

# A THRIVING ECONOMY, A THRIVING CITY: A PLAN TO DEVELOP AND SUPPORT SMALL AND LOCAL BUSINESSES

*My journey as an entrepreneur began 11 years ago when I started the PlumpJack Wine Shop. Like any small business owner, I experienced the pressures of building a company from the ground up – developing a business plan, balancing the books, meeting payroll and building a customer base. PlumpJack proved to be a first step on a long path. Today I am a partner in 12 businesses that together employ over 600 people.*

*My successes and setbacks taught me a great deal about small business. I know small business owners want to be responsible employers and corporate citizens. I recognize that some regulatory burdens can make it difficult to be profitable. As Mayor, I will use my experience to make San Francisco a place where small businesses can thrive.*



## WHY ARE SMALL BUSINESSES IMPORTANT?

Small businesses drive San Francisco's economy. About 99% of all private sector businesses in San Francisco —108,373 businesses in 2000 —are small businesses. More than half of the city's private sector workforce is employed by businesses with fewer than 100 employees. Small businesses pump hundreds of millions of dollars each year into San Francisco's economy, and they have created more jobs for San Franciscans over the past 20 years than have large businesses.

Small businesses contribute crucial revenues to the City and County of San Francisco as well. In 2000, small businesses had a collective annual payroll of \$15.8 billion. Through their payroll taxes alone, these businesses contribute hundreds of millions of dollars to the city – funds that support the well-being and quality of life of all San Franciscans.

Small businesses also play a vital role in San Francisco's neighborhoods. They help define a neighborhood's flavor, provide necessary products and services, employ local residents, bolster property values, and contribute time, talent and money to make their communities safe, clean and dynamic places.

## CHALLENGES TO SMALL BUSINESSES

San Francisco businesses face many challenges, including high rents, regulatory burdens, and the rising cost of workers compensation insurance and employee health plans. Crime, lack of parking, dirty streets and aggressive panhandling have also taken their toll on small businesses.

Small businesses that want to contract with the City of San Francisco face an additional set of barriers. The process for becoming a certified local business enterprise (LBE), minority-owned business enterprise (MBE) or woman-owned business enterprise (WBE) is cumbersome and time-consuming. Once certified, small companies often end up as subcontractors to prime city contractors, whose subcontracting relationships are not monitored, and who are not held accountable for paying subcontractors in a timely manner. The net effect: smaller contractors take on undue risk and sometimes lose out by receiving only pieces of the city's business.

*“As Mayor of San Francisco, I will work to make San Francisco a strong, vibrant community by supporting our small businesses.”*

As Mayor of San Francisco, I will work to make San Francisco a strong, vibrant community by supporting our small businesses. I will implement a 16-point plan that will foster an environment where small businesses can flourish, and improve opportunities for small business to contract with the city for goods and services.

## IMPROVING THE SMALL BUSINESS ENVIRONMENT

San Francisco offers a wealth of public and community resources for emerging entrepreneurs and small business owners. As Mayor, it will be my priority to better coordinate the resources available to small businesses, and to make City Hall a more user-friendly information portal for entrepreneurs looking to launch an enterprise, access capital, hone their business skills and grow their companies.

**MARSHALL COMMUNITY RESOURCES** My administration will help entrepreneurs—especially minority and disadvantaged entrepreneurs—access San Francisco's small business development resources. We will give small businesses the tools to create business plans, obtain government or private loans, access equity investments, build business skills, connect with mentors, network with other entrepreneurs, train their employees, and even share office space and equipment with other small business owners.

As Mayor, I will help small business connect with our city's vast array of public and private organizations, including the San Francisco office of U.S. Small Business Administration, the San Francisco Small Business Development Center, San Francisco SCORE, San Francisco Chamber of Commerce, minority Chambers like the San Francisco Black, Hispanic and Chinese Chambers of Commerce, the Golden Gate Business Association, the Small Business Network, the San Francisco Center for Economic Development, and Small Business Advocates.

