

SAN DIEGO SMALL BUSINESS LENDING COLLABORATIVE

EQUITABLE DEVELOPMENT PLAN

FOR THE SAN DIEGO PROMISE ZONE

EQUITABLE DEVELOPMENT PLAN COLLABORATIVE PARTNERS



Support for the San Diego Small Business Lending Collaborative and this plan was provided by JPMorgan Chase through its Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods) initiative

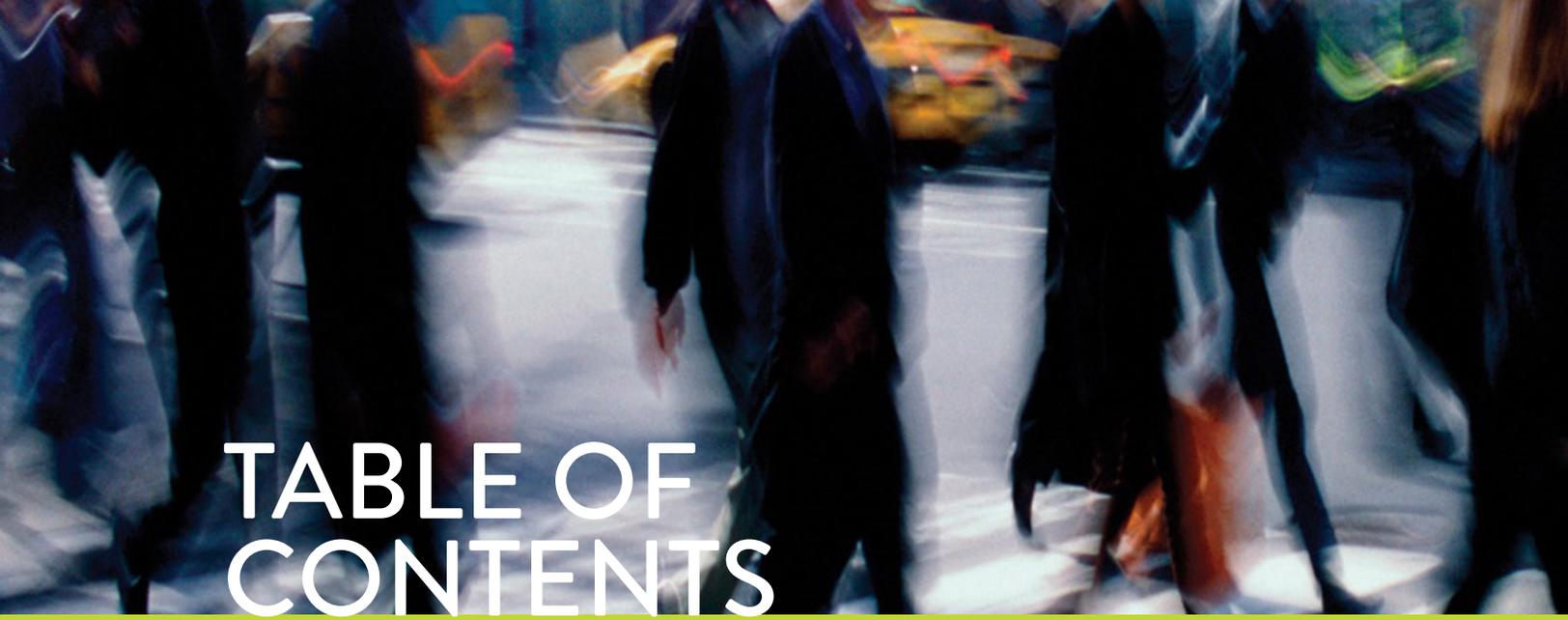


TABLE OF CONTENTS

01 / INTRODUCTION & BACKGROUND	3
02 / ECONOMIC LANDSCAPE	6
03 / IMPROVING ECONOMIC ACTIVITY	8
04 / STRATEGIES THAT RESPOND TO SDPZ	10
05 / COLLABORATIVE PARTNERS	14
06 / APPENDIX: SURVEY RESULTS	17

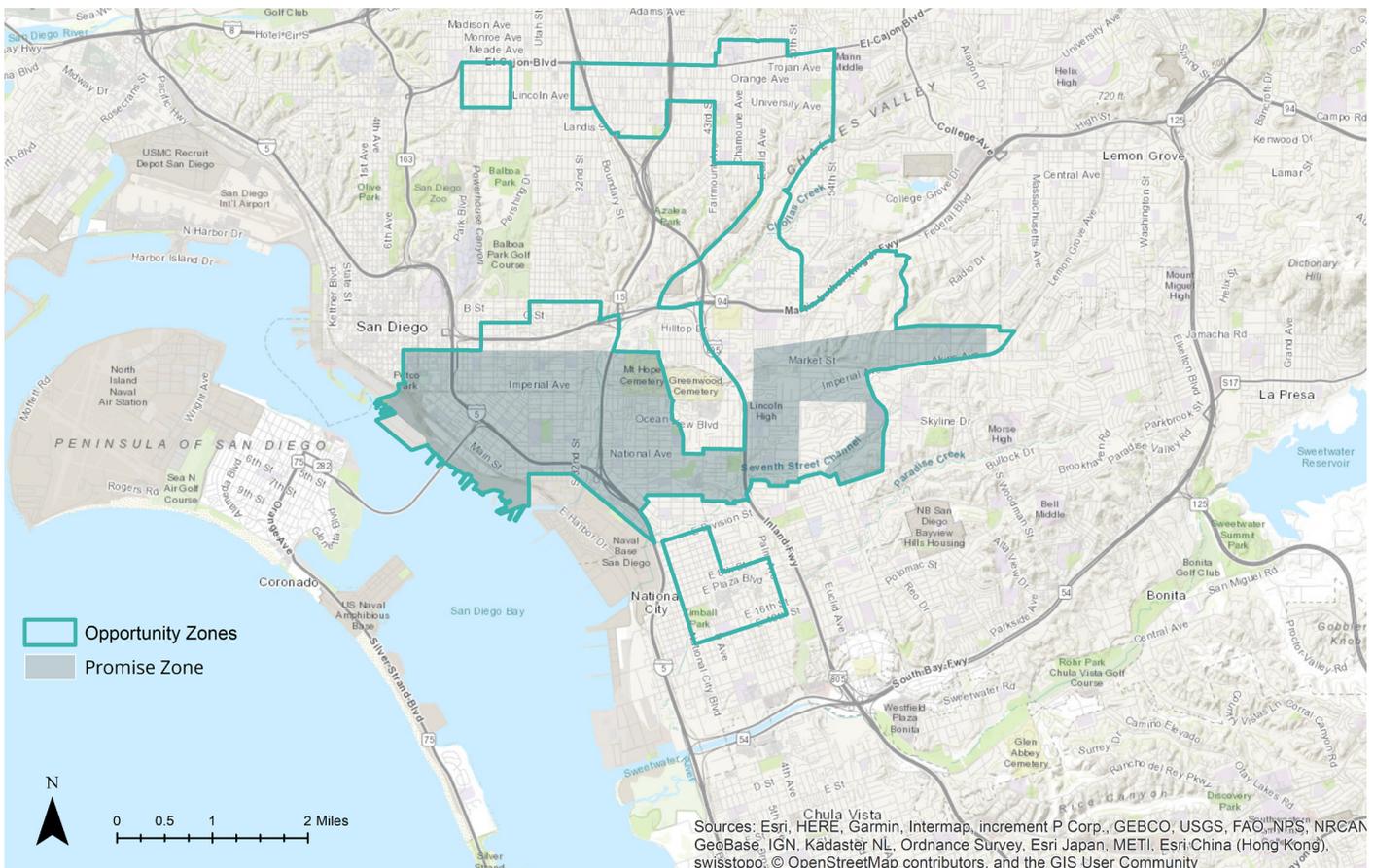
INTRODUCTION

The San Diego Promise Zone (SDPZ) is a geographic area comprising three City of San Diego Community Plan Areas: Barrio Logan, Southeastern, and Encanto Neighborhoods. Historically disadvantaged and suffering from a lack of economic investment, these SDPZ neighborhoods have long been characterized by their relatively high unemployment, high poverty, and low educational attainment rates. With a higher share of minorities and immigrants, the culturally-rich communities within the SDPZ also possess unique barriers to economic growth.

The SDPZ is roughly bounded by the San Diego Unified Port District to the west; downtown San Diego and State Route 94 to the north; National City to the south; and the City of Lemon Grove to the east. All 19 SDPZ census tracts were certified by the IRS as Opportunity Zones in 2018. Tax benefits provided to those who invest capital gains in property and projects within an Opportunity Zone are designed to promote economic growth and job creation in these economically distressed communities.

The SDPZ is home to 86,790 residents which represents 2.6 percent of the region's total population. Since 2012, the SDPZ's population has grown by 4.3 percent, slower than the regional growth rate of 5.9 percent.¹

FIGURE 1 / CITY OF SAN DIEGO PROMISE ZONE & OPPORTUNITY ZONES

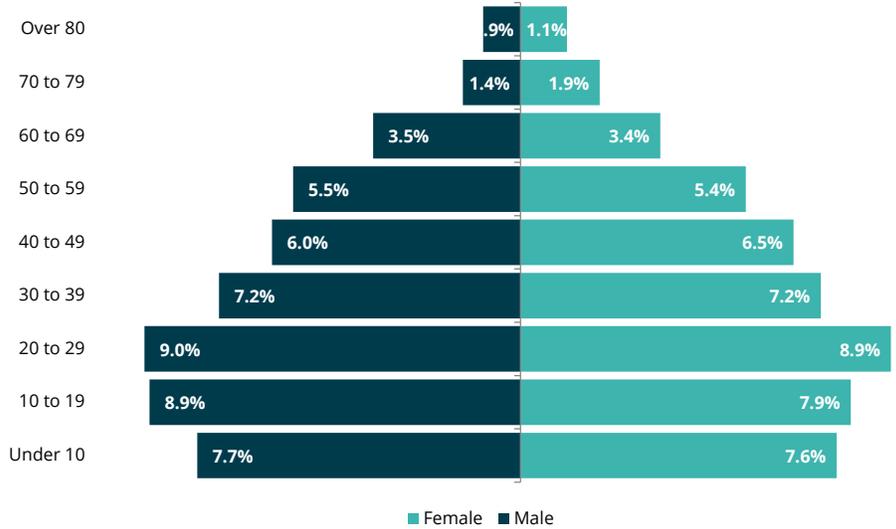


AGE

With a median age of 28.7, the SDPZ's population is significantly younger compared to the region, which has a median age of 35.4. Although the SDPZ's median age has increased slightly in recent years, the largest share of the population – 17.9 percent – is between 20 and 29 years old.ⁱⁱ

i The SDPZ, with a higher share of the population under the age of 30, has historically been plagued by above average youth unemployment rates.

