff who work for business retention and expansion. The remaining staff members conduct research, compile reports and manage the office.

## **FUNDING**

When Opportunity Austin was created, The Economic Development Corporation was formed to oversee the initiative's planning and progress to seek financial support. Opportunity Austin depends on two main methods of funding: Chamber of Commerce subsidies and business investment. Opportunity Austin receives subsidies, in part through the Austin Chamber of Commerce, and is contracted and paid for by the chamber to employ various projects. Yet it depends most heavily on business investment.

Opportunity Austin employs a strategy of peer-to-peer outreach to attract new businesses investors. Business leaders who are already involved in Opportunity Austin are asked to reach out to peers in their fields for support. One Austin-based lawyer, who also sat on the Opportunity Austin Board, explained that he would visit other law firms and say, "This is why we believe in the project, this is how much we gave, and this is how much you should give, too." Personalized contact, combined with transparency, has led to a hugely successful recruitment campaign in Austin.

The strategy implemented by Opportunity Austin to attract and retain business investors includes specific measurements for each goal, a price tag, and a performance measure used to evaluate the efficiency of an investment. In promotional literature, readers are reminded that Opportunity Austin will be accountable to its investors and all findings will be reported in quarterly newsletters, meetings, and annual reports. Whenever there are changes to goals or programs, investors are consulted before any finalizations.

With that information, key business leaders are asked for their support and they, in turn, ask their peers to support the five-year implementation of Opportunity Austin. The business donations range from about \$2500 over five years to about \$100,000 over five years. They call the larger donors “major investors” and they receive certain privileges for giving the top amounts. Opportunity Austin includes 260 investors who contributed more than \$14 million to the five-year initiative run by the Greater Austin Economic Development Corporation. There were a total of 260 investors, with 66 “lead investors” pledging a minimum of \$20,000 per year for five years. There were 65 private-sector companies and regional investments from six communities.

## **FUNCTIONS AND ACTIVITIES**

While Opportunity Austin identifies firms it wants to attract, most of its efforts are dedicated to business retention. One reason is that in Austin, 80 percent of that job growth is expected to come from businesses that already are in the area. Opportunity Austin prides itself on its transparency and open reporting to business investors. Its business outreach strategy encompasses several efforts: annual informational meetings, quarterly Opportunity Austin investor meetings and Opportunity Austin newsletters distributed three times a year. It also produced periodic “breaking news” email alerts prior to major relocation announcements, mailings of new demographic research, publications and more.

Portfolio Austin: A Strategy for Growth was launched in August 2004, with a central component on business retention. Through on site, one-on-one visits, the chamber’s business retention and expansion staff works with regional companies on programs and opportunities to promote their growth throughout the region. Site visits are a key activity for the team and provide information on discerning issues, which hinder growth for the company and our region. In 2006, the BR&E team undertook 119 business retention and expansion surveys throughout the five-county metropolitan statistical. In 2007, the BR&E staff surveyed 150 regional executives and worked with more than 200 regional companies to provide individual assistance and address widespread concerns. These companies informed the BR&E team of major issues hindering growth and development, including talent and workforce development, traffic congestion and non-stop air service to Austin. In 2009, the business retention department plans to conduct 360 regional retention visits, to take four headquarter trips, to hold two major out of region marketing events for entrepreneurial start-ups, to hold two executive roundtables, to send BR&E newsletters, to facilitate individual company assistance requests, and to continue BR&E collaboration among regional partners.

A central component to business retention includes a group, Strategic Workforce Advocacy Team, that responds to critical challenges in the way of the success of local businesses. SWAT teams include regional community leaders in the areas of legislation, workforce, local government services, and regional business leaders to respond to company issues on a municipal level contemplating leaving the region.

## **APPENDIX B: “ENTERPRISE SEATTLE”**

### **HISTORY**

The Puget Sound region is the economic heartland of Washington state and the Pacific Northwest. The total population of the Puget Sound region numbers more than 3.5 million, which is divided among three metropolitan areas. Between 1980 and 2000, the Puget Sound region contained approximately two-thirds of the state’s total employment. Today, the Puget Sound region accounts for nearly 70 percent of the net new jobs gained in Washington state, with more than half of those new located in Seattle.