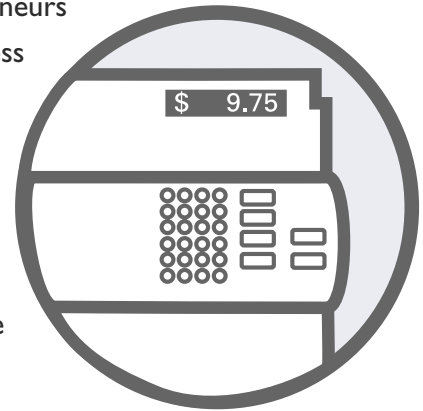


My administration will also work hard to support organizations that specifically assist businesses in disadvantaged communities. The Renaissance Entrepreneurship Center, for example, provides a continuum of training and resources to an economically, socially and ethnically diverse population of entrepreneurs. The Southeast Neighborhood Job Initiative Roundtable helps employers hire locally by linking them to training programs that serve residents of Bayview Hunters Point. Women’s Initiative for Self-Employment helps low-income women start and grow businesses. Urban Solutions supports business owners in neighborhoods like the Sixth Street Corridor, where it is hard to attract and retain good businesses. The Private Industry Council of San Francisco helps employers source qualified workers from nonprofit job-training programs.

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### EDUCATE SMALL BUSINESSES ABOUT CAPITALIZATION Accessing

capital to start a business can be a daunting process, especially for entrepreneurs who start out with a great idea, but have no real familiarity with the business world. Many would-be business owners simply do not know about the many options available to capitalize their businesses, including loans, angel investments and equity investments. They often do not know about the entities they can approach for an investment or loan, such as banks, credit unions, and small business lenders like TMC Development Corporation, equity investment firms, and nonprofit community development venture capital funds.



The city must make a special effort to coordinate with financial institutions, for-profit and nonprofit small business development centers, and small business incubators, like the Women’s Technology Cluster, to help emerging entrepreneurs overcome barriers to accessing capital.

As Mayor, I will work with my economic development office, the City Treasurer, City Controller and other departments to study the feasibility of innovative and cost effective programs that direct city funds toward micro-lending and small business loan programs. For example:

**The CALPERS model.** The city manages a retirement fund and other assets in excess of \$2 billion. Like CALPERS at the State level, the city could use a small portion of these assets to make equity investments in local microenterprises and small businesses, via nonprofit community development venture capital funds like Pacific Community Ventures and the Bay Area Investment Fund. These organizations work with companies located in and hiring from low-income communities, and promote wealth creation for employees. They help their portfolio companies succeed and grow by providing business development services.

**The Mondragon model.** Established in Spain in the 1950's, the Mondragon Cooperative Corporation provides seed loans, job training and operational support to employee-owned cooperative businesses in low-income communities. The organization is now one of the 12 largest companies in Spain, managing 160 cooperatives in diverse industries worldwide. The city could fund and incubate a Mondragon replication program in San Francisco—underwriting technical assistance from Mondragon, marketing to existing cooperatives and new entrepreneurs, facilitating access to loans and credit, and coordinating local business development organizations to provide services. An example here in San Francisco is Rainbow Grocery store, an employee-owned cooperative that builds wealth for its employees. We should support the incubation and replication of such successes.

### **PROMOTE THE CREATION OF BUSINESS IMPROVEMENT DISTRICTS (BIDS)**

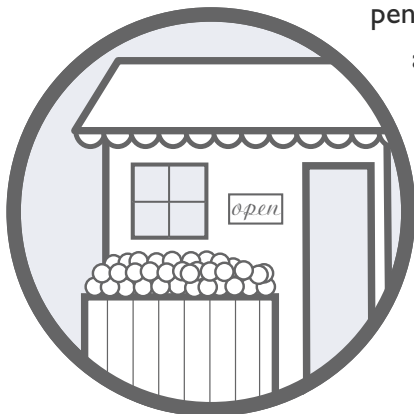
A BID is a mechanism for local business owners to come together to manage, develop and revitalize their neighborhood business districts. BIDs conduct a range of activities that benefit their districts: street maintenance and security, marketing and promotion, economic development, retail recruitment, and parking facility development and public amenities. Today San Francisco has only one BID, the Union Square Business Improvement District. I strongly believe we need more, especially in low-income communities.