FIGURE 2 / SDPZ POPULATION BY AGE & SEX, 2017



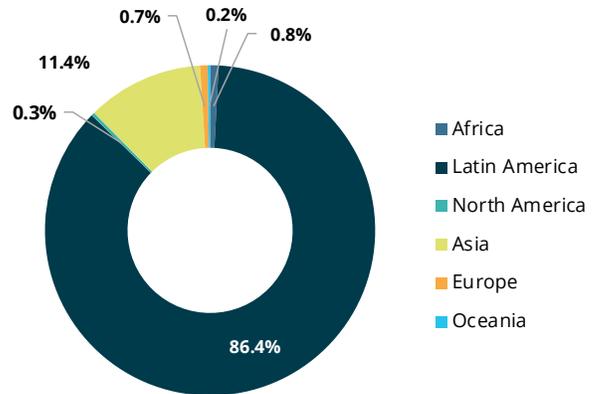
Source: ACS 5-year estimates, 2017

RACE & ETHNICITY

The San Diego region is a “majority-minority” region, meaning no single race or ethnic group makes up more than 50 percent of the population. This is in stark contrast to the SDPZ, however, where the Hispanic population represents 73 percent of the population.ⁱⁱⁱ

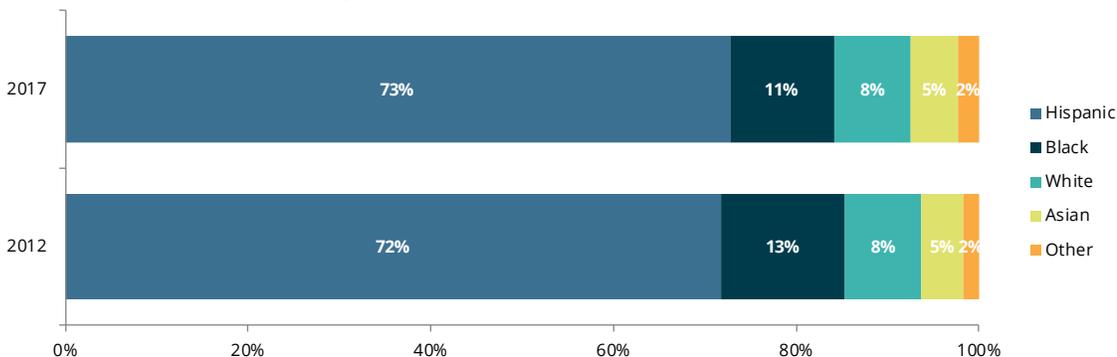
Since 2012, the SDPZ's Hispanic population has seen the greatest absolute growth, increasing by nearly 3,400 people, or approximately 5.7 percent. Additionally, approximately 35 percent of SDPZ residents are foreign-born with the highest share – 86 percent – originating from Latin America. More specifically, a full 83 percent of the immigrant population in the SDPZ is from Mexico.

FIGURE 3 / SDPZ FOREIGN-BORN POPULATION BY PLACE OF ORIGIN



Source: ACS 5-year estimates, 2017

FIGURE 4 / SDPZ POPULATION BY RACE & ETHNICITY



35%
of SDPZ's population is foreign-born

Source: ACS 5-year estimates, 2017

POVERTY & EDUCATIONAL ATTAINMENT

According to the U.S. Department of Housing and Urban Development's 2019 Choice Neighborhoods data mapping tool, the "Neighborhood Poverty" for the SDPZ is nearly 40 percent.^{iv} Poverty in the SDPZ is more than double state and regional rates. Poverty thresholds are defined by the federal government and vary by family size, but don't account for area differences in cost of living. In 2017, the federal poverty threshold for a family of four was \$25,750. In San Diego, poverty is disproportionately concentrated in the SDPZ. Across the 19 SDPZ census tracts, the estimated household **median income** in 2017 was \$37,156, compared to \$74,535 in the City of San Diego as a whole.

Generally, higher levels of educational attainment are correlated with lower poverty rates. However, even those who possess a bachelor's degree in the SDPZ have relatively high poverty rates, with 12.7 percent of bachelor's degree holders living in poverty – more than double the rate for the region.^v

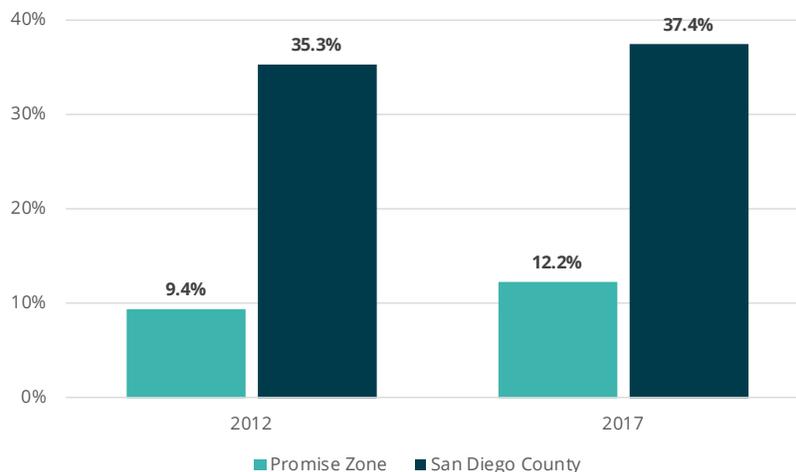
SDPZ residents have much lower rates of educational attainment than the residents in the San Diego region. Roughly 12 percent of the population over the age of 25 has obtained a bachelor's degree or higher compared to 37 percent region-wide. Furthermore, severe disparities exist when looking at educational attainment by race and ethnicity. In the SDPZ today, educational attainment rates for the Black (12.2 percent) and Hispanic (2.3 percent) population over the age of 25 fall far short of the regional rate (37.4 percent).

TABLE 1 / POVERTY RATE BY AGE & EDUCATIONAL ATTAINMENT LEVEL, 2017

	SDPZ	SAN DIEGO	CALIFORNIA
Under 18 years	45.7%	17.1%	20.8%
18 to 34 years	25.8%	16.1%	17.3%
35 to 64 years	28.1%	10.8%	11.9%
65 years and over	25.8%	9.0%	10.2%
Less than high school graduate	37.1%	23.4%	24.4%
High school graduate	24.0%	14.2%	15.0%
Some college, associate's degree	21.3%	10.4%	10.5%
Bachelor's degree or higher	12.7%	5.2%	5.2%
Overall poverty rate	32.3%	13.2%	15.1%

Source: ACS 5-year estimates, 2017

FIGURE 5 / SHARE OF POPULATION POSSESSING A BACHELOR'S DEGREE OR HIGHER, 2012, 2017



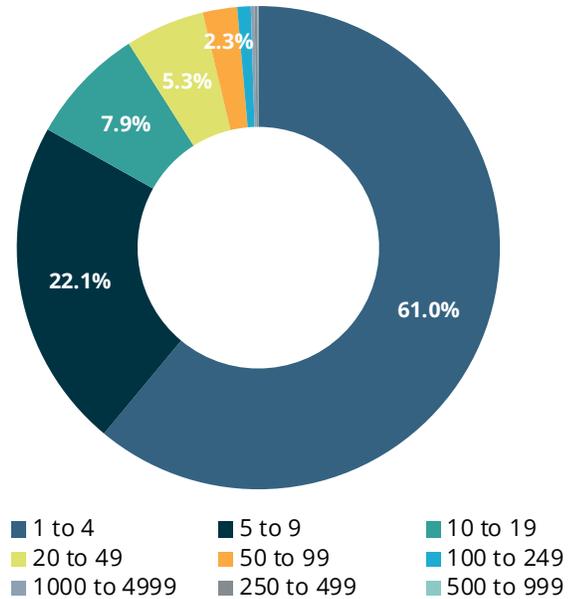
Source: ACS 5-year estimates, 2012 & 2017

A decade after the Great Recession, San Diego’s overall economy is thriving, but the SDPZ has not benefitted from the prosperity experienced elsewhere in the region.^{vi} With higher levels of unemployment, lower levels of educational attainment, household income, and per capita business revenue, it is abundantly clear that a rising tide has not lifted all boats.

The economy of the SDPZ is characterized primarily by locally-serving small businesses. With more than 2,300 businesses in operation today, more than 83 percent employ fewer than 10 people and an estimated 250 – 400 of known businesses are home-based. With regards to the distribution of businesses by sector, nearly 21 percent are in manufacturing and another 15 percent are in transportation and warehousing – a complementary industry to manufacturing. Aside from manufacturing, which is goods-producing and export-oriented in nature, the highest concentrations of industries are largely locally-serving or population-driven industries such as public administration, retail, education, and accommodation and food services.^{vii}

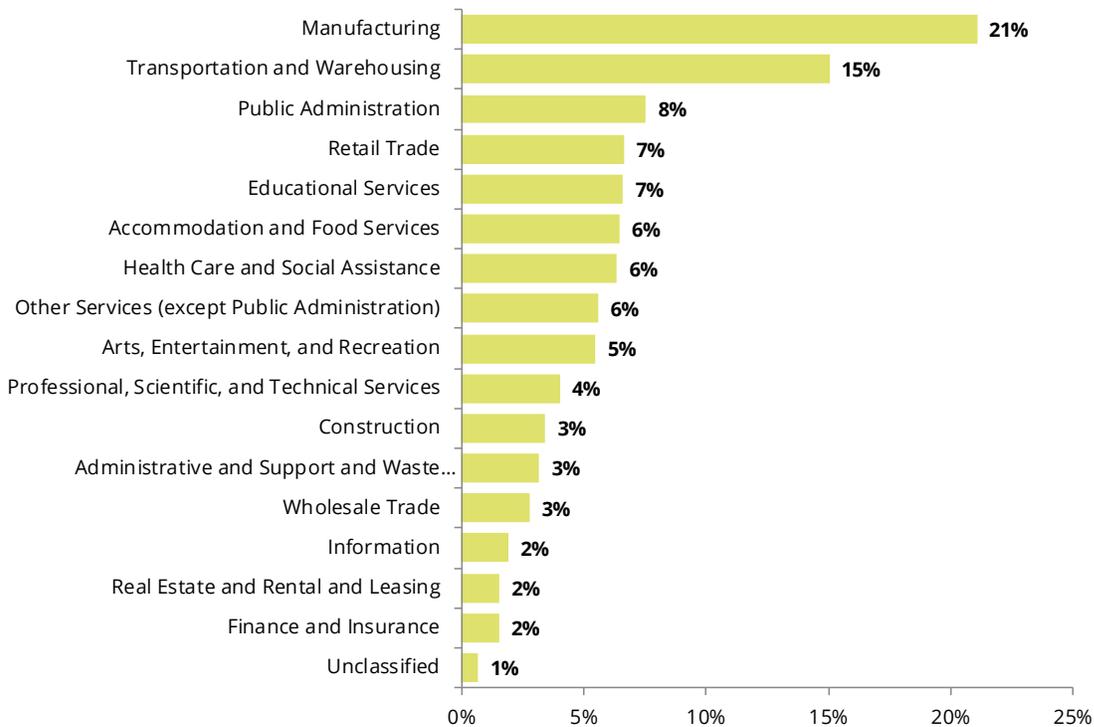
83% of firms in the SDPZ have fewer than 10 employees

FIGURE 6 / SDPZ BUSINESSES BY SIZE



Source: ReferenceUSA, 2019

FIGURE 7 / SDPZ BUSINESSES BY SECTOR



Source: ReferenceUSA, 2019



MICRO-
ENTERPRISES

Micro-enterprises, those employing fewer than five people, are at the core of the SDPZ’s business ecosystem. Employing roughly 10.8 percent of the SDPZ’s total workforce, micro-enterprises account for more than half – or 50.8 percent – of all businesses. In regard to business distribution by sector, micro-enterprises are heavily skewed toward locally-serving or population-driven industries such as other services, healthcare and social assistance, retail trade, and professional, scientific, and technical services. ^{viii}

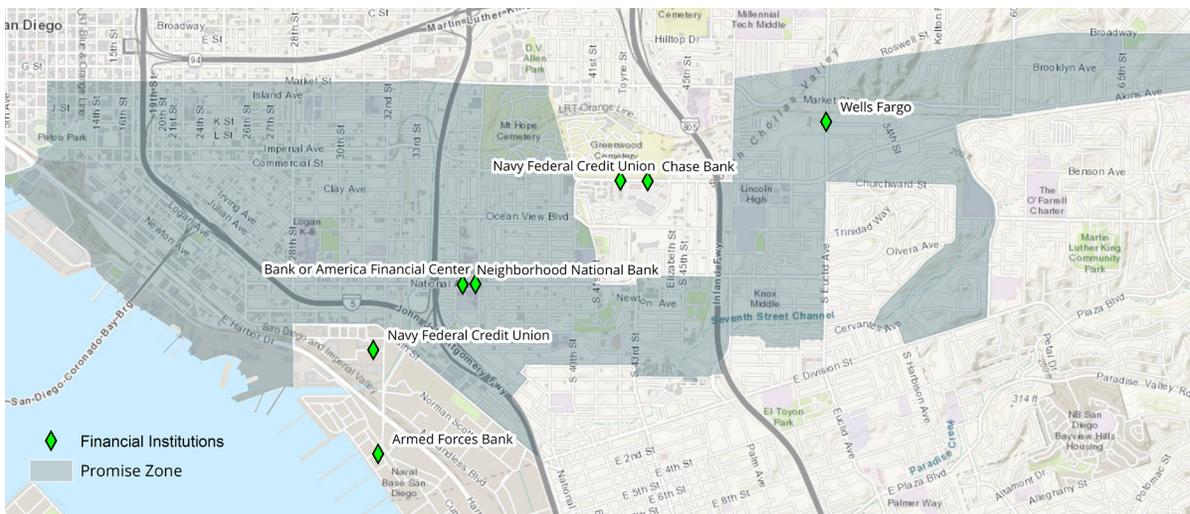
The median-priced San Diego home is \$656,600, almost three times the national average. ^{ix} A severe shortage of housing units has led to a “housing crisis.” ^x According to the San Diego Housing Commission’s 2017 Report on Addressing the Housing Affordability Crisis, San Diego Housing Production Objectives 2018-2028, “Housing affordability impacts 100 percent of low-income residents and a large portion of moderate-income households.

