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Item #: 4b

# Memorandum

**TO:** DRIVING A STRONG ECONOMY COMMITTEE

**FROM:** Paul Krutko

**SUBJECT:** SEE BELOW

**DATE:** February 14, 2005

Approved

Date

2/14/05

**SUBJECT: SMALL BUSINESSES AND CITY SUPPORTIVE PROGRAMS**

## BACKGROUND

This report provides basic comparative information of the health of local small businesses and a summary of the actions and activities undertaken by the Office of Economic Development (OED) and its contractors as well as other City departments and the San José Redevelopment Agency from January 2004 to December 2004 in support of small business growth and development.

## ANALYSIS

### **SMALL BUSINESS STATUS COMPARISON WITH DECEMBER 2002**

As part of the December 2002 kick off of the interdepartmental Small Business Opportunity Program, the City gathered a few key statistics showing the relative contribution of small businesses to the City's health. This information forms a baseline for comparison regarding small business performance during the recessionary period between 2002 and 2004.

The following table shows the relative performance of small businesses.

Measure	2002 (percent of total)	2004 (percent of total)
Small San José companies	52,000 (85%)	54,000 (88%)
Employment at Small San José companies	119,000 (40%)	124,000 (42%)
Business taxes generated by Small San Jose Companies	\$5.8 mil. (60%)	\$6.2 mil. (62%)
Second quarter small company sales tax revenues (<\$2 M in sales)	\$9.9 mil. (38%)	\$10.2 mil. (37%)

Despite the overall reduction in the local economy, small businesses as a group have grown, with 4% more small San José businesses now than two years ago and employment at these companies

growing by a similar factor. Total sales taxes collected by smaller companies has also risen. The following table shows the performance of small businesses.

Overall small businesses (defined as those with 35 or fewer employees) have been able to hold their relative position in the current economy and have even made strides compared to large companies. Only the proportion of small company sales tax revenue has fallen and that by less than half of a percent.

### **SMALL BUSINESS SUPPORTIVE PROGRAMS**

The City of San José has a wide range of services designed to provide direct and indirect assistance to small businesses. The contributions of these businesses to City revenues and to the employment of San José residents are recognized in their importance to the San José Economic Development Strategy.

### **SMALL BUSINESS OPPORTUNITY PROGRAM**

#### Overview

The City began tracking the impacts of the City's Small Business Opportunity Program (SBOP) and implementation of the City's revised Local Preference Policy on July 1, 2004. The SBOP encourages small businesses to compete to do business with the City through the use of outreach and education as well as through process improvements. One of the new tools to encourage small business participation is the new Local Preference Policy, which requires that when seeking bids or proposals for goods and services the City of San Jose grant additional credit in its selection processes for those from local (within Santa Clara County) and small businesses (with 35 or fewer employees) relative to non-local competitors.

Despite staff and budgetary reductions, implementation across the organization has generally been achieved though additional work remains. Work is progressing to provide more information regarding small business participation and the impacts of the local preference policy.

Additional program improvements will be made as further information is gathered and a more consistent image revealed. This additional benchmarking will help establish appropriate goals and focus solutions on problem areas.

The following information has been gathered so far regarding the success of the SBOP in doing business with companies who can be broadly described as suppliers.

#### Numerical Performance Review

Overall, the City made significant awards with local suppliers. As a percentage, more agreements are being awarded to local suppliers than was reported last year, but the percentage of dollars for these local contracts is less (down from 38%). Mid-year expenditures have been for \$325 million awarded through approximately 2,500 agreements.

*Local Suppliers*

	April 2004	December 2004
% by # of Awards	45%	47%
% by Dollar Amt.	38%	35%

Less is known about small business participation at the overview level. Staff is continuing to work to link the required information to provide this data. At present complete employee information is known for about 15% of approximately 2,500 active suppliers. Staff anticipates that implementation of the program of augmenting business tax (license) information will increase this percentage over time.