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**APPOINT SMALL BUSINESS LEADERS TO CITY COMMISSIONS** In addition to the Small Business Commission, many of the city's commissions affect the ability of small businesses to successfully operate in San Francisco. Direct input to these Commissions from small business owners is crucial if we are to jumpstart our economy. I will strive to appoint neighborhood small business leaders to city commissions such as the Parking, Police, Planning and Port Commissions.

### **ESTABLISH AN AMNESTY PERIOD FOR UNREGISTERED SMALL BUSINESSES**

Every person doing business in San Francisco must obtain a Business Registration Certificate, pay an initial and annual registration fee, and pay an annual Payroll Expense Tax. Some types of businesses also require separate licenses that carry their own annual fees. Delinquent business owners face significant penalties and late fees. For small businesses operating “off the books”, the accumulation of these fees can be a major disincentive to register with the city.



With the City Treasurer, Controller and my economic development office, I will consider establishing an amnesty period for small businesses that have not registered with the city. During this period, the city may waive or reduce back payroll taxes and registration and licensing fees for businesses obtaining a Business Registration Certificate and required licenses.

**REINSTATE THE NEW JOBS TAX CREDIT** Until December 31, 2002, the City's New Jobs Tax Credit Program gave companies that created new, permanent jobs in San Francisco a two-year credit against their city payroll tax liability for new employees. I will work hard to reinstate this program, which provides an incentive for locating a small company in San Francisco.

**MAKE PAYROLL TAXATION MORE EQUITABLE** The current payroll tax system has clearly impeded business formation and growth in the city. Revamping the payroll tax system can enhance small business growth. That is why I support research by the Municipal Fiscal Advisory Board into ways of restructuring the city's business tax system. Any revision should be revenue neutral so it will not disrupt funding of any critical city services.

## **INCREASE THE NUMBER OF QUALIFIED SMALL BUSINESSES CONTRACTING WITH THE CITY**

As Mayor, I will make it easier for qualified small businesses to bid for and receive contracts with the City of San Francisco.

**INCREASE THE NUMBER OF REGISTERED M/W/LBES** The city already has in place a mechanism for promoting small business participation in city contracting: the Minority/Woman/Local Business Enterprise (M/W/LBE) Program. In brief, the city grants a 5% bid discount on city contracts to certified LBEs—small businesses located in San Francisco that meet certain industry-specific criteria for gross receipts. The city grants an additional 5% bid discount to LBEs that are also certified MBEs or WBEs. The City's Human Rights Commission (HRC) manages the certification process.



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The M/W/LBE Program has helped direct city business to small businesses and minority- and woman-owned companies. But there is clearly room for improvement. In a city with approximately 60,000 small businesses, there are only 700 or so certified LBEs in San Francisco. According to a December 2002 HRC report, only 16.9% of primary city contracts went to LBEs between 1998 and 2002. In that same period, HRC reports that use of minority and women contractors “consistently performed far below” the city's annual goals in sectors such as professional services, purchasing and telecommunications. (For example, the city's goal for professional services is 12% for MBEs and 10% for WBEs. Actual participation was 4% and 2%, respectively.) The Small Business Commission reports a lack of small business suppliers, especially for big-ticket items like city vehicles.

To increase the number of M/W/LBEs in San Francisco, I will:

- **Expand Marketing, outreach and customer service to potential LBEs** To expand our pool of qualified small businesses, the city needs to do a better job marketing the M/W/LBE Program. This is especially true in industries like professional services, where small business, minority and women contractors are underrepresented.