Roughly 70 percent of moderate-income households cannot afford home ownership, and more than 30 percent cannot afford rent.” ^{xi} In the promise zone today, 81 percent of households with annual incomes below \$50,000 are rent burdened, paying more that 30 percent of their income towards housing costs. ^{xii} The region’s high cost of living places additional economic pressure on an already disadvantaged population.



HOUSING SHORTAGE AND
LACK OF AFFORDABLE
HOUSING OPTIONS

FIGURE 8 / MAP OF SDPZ BANKS



Recent rezoning, vacant land along high traffic corridors, and a central location that is well-served by public transit are existing conditions that can be built upon to enhance the economic vitality of the SDPZ. The City of San Diego and its Promise Zone partners are working to improve the quality of life and accelerate revitalization, which includes a goal to strengthen the business base of the SDPZ by offering support for small businesses, entrepreneurs, and self-employed residents by providing small business owner training and removing barriers to start-up/expansion capital.

SMALL BUSINESSES DRIVE ECONOMIC GROWTH

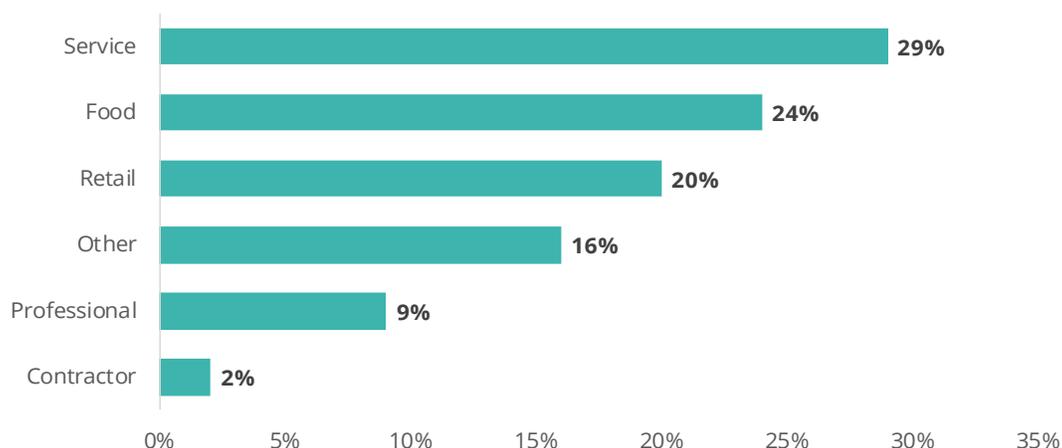
Small businesses have the potential to create jobs. Nationwide, almost half (47.3%) of all jobs in 2016 were created by businesses with fewer than 500 employees, and almost a sixth (16.6%) were created by businesses with fewer than 20 employees.^{xiii} Further, a recent study indicates that a company's age, rather than its size is strongly correlated with job growth. Specifically, this study found that startups "account for only 3% of employment but almost 20% of gross job creation."^{xiv}

Regionally, small businesses – those with fewer than 100 employees – represent 98 percent of San Diego's firms and employ nearly 60 percent of the workforce. A regional survey of more than 522 small businesses, found that more than two-thirds of small businesses are in local-serving industries and nearly one-quarter have operated for more than 20 years. This regional survey found that most small businesses are primarily engaged in business-to-business (B2B) sales or direct to consumer sales, with most having local customers within the county.

In the SDPZ, a survey was conducted in late 2018 to better understand the specific needs of businesses and entrepreneurs, especially businesses without storefronts, as these populations are not typically surveyed. As part of this effort, data were collected from 129 small business owners and 101 prospective business owners in the SDPZ's 92102, 92113, and 92114 zip codes. Respondents were given the choice of taking the survey in English or Spanish. Surveys were conducted via door-to-door interviews using iPads, direct email invitation, at community centers, and targeted social media solicitations.

Nearly three-quarters (74%) of SDPZ business owners surveyed own their business alone and most (71%) work from home. The businesses are primarily in the service (29%), food (24%), and retail (20%) sectors, with few respondents reporting owning professional or contractor businesses. Revenues vary widely, with median monthly revenue of \$1,500.

FIGURE 9 / TYPE OF BUSINESS OWNED IN SDPZ



PROSPECTIVE BUSINESS OWNERS

Prospective SDPZ business owners report planning business primarily in the service and food sectors, and the majority plan to operate their business out of their home. The biggest challenge facing one half of them is they have no idea how to get their business started or where to even go for advice. Half also feel they don't have enough money to get started and many have concerns over a loss of income while getting started. The expected amount of money required to start varies, depending on where they are in the process. Overall, the median amount needed is \$15,000 while those who have already started saving to start a business anticipate needed a median of \$2,500 more to go before they can start. Many anticipate funding the start up from savings or borrowing from non-profits, with most other forms of financing often not being considered.

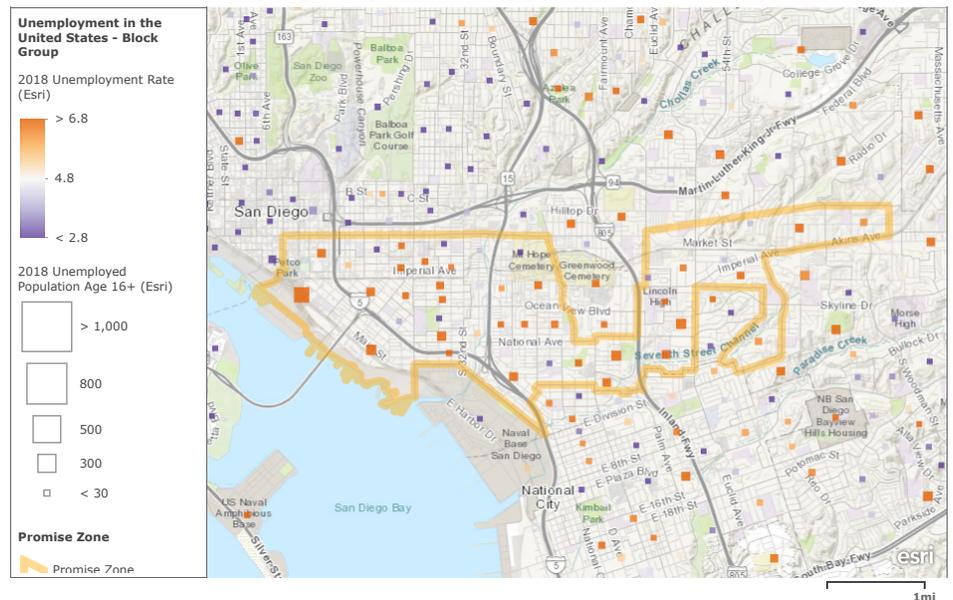
UNEMPLOYMENT IN SDPZ

Today, San Diego County's unemployment rate is below three percent, and while regional unemployment is near historic lows, the Promise Zone is still plagued by higher than average unemployment rates. In some areas of the SDPZ, unemployment is more than double the regional rate, exceeding 6 percent.

In disadvantaged neighborhoods, including those with higher unemployment and lower levels of educational attainment, research suggests that people often become entrepreneurs out of necessity while unemployed or chronically underemployed. Additionally, minority entrepreneurs tend to be overrepresented in less-successful industries and have a higher rate of failure due to lack of resources including startup up capital, access to credit, and access to new markets.^{xv}

While minority and low-income entrepreneurs certainly face additional challenges when creating businesses, entrepreneurship in disadvantaged communities also holds the promise of generating wealth and creating jobs. With the right support, including access to necessary resources and programming, entrepreneurship should be encouraged as a means to increasing economic prosperity in the SDPZ.

FIGURE 10 / UNEMPLOYMENT IN SDPZ



Small businesses provide a potential pathway out of poverty for low-income residents, who can take advantage of area business resources to establish and repair credit, create savings, and build assets. In addition to full-time endeavors, part-time home-based businesses or “side gigs” provide low-income residents with the potential to generate supplementary income, which is especially important given San Diego’s high cost of living and lack of affordable housing. The following strategies are aligned with evidence-based recommendations in anti-poverty work and are designed implemented together, using the strengths of CDFIs and place-based nonprofits to enhance the lending ecosystem by providing a comprehensive and complementary suite of lending products and training.

32%

of residents
speak English less
than “very well”

STRATEGY #1

PROVIDE BASIC FINANCIAL EDUCATION IN BOTH ENGLISH AND SPANISH TO RESIDENTS AT TRUSTED AND ACCESSIBLE NEIGHBORHOOD LOCATIONS.

Given the proportion of the SDPZ population that speaks Spanish, the lack of educational attainment, and the lack of neighborhood mainstream financial institutions, exacerbated by some residents’ distrust of unknown organizations, it makes sense to provide basic financial education, such as credit education, counseling, and coaching, at accessible and trusted locations throughout the SDPZ. Prospective and existing small business owners seeking capital within the SDPZ often have poor credit. Providing basic financial education will benefit residents and empower them to understand how taking steps to improve their credit can result in them paying less interest, and down the road will better position them for asset-building opportunities such as small business or home ownership.

STRATEGY #2

ADVOCATE FOR AND/OR PROVIDE AFFORDABLE SMALL DOLLAR LOANS TO HELP LOW-INCOME RESIDENTS AND SMALL BUSINESS OWNERS AVOID HIGH-COST ALTERNATIVE LENDERS.

Alternative lenders have proliferated following a reduction in small business lending by banks following the Great Recession. Both individuals and small businesses that are unbanked often turn to alternative or fringe financial service providers such as payday lenders and non-bank check cashers to meet immediate needs for cash. In exchange for convenience, such fringe financial service providers often charge much higher interest rates than banks or nonprofit small business lenders. An analysis of 104 businesses that applied to California-based Opportunity Fund to refinance loans that they’d previously taken out from alternative lenders demonstrated that the mean APR these businesses were being charged was 93.9%. It is worth noting that those who use fringe financial service providers also do not receive consumer protections that are available in the banking system.

STRATEGY #3

INCREASE COLLABORATION AMONG PARTNERS, INCREASING AWARENESS OF AND ACCESS TO EXISTING RESOURCES.

Greater cross-collaboration among resources and agencies will build upon existing partner trust and networks. Targeted marketing campaigns with clear, linguistically-appropriate messaging will help Collaborative partners reach new audiences. Paid advertising in both English and Spanish on sites such as *Yelp* will directly compete with area payday lenders and check cashing services, allowing low-income residents to retain a greater portion of their earnings. A longer-term outgrowth of this Collaborative strategy is to develop a single client-facing portal, that is useable by Collaborative Partner staff and clients on the front-end and seamlessly redirects clients to individual partners' systems on the back end. This type of system investment would benefit both area service providers and residents and could be a mechanism to integrate with or expand to other areas of lending (e.g., first-time homebuyer loans for low-to-moderate income residents).