The current data indicates that there is significant variance over the year in the nature of agreements. Based on this information estimates of small supplier participation is:

*Small, Local Suppliers*

	August 2004	December 2004
% by # of Awards	31%	44%
% by Dollar Amt.	21%	17%

*Small (local or not) Suppliers*

	August 2004	December 2004
% by # of Awards	62%	70%
% by Dollar Amt.	30%	41%

Local Preference Review by Category

Specific performance information is being gathered in three major categories: General Services, Public Works and Professional Services. The following tables summarize the available information:

**General Services** contracts (bid and RFP/Q awards) since 4/23/04

	% by # of Awards	% by Dollar Amt.
Local suppliers	36%	37%
Small suppliers	16%	18%
Small (local or not) suppliers	20%	19%

982 awards for a total of \$52 million

**Public Works** contracts (consulting and construction awards) since July 1, 2004*Consulting Contracts*

	% by # of Awards	% by Dollar Amt.
Local consultants	44%	64%
Small consultants	6%	5%
Small (local or not) consultants	31%	8%

16 awards for a total of \$6.5 million

#### *Construction Contracts*

	% by # of Awards	% by Dollar Amt.
Local contractors	56%	79%

16 awards for a total of \$8.8 million

#### **Professional services contracts** citywide since July 1, 2004

	% by # of Awards	% by Dollar Amt.
Local consultants	73%	32%

473 awards for a total of \$212.3 million

#### CITY/AGENCY FUNDED CHAMBERS OF COMMERCE

Performance by the six City-funded chambers of commerce in providing services to businesses varies widely (details in Attachment A), particularly in the area of documented job generation. More than half of the money in the FY 03/04 performance based contracts was not used. OED staff is exploring ways to utilize this money to more effectively provide services to the business community, including the issuance of an RFP.

This year, 30 employees were vouchered and 28 individuals hired through chamber referrals. The chambers held numerous workshops and business events providing San José companies with information to support their activities.

In recognition of the City's need for both business technical assistance and job generation, each chamber is provided with the opportunity to select business assistance performance areas which address their respective strengths for as much as 50 percent of the contract's value. The remaining 50 percent of the contract is reserved for job-generating referrals to the Enterprise Zone (EZ) hiring tax program and the Silicon Valley Workforce Investment Network (SVWIN). For each EZ employment voucher issued or job filled through the SVWIN program, the respective chamber will receive a payment of \$1,000.

OED staff has worked closely with each chamber to implement this performance based approach. This fiscal year, the contracts were made for six-month periods so that the chambers

that performed in the job generation categories could access funds from chambers that did not perform.

In addition to City activities, the Redevelopment Agency has utilized the services of the Portuguese Chamber of Commerce to market and promote businesses in area in the eastern portion of the East Santa Clara Neighborhood Business District and the western portion of Alum Rock Neighborhood Business District known as "Little Portugal."

#### WORKFORCE INVESTMENT NETWORK – BUSINESS OUTREACH

The Business Service Council (BSC) is a new initiative to help companies obtain needed business services. The formal launch by of this initiative was held October 21, 2004. The BSC is a collaborative of over 22 community-based organizations, business associations, government representatives, and private sector groups committed to providing technical and training assistance, research and information, human resources assistance and access to capital to help small business owners gain workforce tools to be competitive in the global economy. Partners have committed to provide needed services to business at the small business location to facilitate rapid service.

SVWIN Business Services staff conducts intensive in person contacts to businesses as well as marketing at business association meetings, local Chamber of Commerce functions and through partner activities. This has been a significant benefit to the targeted small minority and women owned businesses who have taken advantage of resources such as access to capital, marketing strategies and information about various incentive programs.

SVWIN continues to assist local businesses with recruitment services by conducting job fairs. Specialized recruitments for 114 businesses resulted in 251 hires for 923 job openings since January 2004. A listing of small businesses contacted is contained in attachment B.

#### BUSINESS ASSOCIATIONS

Based on the success of the establishment of the Almaden Valley Business Association (ABA) in Council District 10, the Office of Economic Development has contracted with the San José Silicon Valley Chamber of Commerce to establish additional business association pilots in Districts 1 and 9. With Council office leadership, these associations form the basis for local business networking and a forum for discussion of issues of interest to the companies within their areas. The associations will be considered successful if they have achieved financial self-sufficiency from City within two years of founding.

The San Jose Redevelopment Agency continues to be active in providing direct staffing to business associations within the Neighborhood Business Districts. A contract with the SJSV Chamber of Commerce has further strengthened the services offered. Associations in Story Road, E. Santa Clara, Alameda, W. San Carlos, 13 Street, and Winchester Neighborhood Business Districts continue to contribute to the success of these areas. Services for the Associations include meeting facilitation, production of quarterly newsletters and business

directories, organization of a president's council, and creating events to promote the business associations.