Historically, the economic base of the Puget Sound region was based on the aerospace industry, the forest products industry, the military industry and the shipping industry. Emerging industries include software, retail, biotechnology, tourism, Internet services and telecommunications. Aerospace remains the dominant industry in Seattle, with Boeing as one of the most prominent employers. Seattle suffered from local economy destabilization when Boeing relocated its corporate headquarters from Seattle to Chicago in September 2001, resulting in the loss of 1,000 top-level executive positions. Furthermore, Seattle’s technology sector suffered in 2000 and 2001 because of the dot-com crash, and forced many developers to place their projects on hold.

During the lowest point of this latest economic downturn, the Economic Development Council of Seattle/King County, founded in 1971, changed its name to “Enterprise Seattle” (see <http://www.enterpriseseattle.org/>). This change in 2004 was meant to reflect the major “brand name” of Seattle for this region and to reinvigorate Seattle’s efforts for a new economic development strategy.

### **SCOPE**

Enterprise Seattle aims to bring economic development to King County and its 39 cities. It is also part of the Prosperity Partnership coalition, which includes more than 300 government, business, labor and community organizations from King, Kitsap, Pierce and Snohomish counties dedicated to developing and implementing a common economic strategy. Their goals are twofold: to foster long-term economic prosperity and to create 100,000 new jobs for the central Puget Sound region. Enterprise Seattle is represented by the Economic Development District (now under the auspices of the Puget Sound Regional Council) and it collaborates with other regional economic players including the Trade Development Alliance and the Seattle Chamber of Commerce.

Their stated mission is to provide “one-on-one, confidential consulting services, free of charge, to individual businesses seeking to establish, expand or relocate to King County and its 39 cities.”

### **GOVERNANCE AND STRUCTURE**

While Enterprise Seattle is housed within the Chamber of Commerce building, it is not a part of the chamber. In fact, Enterprise Seattle is an independent 501(c)(4) with little to no dependence on the Seattle Chamber of Commerce. Both the chamber and Enterprise Seattle have independent boards and independent funding sources. Enterprise Seattle is just one of many other organizations that are affiliated with the Seattle Chamber of Commerce.

While Enterprise Seattle used to be in competition or even conflict with the chamber of commerce, in 2004 it refocused to cluster-centered economic development and stopped working in public policy. Enterprise Seattle differs most from the chamber in its focus on economic development as opposed to the

chamber's policy focus. Enterprise Seattle does communicate with city officials or other policy makers in the region but does so with an economic development, not public policy focus.

The industry clusters they focus on include cleantech, interactive media, life science, aerospace, international business, and technology, which for Enterprise Seattle's purposes is primarily information technology and includes firms such as Amazon, Expedia and Microsoft.

Enterprise Seattle has three full time employees called "business development managers" who focus on three clusters: life sciences (medical devices), clean technologies (energy) and information technology (mostly digital media). In addition, the chief executive officer and president focus on aerospace technology because of his personal background with the industry. These specialists focus on outreach, attraction, retention, and counsel companies to mitigate local impediments and help access resources essential for growth in their cluster.

Enterprise Seattle staff members do collaborate with the chamber by providing services as "expert witnesses" in the field of economic development and cluster industries. If a small city wants to plug into cluster expertise, they can independently contract with Enterprise Seattle for this.

A 50-member board of directors that represents the public and private sectors governs Enterprise Seattle. Board members and staff meet quarterly, and the 11 members of the executive committee meet monthly. Enterprise Seattle has made a commitment to spend at least one dollar per capita on their economic development initiative.