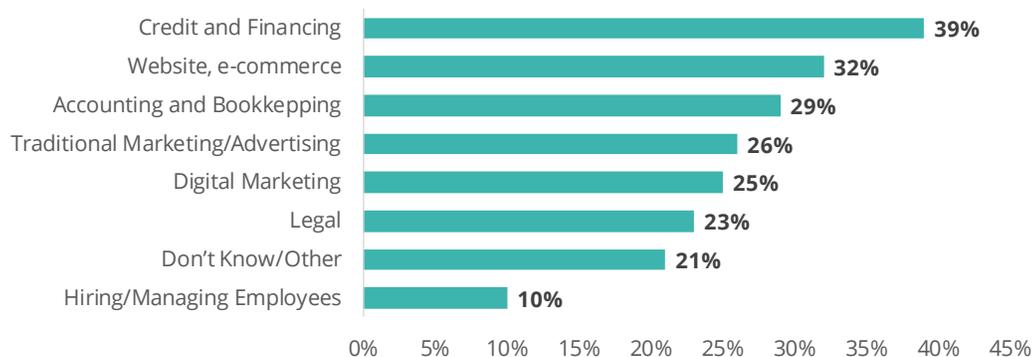
STRATEGY #4

EXPAND ACCESS TO FLEXIBLE CAPITAL FOR SMALL BUSINESS OWNERS.

Providing small businesses with access to the flexible capital that they need to grow their businesses and create jobs is an important way that nonprofits working in the SDPZ can support a stronger local economy. Flexible capital is highly sought out by small businesses. In fact, 14 percent of all small businesses cited financial stability and cash flow as their most significant challenge. Among the few who have applied for financing, most used it to purchase equipment, build inventory, or cover start-up costs. Perhaps most startling is the fact that one in three business owners have no knowledge of any finance options available to them.

The biggest challenge SDPZ business owners reported facing is credit/financing. Among the few who have applied for financing, many found only expensive options or were declined due to bad credit or income requirements. One in three (35%) business owners have no knowledge of any finance options available to them. Few (12%) have ever applied for business financing mainly because they think their business is too small or they have credit issues.

FIGURE 11 / CHALLENGING AREAS REQUIRING SUPPORT

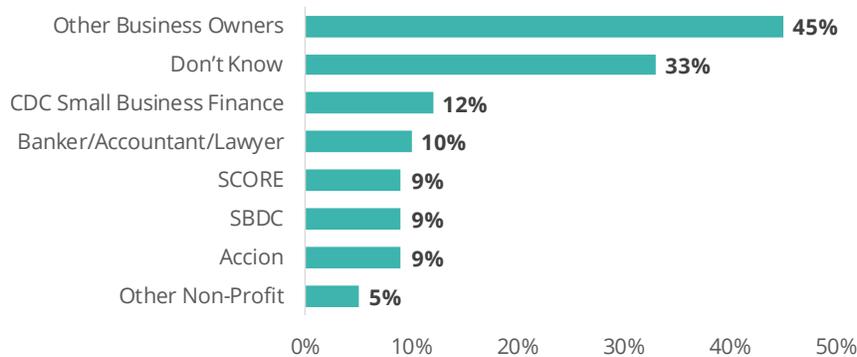


STRATEGY #5

PROVIDE WORKSHOPS OR SEMINARS ON TOPICS OF INTEREST AT ROTATING LOCATIONS THROUGHOUT THE SDPZ.

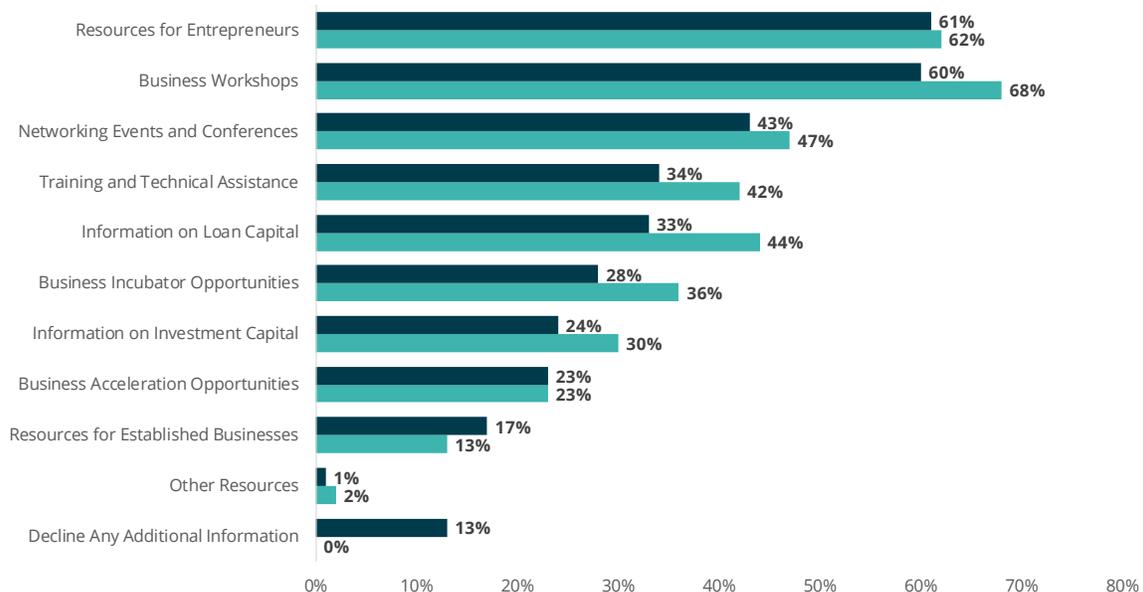
More than anyone else, business owners rely on each other for business advice, but a full third don't know who to consult with regarding their questions. To address low resource utilization, awareness, and promote the exchange and sharing of business advice, existing neighborhood assets should be utilized to host educational and networking events catered to current and prospective business owners; designating these spaces will allow for and encourage the sharing of knowledge and individual experiences. Understanding that business owners are most inclined to trust one another, there is still an educational opportunity for presentations by local, trusted organizations within the SDPZ community to provide greater insight regarding existing business resources. Rotating locations will increase the likelihood that home-based business owners are reached and are able to access educational resources that will allow them to contribute to the local economy.

FIGURE 12 / WHERE SDPZ BUSINESS OWNERS GO FOR ADVICE



The needs and interests expressed by SDPZ small and home-based business owners provide insight into potential investments that could improve the economic vitality in the SDPZ.

FIGURE 13 / CHALLENGING AREAS REQUIRING SUPPORT



STRATEGY #6

EXPAND ACCESS TO ENTREPRENEURSHIP TRAINING & ACCELERATOR PROGRAMS FOR LMI POPULATIONS.

Despite the number of entrepreneurship training and Accelerator programs in the region, there are few that operate within the SDPZ. Many prospective business owners don't know where to turn for assistance. Providing entrepreneurship training programs in languages besides English, especially Spanish, will be essential for increasing participation and generating successful outcomes.

SPOTLIGHT**ACCION ACADEMY
FOR ENTREPRENEURIAL
SUCCESS (AAES)**

AAES is a 10-week program that provides practical, hands-on training and one-on-one business counseling to empower individuals interested in becoming entrepreneurs. In addition to receiving access to multiple business resources and experts for building a thriving business, participants who complete the program are guaranteed a business loan of up to \$5,000 to cover start-up costs. Over the last five years, AAES provided more than 250 low-to-moderate individuals with training and resources to prepare, launch, and operate successful ventures.

JCNI launched an innovative diversity-focused business hub, designed to create jobs for low-to-moderate income residents. In partnership with our Operating Partner, CONNECT, a 501(c)(3) nonprofit with more than 30 years' experience providing world-class accelerator programming, we have launched the CONNECT ALL @ the Jacobs Center business accelerator. By increasing small business owners' access to professional support services, the accelerator will assist entrepreneurs and small business owners to scale their business. In return for receiving no-cost business acceleration services and up to 6-months of free access to coworking space, founders will commit to hiring low-to-moderate income City of San Diego residents for the jobs that are created as their businesses grow. The goal of the accelerator is to generate at least 75 new, full-time jobs resulting from the first three years of operation.

SPOTLIGHT**CONNECT ALL @
THE JACOBS CENTER**

The purpose of this Collaborative is to create financial opportunity for low-to-moderate income residents in three San Diego Promise Zone zip codes - 92113, 92114, and 92102 – improving quality of life while building financial capacity and strengthening the local economy.

ACCION SAN DIEGO

Accion provides education and small business loans ranging from \$300 to \$75,000 to startup and existing entrepreneurs, allowing for strengthened financial independence and positive impact in their local communities such as job opportunities and economic stimulation. As a flexible non-profit lender and certified Community Development Financial Institution by the U.S. Department of Treasury, Accion is dedicated to the equitable distribution of resources to diverse small business owners, many of whom would otherwise face barriers to access. Charity Navigator has given Accion's its highest 4-star rating, acknowledging the organization's commitment to transparency, responsible fiscal practices, and ethical governance. With 25 years of expertise, Accion partners with community and business leaders to support local small business strategies and policies which improve the economic health of individuals, families, and neighborhoods. The majority of the people and communities which are impacted by these efforts may be underserved due to factors such as limited household income, lack of or past credit challenges, ethnicity or short operating histories. By offering access to capital and business education, Accion serves primarily low- to moderate-income, minority, and women business owners. Connecting entrepreneurs with these resources allow them to start, maintain or grow their businesses. Since 1994, Accion has increased the capacity of more than 3,100 entrepreneurs to start, maintain or expand their businesses with almost \$39 million in total loan capital disbursed. As a member of the largest microfinance network in the country, the Accion U.S. Network, Accion is equipped with additional knowledge, support and capacity to continue to scale to meet the local needs of entrepreneurs. As a nonprofit 501 c 3 lender, the organization raises capital from local banks, governmental agencies, foundations and corporations to fund flexible small business loans to these underserved small business owners supporting their dreams, boosting the local economy and contributing to neighborhood revitalization.

LOGAN HEIGHTS COMMUNITY DEVELOPMENT CORPORATION (LOGAN HEIGHTS CDC)

The mission of Logan Heights Community Development Corporation is strengthening individuals, families, and neighborhoods through social and economic development, including access to affordable housing, healthy food, and equitable educational opportunity. Logan Heights CDC works with residents and businesses to lead efforts around community empowerment, economic growth, educational opportunity, and development of affordable housing across the sub-communities of Grant Hill, Logan, Memorial, Sherman, and Stockton, which together form Greater Logan Heights. We work to ensure these traditionally underserved neighborhoods have readily available business resources, and an entrepreneurially friendly atmosphere encourages new business to the service which translates to new job opportunities and economic stability for local residents. Our Career and Financial Advancement Center (CFAC) bundles employment services, financial coaching services, and income support services in a lifespan approach to asset building and assisting families to increase their net worth and quality of life.

SAN DIEGO & IMPERIAL SMALL BUSINESS DEVELOPMENT CENTER (SBDC) REGIONAL NETWORK

SBDC is primarily funded by the US Small Business Administration (SBA), the California Governor's Office of Business and Economic Development (Go-Biz), and other local funders. The SBDC provides no cost one-on-one business advising and training workshops to help small businesses start and grow. The SBDC Network is hosted by Southwestern College in National City, with additional service locations located throughout the county and a new location in Encanto on the second floor of the Jacobs Center for Neighborhood Innovation. We have over 40 expert advisors to help guide businesses in the start-up process, acquiring debt capital (loans), managing a business, marketing, digital media, acquiring angel or venture capital, and much more.