Other U.S. cities offer successful practices for marketing and outreach to potential city vendors. Dallas, for instance, distributed a CityLink CD-ROM to businesses throughout the city. This CD contained all the information and forms necessary to register and do business with the city.

I will direct the Small Business Commission to implement a more aggressive program to educate and recruit LBEs. This will include a coordinated marketing effort by my economic development office, MOCD, the San Francisco Chamber of Commerce and minority Chambers, neighborhood merchant groups, and the many government and nonprofit agencies providing small business development services.

To attract strong small business vendors, the city must provide outstanding customer service, easy access to services, prompt and informative responses to inquiries, and technical assistance for M/W/LBE applicants. The 311 system I have proposed will help improve customer service for potential LBEs. The system will provide easy access to city government through a single point of contact, a 311 phone number staffed by customer service representatives. This system will allow companies in need of business-related services to quickly identify and be connected to the proper departments. 311 will also allow businesses to check on the progress of their requests for assistance. Conceivably, the 311 system could be used to publicize bid opportunities for city contracts.

- **Simplify the M/W/LBEs certification process** Unlike the State of California certification process—which takes two weeks—it takes 30 to 60 days to become a certified LBE in San Francisco. Our current M/W/LBEs certification process is cumbersome and in some cases duplicative. Even if a business has obtained certified M/W/LBE status from the HRC, for example, it must in effect re-register as a M/W/LBE when it bids on a contract with other city agencies like Muni and the airport.

I will ask the HRC and city departments to find ways to streamline the application process, making it simpler and faster. I also will oversee the development of Memoranda of Understanding among city agencies stating that M/W/LBE certification by the HRC is sufficient proof of status.

The City of Los Angeles offers a potential model for streamlining the process. Los Angeles recently implemented a Small and Local Business (SLB) Preference Program that allows small businesses to obtain SLB status—and thus become eligible to receive a bid discount on city contracts—simply by submitting a one-page form. SLB-certified businesses go through a more rigorous due diligence process if they are among the top bidders for a contract, or if they wish

to bid on a larger contract. This system has increased the number of small businesses in the pipeline—and saved Los Angeles money in the process.

- **Increase the Bid Discount for LBEs** Currently, all certified LBEs receive a 5% bid discount on city contracts, and MBEs and WBEs get an additional 5% discount for contracts under \$100,000. Because of costs related to the city’s high rents and regulatory burden, however, that 5% is often not enough to offset the high price of selling products and providing services in San Francisco.

With the City Treasurer, Controller and other departments, I will explore the feasibility of increasing the bid discount for all LBEs to 10% and for LBEs that are MBEs/WBEs to 15%. I will also consider increasing the contract cap size.

- **Set participation goals for LBE contracts** The city currently sets participation goals for MBEs and WBEs, but not for all LBEs. Nor does San Francisco report annually on the total percentage of city contracts issued for all LBEs.

I will work with the HRC and city agencies to set industry-specific LBE participation goals against which we can measure progress toward increased small business participation.

**STREAMLINE THE BID PROCESS AND PUBLICIZE BID OPPORTUNITIES** I will direct the Office of Controller and the Office of Contract Administration (OCA) to take a lead in researching and then implementing best practices for streamlining the contract bidding process.

One of the most promising trends is online bidding. In Los Angeles, for example, the Department of Water and Power manages an electronic bid site that allows businesses to submit bids online. This system not only increased the number of bids, it saved the department a lot of money as well.

I also will direct the Small Business Commission and city agencies to more aggressively publicize and promote opportunities for small businesses to bid for city contracts. A currently underutilized vehicle for promoting these opportunities is [sfbizinfo.org](http://sfbizinfo.org), the Internet business portal to city services. Again, Los Angeles provides a model. L.A. created the Business Assistance Virtual Network, a website that offers a searchable database of bid opportunities and a list of certified subcontractors to complement project bids. I will work to upgrade [sfbizinfo.org](http://sfbizinfo.org) to make it a more utilized resource.