The Evergreen Business Professional Association is continuing to increase its membership. With assistance from Councilmember Cortese, the Association has held several networking events and is providing valuable business input to local issues.

#### ENTERPRISE ZONE

The Office of Economic Development met with 200 businesses in the San José Enterprise Zone (EZ) to discuss special tax credit incentives; sales and use tax credits, hiring tax credit and business expense deductions. San Jose Enterprise Zone businesses are eligible to receive state hiring tax credits up to \$31,000 over a five-year period for each qualified employee they hire. OED issued roughly 1,800 tax credit vouchers to San Jose companies located in the Enterprise Zone.

A listing of small businesses contacted is contained in attachment B.

#### ENTREPRENEUR CENTER

The Office of Economic Development and Redevelopment Agency continue to work with the Entrepreneur Center (eCenter). Staff made several presentations about how to start and do business in San Jose, the City's business loan programs, Small Business Opportunity Program and the Enterprise Zone to businesses at the eCenter. In addition the City and Agency are represented on the board of the Small Business Development Center, one of the key contributors at the eCenter.

#### BUSINESS OUTREACH AND TRAINING

The Office of Economic Development was the lead sponsor in the San Jose Silicon Valley Chamber of Commerce Business Expo, which was attended by 1,800 to 2,000 business representatives. In addition to networking opportunities, small businesses benefited from workshops and exhibits by the Chamber, OED and other City departments, state agencies, businesses and local community-based and for-profit organizations.

OED and the Agency have held a series of small business events providing current information about doing business in difficult times with particular focus on Agency project areas that do not have formal business associations.

One of the key elements to the Small Business Opportunity Program discussed above is increased outreach on doing business with the City of San José. In addition to participating in events sponsored by other organizations, the City holds quarterly workshops as well as an annual event to keep the small business community informed. Quarterly e-newsletters covering upcoming contracting and consulting opportunities, City programs, and other topics of interest to small businesses are sent to a growing list of over 3,000 small businesses subscribers.

## LOAN AND GRANT PROGRAMS

The Revolving Loan Fund and the Development Enhancement Special Fund provide loans and guarantees to "near-bankable" San Jose businesses for expansion and growth. This year interest rates and repayment options have been liberalized to increase utilization of this resource as the economy moves into a recovery phase.

Revolving Loan Fund: Since January 2004, 24 new loans totaling in excess of \$500,000 were made. An additional 2 loans totaling \$60,000 have been approved, but have not yet been funded pending action by the client.

Development Enhancement Special Fund: During this same period, 4 business loans were closed for San Jose companies, totaling \$375,000.

Façade Improvement Grants: By the end of the year 34 buildings are expected to be completed worth \$1.8 million and leveraging \$150,000 in owner contributions. 11 of these buildings are located downtown. The Redevelopment Agency's Façade Improvement Grants program encourages improvements to business frontages through grants leveraging private funds. These physical improvements not only help the company directly but also support the surrounding business community.

## DEVELOPMENT PROCESS

The City continues to make improvements to the development process with new initiatives to support small businesses including the creation of a One-Start Permitting Center and suspension of 50% of construction-related taxes for small retail businesses making tenant improvements.

## NEW CITY HALL

As part of the efforts to improve customer service in the downstairs reception area at the new City Hall, the City is working to create a special small business desk. Companies using this small businesses center will be able to receive information and support on the full array of services offered by the City ranging from the Small Business Opportunity Program information and business tax (license) registration, to loan program support and permit assistance.

## PUBLIC OUTREACH

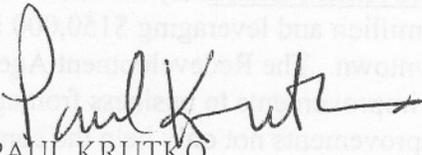
The OED activities represented in this report involve a wide variety of public outreach including working with the San Jose Silicon Valley Chamber of Commerce, the local small business chambers, City-funded and otherwise, other business and professional associations, large and small businesses, private citizens, and many other groups.

## COORDINATION

The OED activities represented in this report involve intensive coordination with other City Departments including: Planning, Building and Code Enforcement; Public Works; Airport; Convention Arts and Entertainment; Police; Fire; the City Attorney's Office; General Services; and the Redevelopment Agency.