CDC SMALL BUSINESS FINANCE (CDCSBF)

As a leader in the community and economic field, CDCSBF provides access to transformative products, services and advocacy to ensure all small businesses have equal opportunity to succeed and grow. CDCSBF has historically been at the forefront of the critical issues that deeply affect Diverse Small Business Owners, such as lack of adequate access to capital and tailored support services. Our lending/advising strategy is comprehensive and effective in that it creates greater measurable impact by leveraging capital, education and advising. CDCSBF has a history of creating innovative lending products that directly impact LMI communities. We have developed various alternative lending products as a proactive response. This includes managing a CDFI, being an SBA Microlender, and being one of the first, and largest, SBA 7(a) Community Advantage lenders in the country. This year we reached our 40-year milestone. In the last 40 years CDCSBF and its subsidiaries have financed \$18.4 billion and have approved \$96.8 million for SBA Community Advantage loans and \$10 million in SBA Microloans. Over 200,000 jobs have been created/preserved with over 11,000 businesses funded.

THE JACOBS CENTER FOR NEIGHBORHOOD INNOVATION (JCNI)

JCNI is a place-based nonprofit with a mission to foster a thriving community envisioned and realized by its residents. Previously the operating arm of the Jacobs Family Foundation, JCNI received a 501(c)(3) public charity advanced determination ruling from the IRS in 2016. Over the past 20 years, JCNI has developed more than 25 acres of blighted and vacant land into assets that benefit the community, including a community center, an outdoor amphitheater, a shopping center, affordable housing, and park/recreation spaces. JCNI recently launched a business accelerator to serve our city's diverse low-to-moderate income (LMI) founders. JCNI's proven dedication to neighborhood revitalization, significant marketing expertise, and experience as a trusted convener make us well-suited for the role of an intermediary that coordinates efforts, provides backbone support, attracts resources, and promotes the visibility of Collaborative activities. JCNI is one of six Implementing Partners for the federally-designated San Diego Promise Zone. To date, JCNI's work has created more than 500 jobs and supported more than 30 businesses.

ENDNOTES

- i. U.S. Census Bureau (2018). Total Population, 2013 – 2017 American Community Survey 5-year estimates.
- ii. U.S. Census Bureau (2018). Age & Sex, 2013 – 2017 American Community Survey 5-year estimates.
- iii. U.S. Census Bureau (2018). Hispanic or Latino Origin by Race, 2013 – 2017 American Community Survey 5-year estimates.
- iv. Office of Policy Development & Research HUD User (2018) Neighborhood Poverty: Concentration of Persons in Poverty in Target Area (ACS 2017) and Concentration of Extremely Low Income (ELI) Households in Target Area (CHAS 2015). <https://www.huduser.gov/portal/maps/CN/home.html>
- v. U.S. Census Bureau (2018). Poverty Status in the Past 12 Months of Individuals by Sex by Educational Attainment, 2013 – 2017 American Community Survey 5-year estimates.
- vi. Cbs8.com. (2017, January 04). Poverty in San Diego County higher than during Great Recession. Retrieved May 7, 2019, from <https://www.cbs8.com/article/news/local/incewsourc/poverty-in-san-diego-county-higher-than-during-great-recession/509-b67b63f2-0fb1-418b-8852-c60370c537aa>
- vii. Reference USA (2019). U.S. Business Database. Retrieved May 7, 2019 from <http://resource.referenceusa.com/>
- viii. Reference USA (2019). U.S. Business Database. Retrieved May 7, 2019 from <http://resource.referenceusa.com/>
- ix. San Diego, California Cost of Living. (n.d.). Retrieved May 7, 2019, from https://www.bestplaces.net/cost_of_living/city/california/san_diego
- x. Horn, J. (2018, January 19). Zillow: San Diego housing near ‘crisis level’. Retrieved May 7, 2019, from <https://www.10news.com/news/zillow-san-diego-housing-near-crisis-level>
- xi. San Diego Housing Commission (2017, September 21). Addressing the Housing Affordability Crisis. San Diego Housing Production Objectives 2018 – 2028. Retrieved May 7, 2019 from https://www.sdhc.org/wp-content/uploads/2019/01/2017-09-21_SDHC-Housing-Affordability-Production-Objectives_web.pdf
- xii. U.S. Census Bureau (2018). Household Income by Gross Rent as a Percentage of Household Income in the Past 12 Months, 2013 – 2017 American Community Survey 5-year estimates.
- xiii. Congressional Research Service (2018, December 20). Small Business Administration job Creation. Retrieved May 7, 2019, from <https://fas.org/sgp/crs/misc/R41523.pdf>
- xiv. Haltiwanger, J., Jarmin, R., & Miranda, J. (2013, May 13). Who Creates Jobs? Small versus Large versus Young. Retrieved May 7, 2019, from https://www.mitpressjournals.org/doi/10.1162/REST_a_00288
- xv. Ewing Marion Kauffman Foundation (2016, December 5). Including People of Color in the Promise of Entrepreneurship. Retrieved May 7, 2019, from https://www.kauffman.org/~/_media/kauffman_org/resources/2016/including%20people%20of%20color%20in%20the%20promise%20of%20entrepreneurship%20pdf.pdf

RESEARCH & REPORT BY



San Diego PRO Neighborhoods

Research Results



Support for the San Diego Small Business Lending Collaborative is provided by JPMorgan Chase, through its Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods) initiative.

CONTENTS



- Objectives and Methodology
- Executive Summary
- Key Findings – Current Owners
- Key Findings – Prospective Owners
- Demographics





BACKGROUND & RESEARCH OBJECTIVES

BACKGROUND and RESEARCH OBJECTIVES

The San Diego Small Business Lending Collaborative, a grant-funded partnership, works to support small businesses by identifying and removing barriers to growth. The Collaborative intends to collect data in this research that will shape the development of an actionable Equitable Development Plan that will enable the Collaborative, and/or any its partners to secure additional capital and/or resources that can be deployed in response to needs identified any business owners operating within the San Diego Promise Zone.

The objective of this research is to gather data to inform the creation of a responsive, data-driven Equitable Development Plan that will deployment of start-up/expansion capital and training/technical assistance for diverse small business owners operating within the San Diego Promise Zone zip codes.





METHODOLOGY

METHODOLOGY

- ✓ Data were collected from 129 small business owners and 101 prospective business owners in zip codes 92102, 92113 and 92114.
- ✓ Respondents were given the choice of taking the survey in English or Spanish.
- ✓ The Logan Heights Community Development Corporation conducted door to door interviews using iPads.
- ✓ Luth research sent e-mail invitations to opt-in residents/business owners in the three zips using lists provided by the Collaborative.
- ✓ Other organizations in the zip codes such as community colleges, adult education centers and churches were invited to participate in the survey. These surveys were available on paper or via link.
- ✓ Postings were made on Social Media (Facebook, Instagram, etc.) to recruit as broadly as possible within the zip codes.





RESEARCH RESULTS

KEY FINDINGS

BUSINESS OWNERS

- The majority of business owners (74%) own the business alone and most work from home (71%). The businesses are primarily in the service (29%), food (24%) and retail (20%) sectors.
- The median revenue per month amount is low at \$1,500 but there is a wide variety in revenue amounts.
- The biggest challenges facing business owners are credit/financing (39%), e-commerce (32%) and accounting/bookkeeping (29%).
- Nearly one half of the business owners (45%) have other owners to go to for advice but one in three have no idea where to go for business advice (33%).
- Few (12%) have ever applied for business financing mainly because they think their business is too small or they have credit issues.
 - Among the few who have applied for financing, many found only expensive options (40%) or were declined due to bad credit (27%) or income requirements (20%).
- One in three (35%) of business owners have no knowledge of any finance options available to them.

KEY FINDINGS

PROSPECTIVE OWNERS

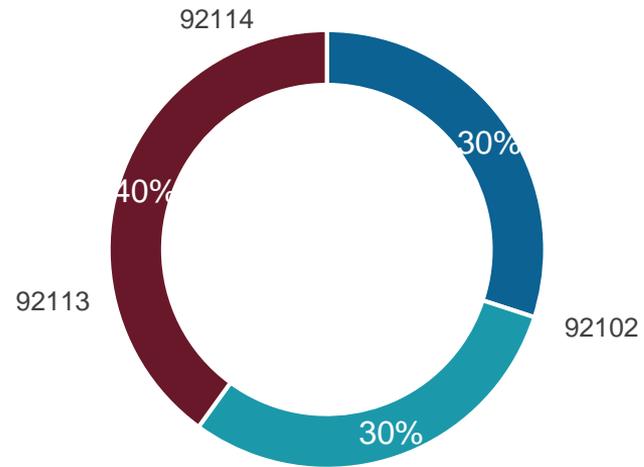
- Prospective business owners are planning business primarily in the service (30%) and food (29%) sectors. The majority plan to operate their business out of their home (58%).
- The biggest challenge facing one half of them is they have no idea how to get their business started or where to even go for advice (52%). Many also feel they don't have enough money to get started (50%) and have concerns over a loss of income while getting started (47%).
- Few (12%) currently have a mentor to help them get started.
- The amount of money required to start varies, depending on where they are in the process. Overall, the median amount needed is \$15,000 while those who have already started saving to start a business (48%) anticipate needed a median of \$2,500 more to go before they can start.
- Many (41%) anticipate funding the start up from savings with borrowing from non-profits (19%) and other means of financing is not being considered by many.



Business Owners

Zip Code of Business

- Survey participating business owners are split relatively equally between the 3 zip codes of interest.

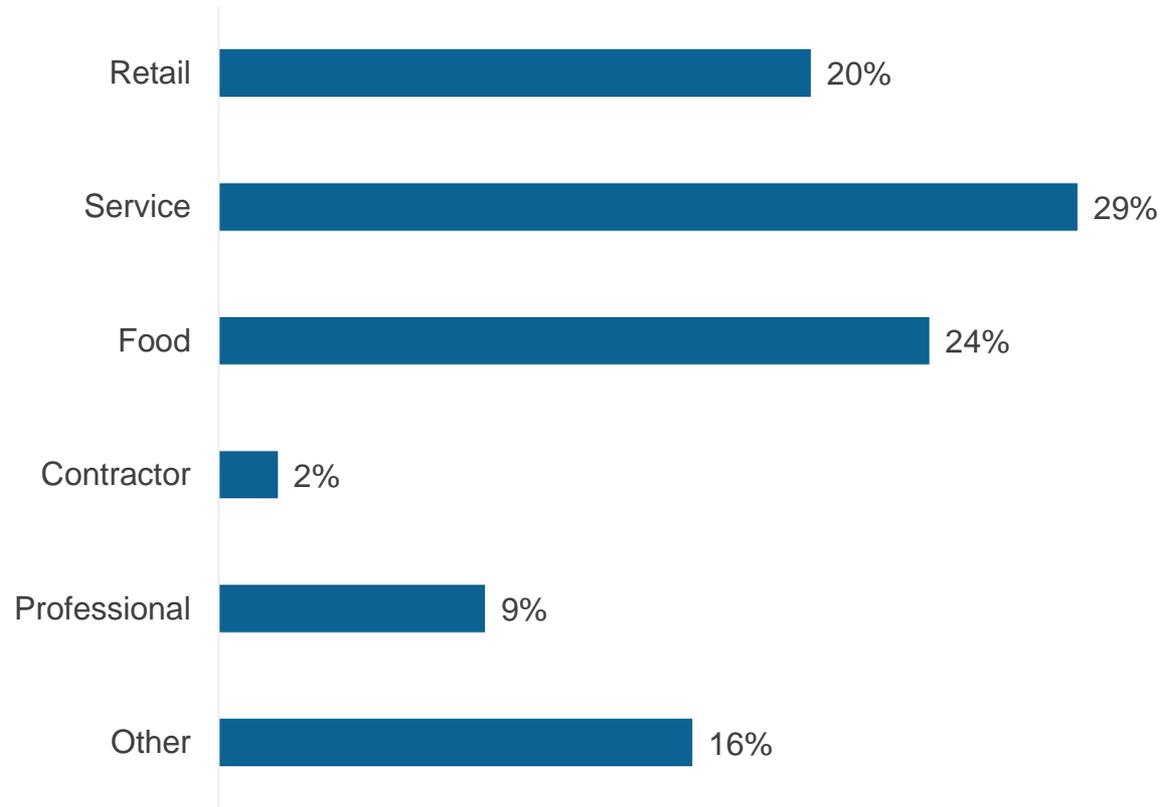


S3: What zip code do you operate your business from?