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**UNBUNDLE CITY CONTRACTS** In practice, most city contracts to LBEs are subcontracts. Between 1999 and 2002, 48.6% of subcontracts went to LBEs. Lurking behind this positive statistic, however, are a number of potential problems for small businesses. A joint venture between an LBE and a non-LBE lowers the bid preference, for example, and thus the LBE’s chance of securing the work. Once

a contract is secured, a prime contractor is not accountable to pay the subcontracting LBE on time. In some cases, the prime contractor may never use the subcontracting LBE at all.

A key mechanism for helping small businesses compete directly for city contracts is to unbundle large city contracts to make it easier for small businesses to bid on individual parts of a project. I will direct the OCA and city departments to devise recommendations for this process.

**FAST TRACK PAYMENT TO SMALL BUSINESSES** For businesses with small cash flow, timely payments are the difference between staying afloat and closing their doors. San Francisco needs to improve its record of paying bills on time.

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I will direct city agencies that contract with small businesses to provide a portion of payments up front, which will help these businesses complete city contracts. I also will ask the OCA to design and implement a prompt payment system for city contractors. Such a system would prioritize payment to small business vendors, requiring the city to pay LBEs within 30 days, midsize companies within 60 days, and large companies within 90 days. Midsize and large companies would have the option to offer the city a discount on the contract in exchange for quicker payment.

In November 2001, Los Angeles implemented a version of this prompt payment system, requiring all city departments pay vendors within 30 days of receipt of an invoice. Within one year, the city had reduced the backlog of outstanding invoices from 16,000 to 700—without hiring additional accounts payable staff—while increasing discounts for prompt payment by 92%. These discounts saved Los Angeles over \$3 million.

**ENSURE PRIME CONTRACTOR ACCOUNTABILITY** Currently, there are no accountability standards for how prime contractors treat subcontractors—how much business the subcontractors are receiving, how quickly they are being paid, etc.—nor is there a system for tracking this information.

I will direct OCA to modify existing databases to centralize and track information from all city departments on prime contractors to allow reporting on these contracts. If a prime contractor does fulfill its contractual obligations regarding subcontractors, the city will discontinue business with that prime contractor.

**REFORM THE SOLE-SOURCE CONTRACT SYSTEM** Sole source contracts (contracts awarded to a single vendor by a city agency without a competitive bid process) waste tens of millions of dollars each year and compromise the ethics and efficacy of city business. As a Supervisor, I took the lead in proposing reforms of the sole-source contracting system. As Mayor, I will make these solutions work for San Francisco.





I will put in place measures recommended by the Office of the Controller that will enable the city to more effectively and efficiently process and track information about its sole source contracts. I will:

- Change the procedures so that departments are required to submit all existing sole source contracts for review within a reasonable time, so that existing contracts can be reviewed under the new guidelines;
- Develop a computerized sole source database that includes all relevant information for each contract;  
and
- Initiate competitive bid solicitation processes for services provided under contracts in place 10 years or longer.

**CENTRALIZE AND TRACK CONTRACT DATA** Using our existing technology to better track and manage city contracts is an inexpensive way to eliminate government waste that will more than pay for itself.

I will direct the OCA to create a centralized database of contract information from all city departments and to report regularly to the Mayor's Office on LBE contracting data. I will also require annual reports from city departments on all existing and new contracts, including progress toward goals for increasing the number of contracts made with MBE/WBE/LBEs.

**CONCLUSION** Attracting small businesses and helping them thrive is one of the smartest investments San Francisco can make for its future. By empowering small businesses, we will create more jobs, fund more critical city services, and improve the well-being and quality of life of all San Franciscans.

A thriving economy means a thriving city. Encouraging small business growth is not simply an investment in the local economy; it is an investment in the people and families who live and work here, in our neighborhoods and districts, in the private and the public sector, and in San Francisco's future.

**FOR MORE INFORMATION** To receive policy updates or for more information, please contact the Newsom for Mayor campaign at [newsom4mayor@yahoo.com](mailto:newsom4mayor@yahoo.com).