## BUDGET IMPLICATIONS

No new budget implications.



PAUL KRUTKO  
Director, Office of Economic Development

## Attachment A

### Chamber of Commerce Activities on behalf of the City of San José

#### Silicon Valley Black Chamber of Commerce

- Workshops: The Chamber held 9 seminars on various topics of interest to the Chamber's business members.
- Enterprise Zone Vouchers: None
- Workforce Investment Network Hires: None
- Business Counseling: The Chamber provided business counseling to 9 businesses.

#### Filipino-American Chamber of Commerce

- Business Counseling: The Chamber provided business counseling to 25 businesses.
- Workshops: Many San Jose professionals attended 27 seminars and workshops held by the Chamber.
- Enterprise Zone Vouchers: None
- Workforce Investment Network Hires: 30

#### Hispanic Chamber of Commerce

- Business Counseling: 28 clients were provided with business counseling.
- Workshops: 82 business workshops were held.
- Enterprise Zone Vouchers: 19
- Workforce Investment Network Hires: None

#### Japanese-American Chamber of Commerce of Silicon Valley

- Business Counseling: The Chamber provided business counseling to 20 businesses.
- Workshops: 6 workshops were held by the Chamber.
- Chamber Sponsored Event: The Chamber held 2 events to encourage international commerce. with Asia and were present at events held by other organizations.
- Enterprise Zone Vouchers: 27 employees were vouchered.
- Workforce Investment Network Hires: None
- The Japan Project: The Japanese Chamber went to Japan and provided relocation counseling, various information and discussed the benefits of doing business in San Jose with representatives of Japanese trade organizations and companies.

Portuguese Chamber of Commerce of California

- Business Counseling: The Chamber provided business counseling to 5 businesses.
- Workshops: The Chamber sponsored 11 workshops.
- Enterprise Zone Vouchers: 3 employees were vouchered.
- Workforce Investment Network Hires: None.

Vietnamese Chamber of Commerce

To date, the Vietnamese Chamber of Commerce has not returned their contract. H.G. Nguyen became president of the Chamber on 10/27.

- Business Counseling: None
- Workshops: None
- Chamber Sponsored Events: None.
- Enterprise Zone Vouchers: None
- Workforce Investment Network Hires: None

**Attachment B**

**List of Small Business Contacted by OED/WIN  
through Direct Outreach  
(does not include efforts by partners, consultants or contractors)**

<b>Business Name</b>	<b>Business Name</b>
99 Cents Store	A & R Technical Services
Acapulco Jewelers	Accent Care
Acclaim Dental Care	Acosta Sheet Metal Manufacturing Inc.
Aerosoles	Aikido of Japan Town
Aldana's Promotion	Alianza Metropolitan News
AllState	Alma Vision
Alvarez Video Rental	AlVin Wireless
American Funding	Anh Minh Money Transfer Inc.
Animal Habitat	Ann Taylor
Anne's Jade Jewelry	Apna Bazar
Arseen Autobody	Arteaga Party Favors
AUCCESS, LLC	Audible Arts
Audit Solutions	Aviation Safeguard
Axcient	Ball Liquor
Barber Shop	Beautiful Hair and Nail Design
BH Video Club	Bill Gould Design
Blossoms Floral	Blunk Mirco
Bonfante Gardens Family Theme Park	Bright Now Dental
Brinks	Bui Phong Bakery
Bumper Jumpers	CA Mounumental
California Camaro Cleaners	Carnitas Michoacan
Casanova	Cenaduria Mexicana
Central Chiropractic Center	Century 21
Century Pure Water II	Charlies CheeseCAke
Chavez Jewelers	Cherisse's Salon
Chicago Pizza	Chiropractic Acupuncture
Cielito Lindo Restaurant	Cigarette King
Ciggarete Discount	Classic Rock
Cleaner & Cigarettes 4 Less	COL of USA LLC
Community One Financial Services	Cuesta Technologies
Curves	Dagio's Florists and Gifts
Dai Loi Co	Daniel's Auto Services
Dao's Gift Shop	Dashers Insurance Service
Dee's Diet Counseling	Discoteca Los Compadres
Don Roberto's Jewelers	Dos Hermanos
Dulceria Manolin	Durafab
Dynamics Designs Inc.	Dynasty Mortgage
El Buen Gusto Bakery and Taqueria	El Gallo Colorado
El Paseo Day Spa, Inc.	El Vaquirito Boots y su Musica
Electic Search	Elegancia's Salon