Base: Business Owners n=129

Type of Business

- Service, food and retail are the leading types of businesses owned. Few own professional or contractor businesses.

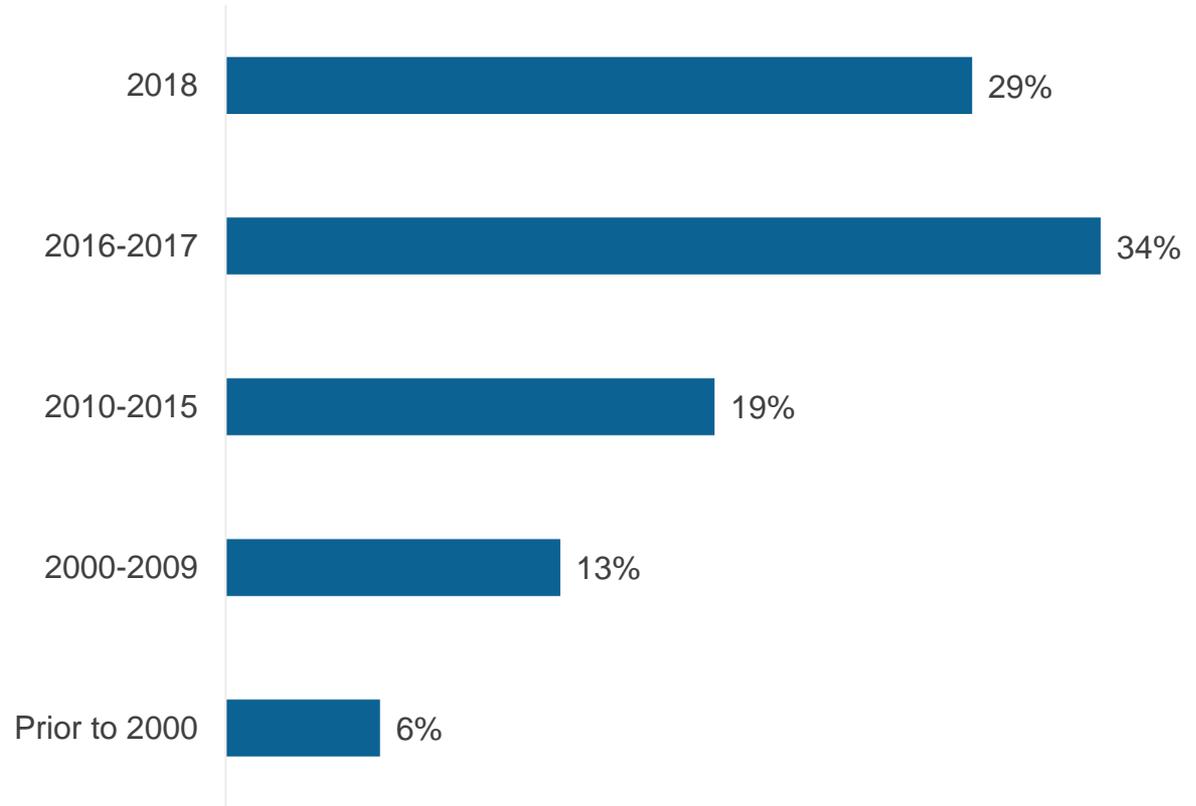


B1: Which of the following best describes the type of business you have?

Base: Business Owners n=129

Year of Business Start

- The majority of the businesses have been started in the past two years; however, nearly one in five have been around approximately 20 years or longer.

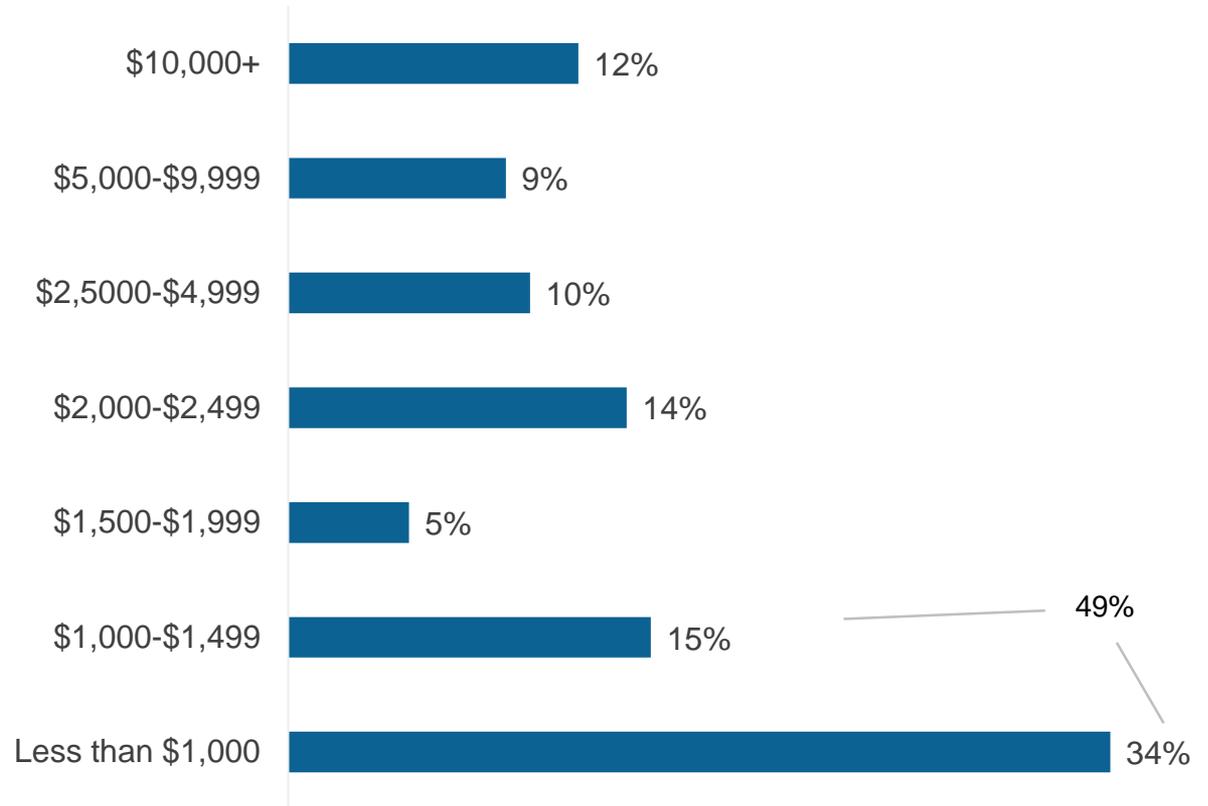


B2: In what year did you start your business?

Base: Business Owners n=129

Approximate Monthly Revenue

- Approximately, one half of the businesses are generating less than \$1500 per month in revenue.

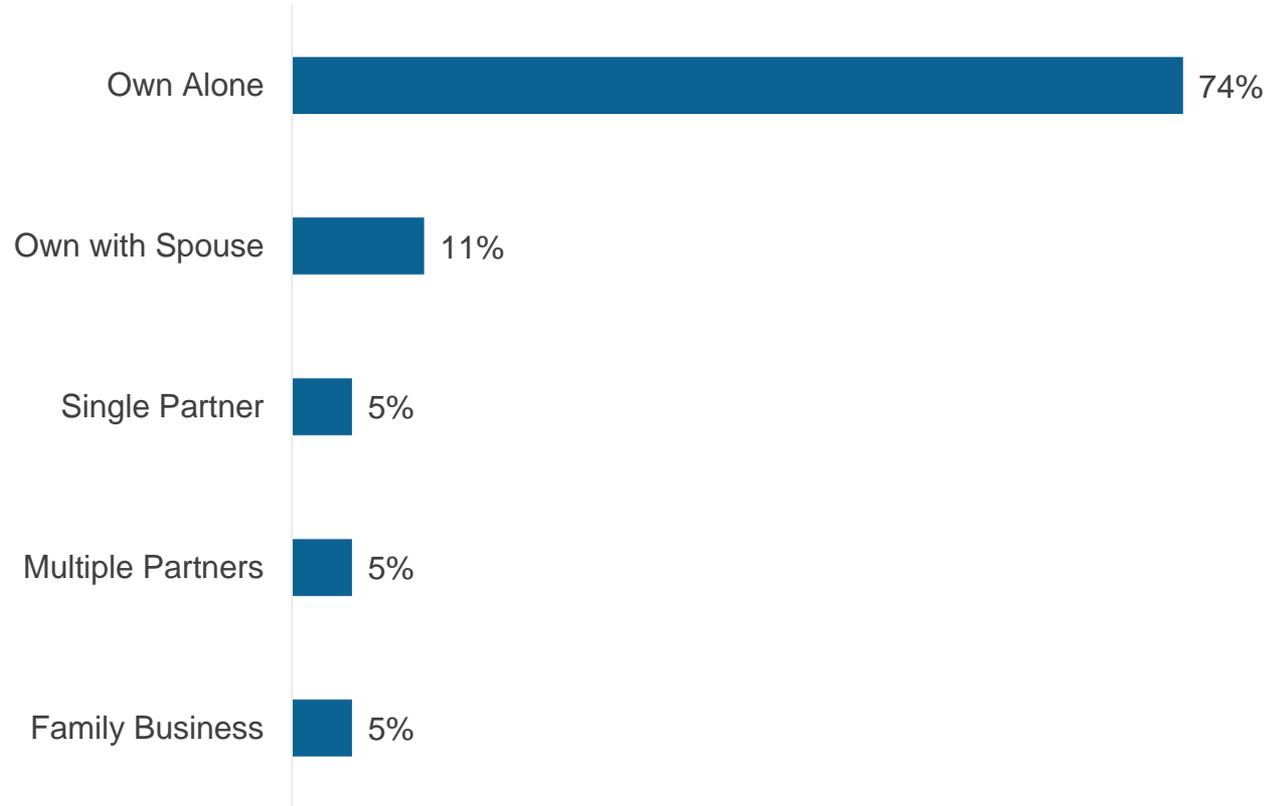


B3: On average, how much sales or revenue does your business bring in each month?

Base: Business Owners n=129

Business Ownership

- Three in four of the businesses are owned by a single individual. There are very few businesses in this area owned by partners or are family-owned businesses.