## **ROLES**

Enterprise Seattle aims to expand the business client outreach program and assign a business development manager for each of the five economic clusters. Staff members at Enterprise Seattle report the success of a project to investors based on industry goals and achievement based on total number of jobs, number of primary jobs and cost per primary job, direct economic impact, and local tax base growth. Enterprise Seattle also uses these figures to report results by cluster over a multiyear time frame. While Enterprise Seattle's main focus is client-based business retention services, the staff is simultaneously involved in recruitment. Investor relations require most of Enterprise Seattle's resources (22 percent), followed by marketing and communications (20 percent), leadership, staff and management systems (4 percent), and financial management and revenue diversification (4 percent).

Enterprise Seattle accomplishes its mission through customized client services programs focused on business retention, expansion and recruitment. Staff members provide one-on-one, confidential consulting services free-of-charge to businesses seeking to establish, expand, or relocate to the area. Business development managers evaluate resources needed and success of an industry by determining how many companies fall into that industry, what total revenues and sales are, how many jobs there are, how many jobs are created, what an industry/businesses' position is globally, and what the remaining impediments to growth are.

## **FUNDING**

Enterprise Seattle is funded through a combination of public and private investment. Total investment is split evenly between public and private contributions.

## APPENDIX C: DENVER

### HISTORY

Forty years ago, Denver was considered the energy hub of the West, and its fortunes rose and fell with the price of oil and gas. Today, Denver is experiencing job growth in the aerospace, aviation, and bioscience industries. The credit for this transformation can be attributed to the high level of collaboration built into their economic development efforts.

During the 1980's, the metro Denver region experienced substantial job losses, as oil and gas operations shifted from the area. As a result, the Greater Denver Corporation was formed. Focused around a regional development strategy, the GDC played a key role in creating the new Denver International Airport and Coors Field, the home of the Colorado Rockies, a Major League Baseball team. The GDC had a sunset clause and disbanded during the 1990s. Simultaneously, the Metro Denver Chamber of Commerce had an economic development department, known as the Metro Denver Network.

In 2003, responding to the national economic downturn, the Metro Denver Network was renamed the Metro Denver Economic Development Corporation, and it became a separate nonprofit, designated a 501(c)(3). The Metro Denver EDC does, however, have the same president and vice president as the chamber of commerce and receives nearly \$1 million in funding per year from the chamber.

### SCOPE

**The Metro Denver Economic Development Corporation has three main functions:**

**1. Marketing strategies aimed at increasing development in the Denver Metro Region**

Metro Denver EDC marketing is designed to attract companies to the metro Denver region. The most recent campaign, named "Colorado loves California," is aimed at attracting California companies looking to expand or relocate. The Metro Denver EDC relies on its local partners for retention efforts.

**2. Promotion of infrastructure projects**

Investors rely on Metro Denver EDC to provide support on certain voter initiatives, particularly large issues that help to promote a better business climate. Most recently, the Metro Denver EDC has fought to expand light rail service throughout the downtown. The Metro Denver EDC has also backed water and other utility projects that are both affordable and safe. By supporting large infrastructure projects, the Metro Denver EDC reinforces their regionally oriented model.

**3. Convening the region's economic development professionals.**

Metro Denver EDC members come from nearly 70 economic development groups, cities, and counties in Metro Denver and Northern Colorado. These investors serve prominently on the board of directors and the executive committee of the Metro Denver EDC. As a way to ensure financial stability and outlast political administrations, the Metro Denver EDC looks for five-year commitments from its investors. Currently, Wells Fargo is the largest investor. The Metro Denver EDC also operates with a \$2 million endowment from CH2M Hill, funds remaining from the clean up of Rocky Flats, a former nuclear weapons production facility.

## **GOVERNANCE AND STRUCTURE**

Chamber funds cover office space and salaries for seven of the EDC's nine employees. The EDC staff is organized around several prominent industry clusters: aviation, aerospace and interactive media. The main objective of the Metro Denver EDC is focused on business retention; three full time employees are committed to that task.

## **FUNCTIONS AND ACTIVITIES**

**The Metro Denver EDC serves as an important model for economic development throughout the country:**

- It is a large coalition of interests from throughout the region, built initially from eight separate economic development entities.
- It focuses on major infrastructure projects.
- It has significant private sector funding and membership that is not dependent on the political cycle.
- It uses coordinated regional marketing to attract growth.