<b>Business Name</b>	<b>Business Name</b>
Elvia Salon	Estilo Unisex Beauty Salon
Fahrenheit	Family Dental
Farmers Insurance	Fast Fresh Pizza
Fausto's	Finish Line
Fishery Supply	Forever Cuts
Garcia Party Supply	Gateway Family Medical Center
Gilroy Antiques	Global Equity Lending
Golf Heaven	GS Liquor Market
Hai Van Pham M.D	Halycon Industries
Heavenly Hands Salon and Spa	Henkles & McCoy
Hoa Phuoc Plants and Gift	Holistic alternatives
Hughes Dental Group	Imagen Latina
Independent Tavel Consultants	Interwoven
Izillion	J- Martin
Jackson Hewitt	Jiminy Stitch It
Johnny Rocket	Jollibee
Joyeria and Discoteca Peña	Joyeria Arevalo
Joyeria Torres	JustTape & Ahesives
Kim Harris Accounting	Kim Hung
Kim Loi	Kim's Nails
King Selection Quality Janitorial	Knight Sounds
Korus Co.	Kuts and Colors
La Fiesta	LA Men's Wear
La Prieta Restaurant	La Quebrada Western Wear
Lamas Western Wear	Las Americas Dental Office
Lee's Sandwiches	Lily De Salon
Los Arcos Market	Lucky Dental
Lucy's Tamale Factory	Lynn Kelley Hair & Skin Enhancement
Magally's Furniture Alteration	Main St. Bagels
Mark F. Campbell, MD	Media Productions
Melting Pot	Menara Moroccan Restaurant
Mercado Azteca	Mercado Latino
Mexico Bakery	Mi Ranchito Taqueria
Minh Thy Gifts and shoes	Moda sol
Monte Carlo Café	More TV-Less Money
Muebleria Plaza del Sol	Nacos Tacos
National Hearing Instruments	Nature Health Products
Nelson Staffing	New Aborn Liquors
New Image Fashion	Nexcycle
Norberto Ramos	NORBERTO'S CLEANING CARPET
Novateck Network	Offsite Records Mgmt Company
One-Economy	On-The-Move Staffing
Pain & Injury Care Center	Pantera Western Wear
Passport Studio	Personnel/Law Offices of Rickie Green
Pho Bang	Pho Ga An Nam

Business Name	Business Name
Pipaka Corp Subway 31688.	Pixent
Pizza Chicago	Pomegranate
Power	Pro Dental
Probestar	Pure Water
PwerFlares	Q Gift Etc
Quality Janitorial	Queen Bee
Queen Cleaners	QuickCase
Quinceañera Fashion	RainBow Photo and Studio
RAM Motorcycle DbA Eagle Rider	Rich;s Beauty Salon
Roberto's Mariscos	Roberts Book Store
Romero's Cakes	Rosy's Lace and Craft
Sabor Latino	Sai Gon Cellnet
San Cipriano	San Jose Residencial Realty
Sanh Sanh Duong	Saul Cepeda Optometrist
Select Personnel	Silicon Building Maintenance
So. Bay Imaging	Southbay Cleaners
Spherion	SPINZ Productions
Star Dental	State Farm Insurance
Story Chiropractic	Story Liquor
Subway	Sumerset Auction
Sunlite Beauty Supply Inc.	Susan Wilturner, MD
Sushi Oyshi	Tacos al Carbon
Talent Tree	Tandem Staffing
Taqueria La Mejor	Taqueria Tijuana
Thanh Lan	The Cat Hospital
The Embroidery Store	The Honey Baked Ham
The Learning Tree	Thien Hy
Thu Trang	Thu Truc
TLC Dental Lab	TSA
Tutoring Club	UPS Store
UYENIE Clothing	V Bus Tour
Valley Dental Plaza	Valley Nails
Vee Cosmetics	Venta de Muebles
Ventura Barnett Properties	Victor's Taqueria
Viet Nha Khoa	VOG Boutique
Voice Tel wireless	Western Technology Marketing
Winchester Auto Parts	Work Shirt
Xtreme Car stereo and Wireless	Y Nhu Tailoring and Alterations