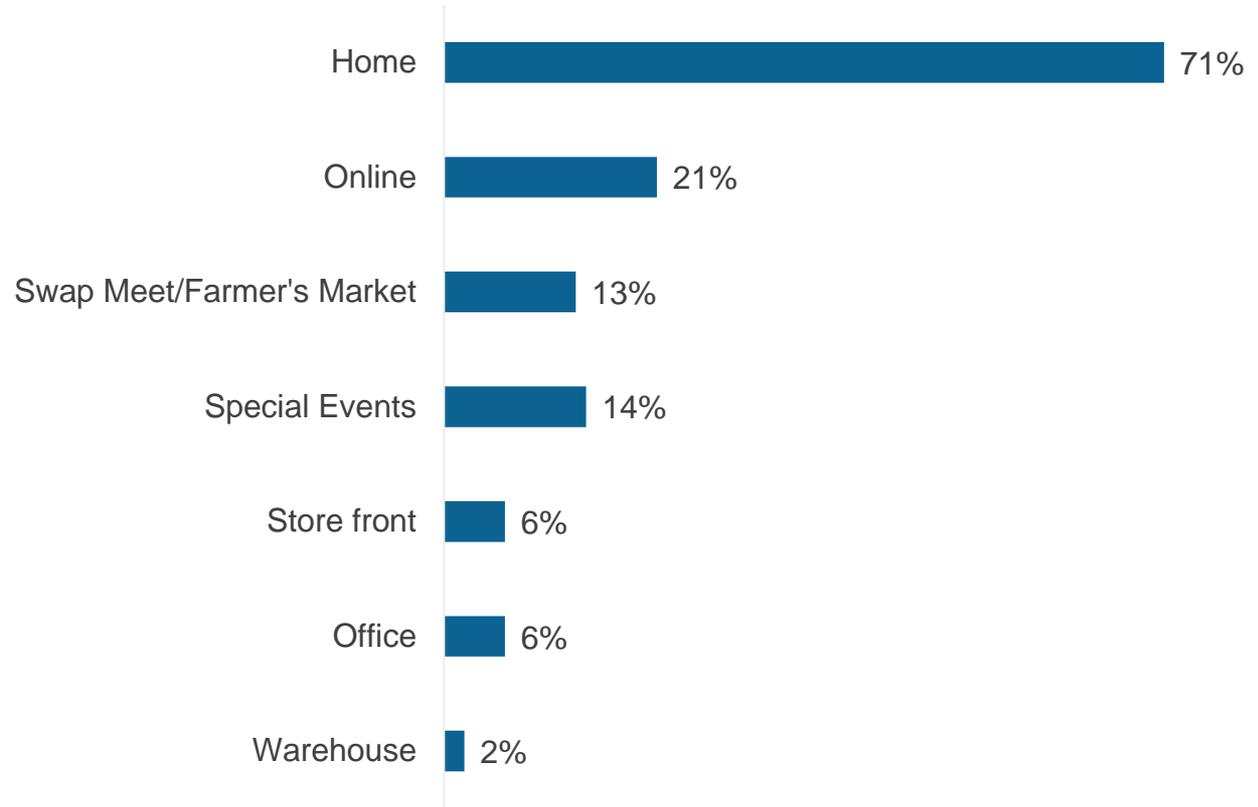


B4: Which of the following describes the ownership of your business?

Base: Business Owners n=129

Location of Business

- Three in four of the businesses are home based, with about one in five involve an online component.

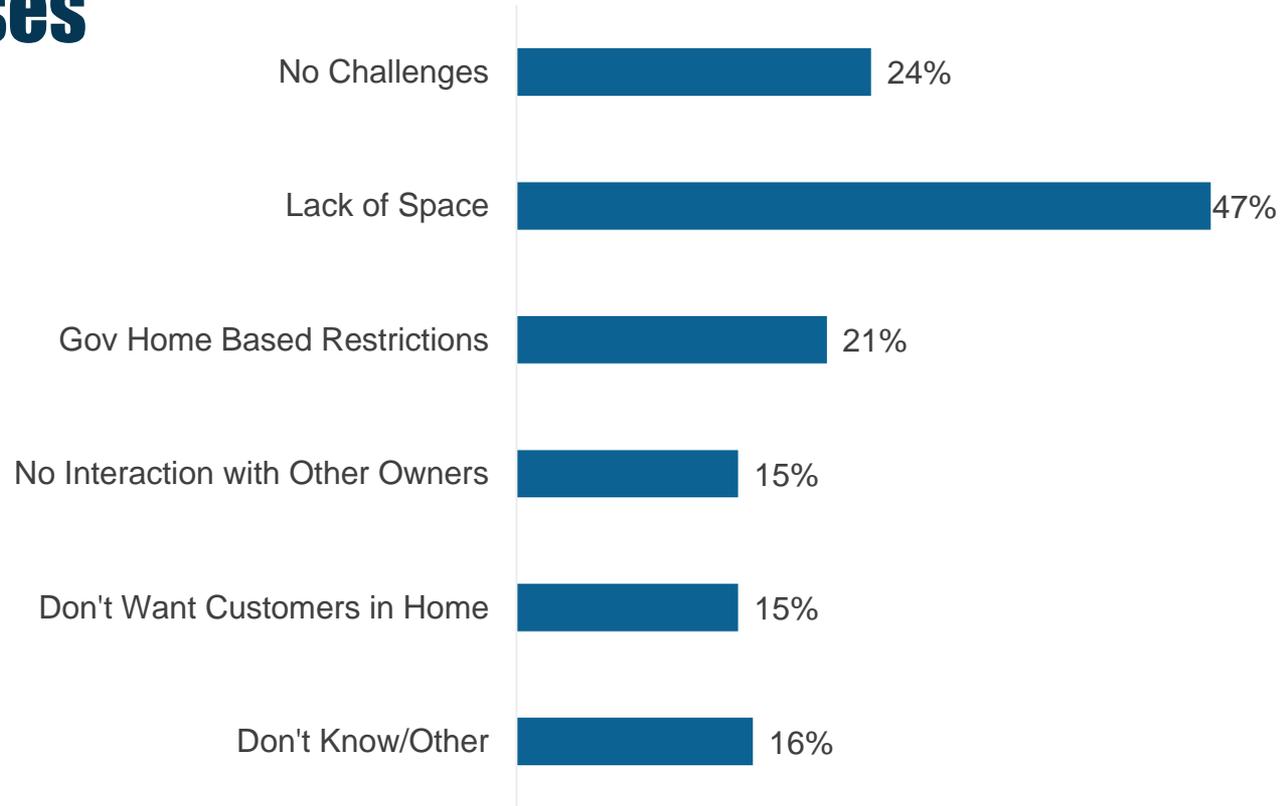


B5: Where do you operate your business from?

Base: Business Owners n=129

Challenges for Home Based Businesses

- The lack of space is the primary challenge facing business owners who are operating from their homes.

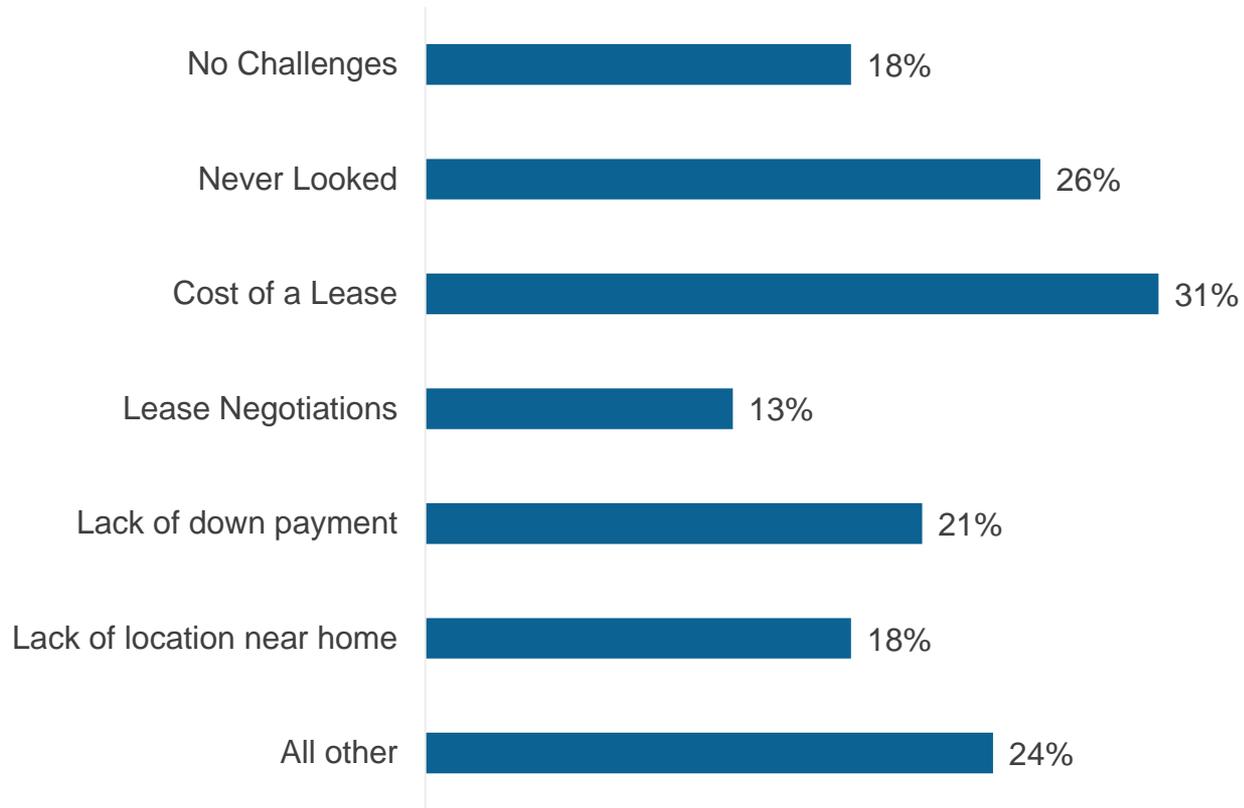


B6: What are some of the challenges you face in operating your business out of your home?

Base: Operate business from home n=92

Challenges Finding Space

- Among business owners whose business is located outside of the home, the cost of a lease and lack of a down payment are the primary challenges they face when looking for space.

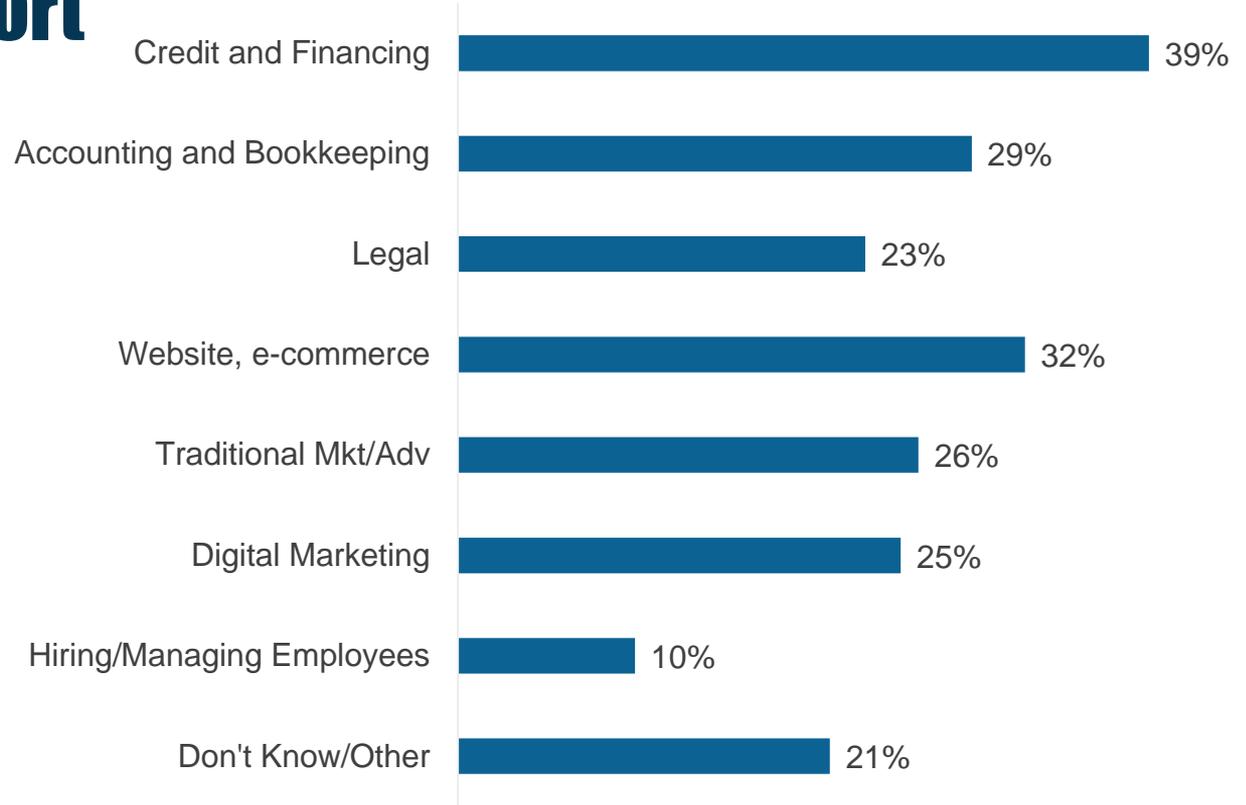


B7: What are some of the challenges you faced, if any, in looking for a business location?

Base: Operate business from location other than home n=62

Challenging Areas Requiring Support

- In running their businesses, owners are faced with many challenges requiring support. Credit and financing, accounting and bookkeeping and website/e-commerce are challenges faced by the most owners.

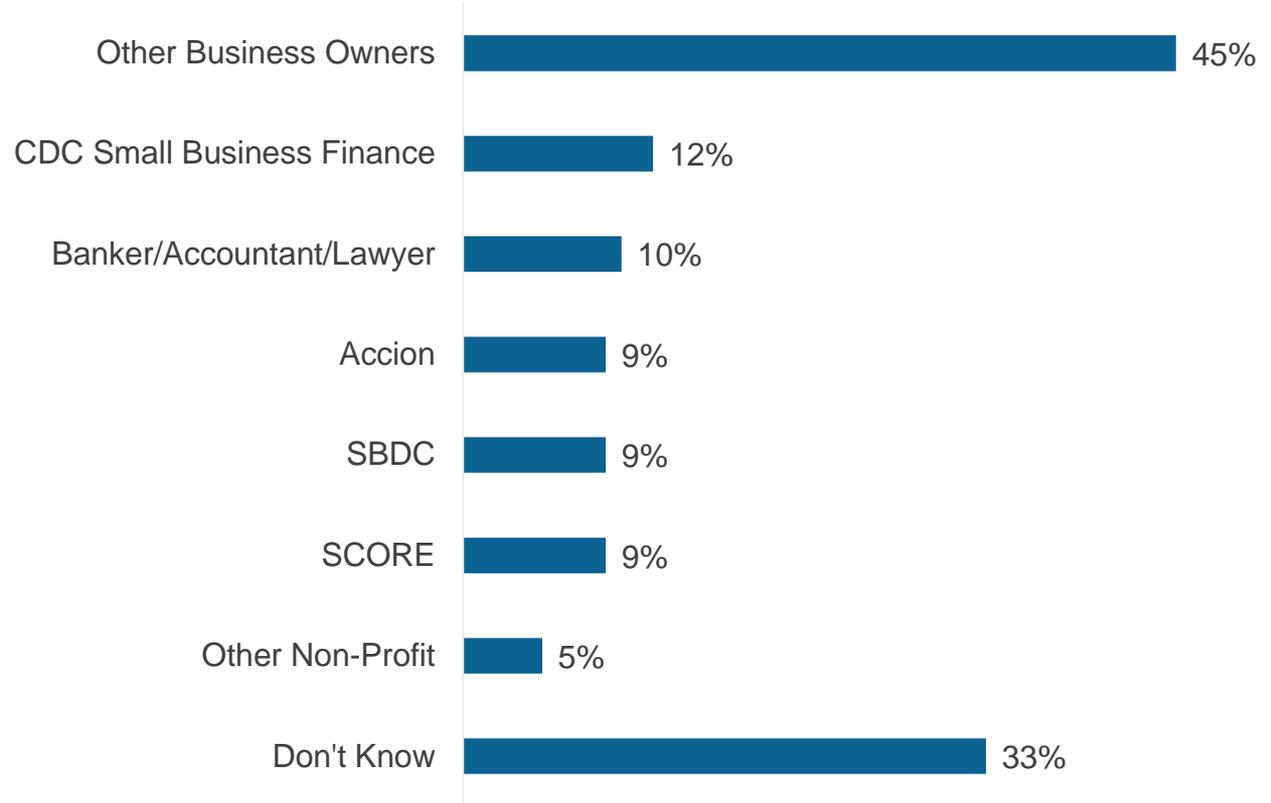


B8: What areas of your business, if any, do you find challenging and would like to have additional support to strengthen?

Base: Business Owners n=129

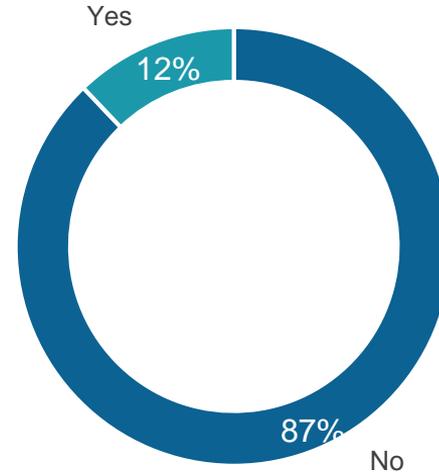
Sources Used for Advice

- For advice in dealing with the challenges, most seek the advice of other business owners or just don't know where to turn. Few are contacting the non-profit options available to them.



Ever Applied for Business Financing

- Very few business owners have ever applied for business financing for their business.

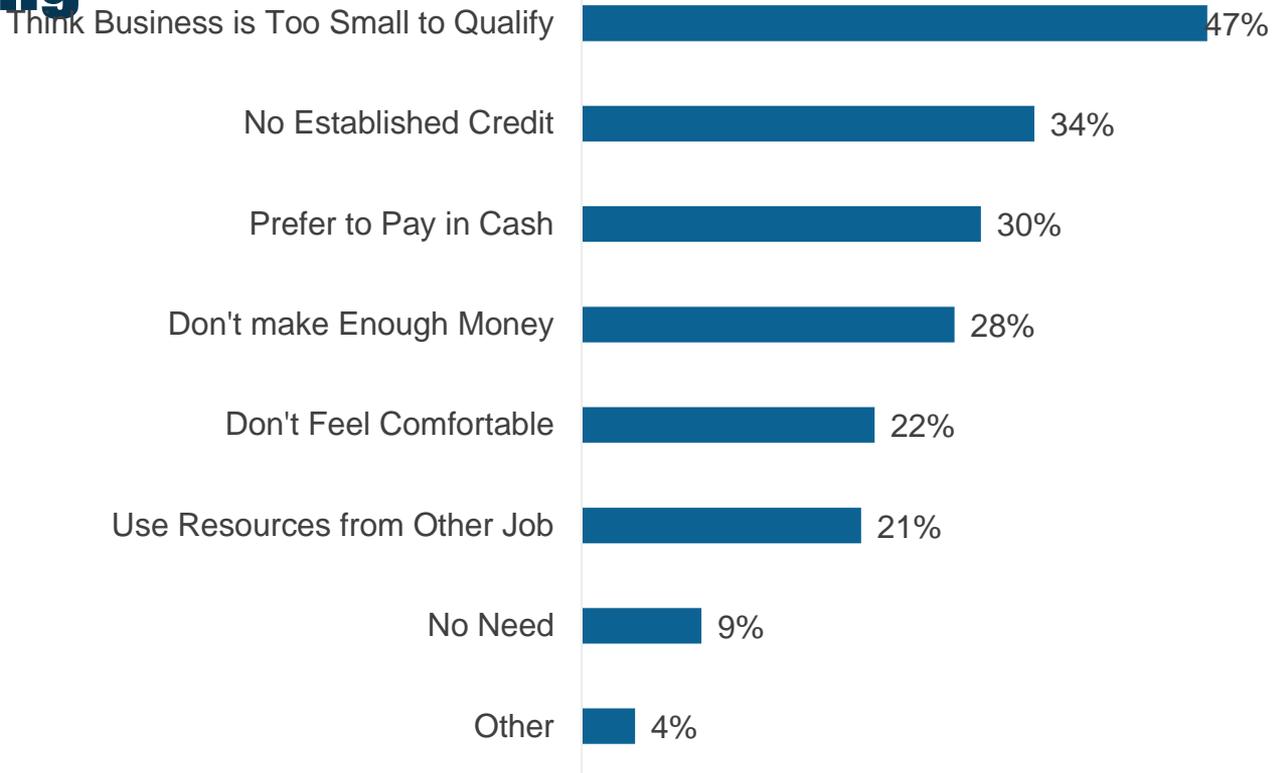


F1: Have you ever applied for any business financing?

Base: Business Owners n=129

Reasons for Not Seeking Financing

- Nearly half have never applied for financing because they think their business is too small. Many don't have established credit or feel comfortable applying for financing.

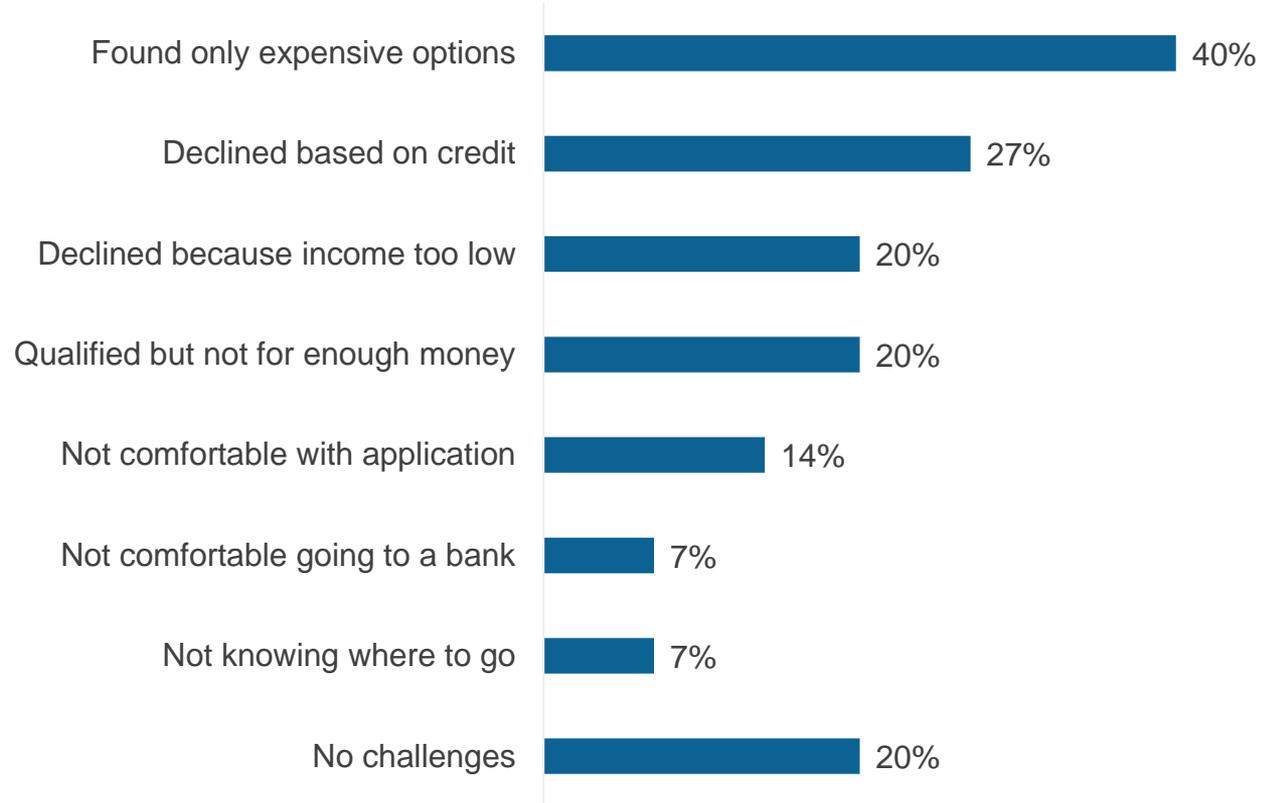


F3: You mentioned you have never applied for any kind of business financing. Which of the following reasons describe why you haven't applied for financing?

Base: Business Owners who never applied for financing
n=114

Challenges Faced in Financing

- Most owners who have sought out financing, found only expensive options or were declined based on credit or income.

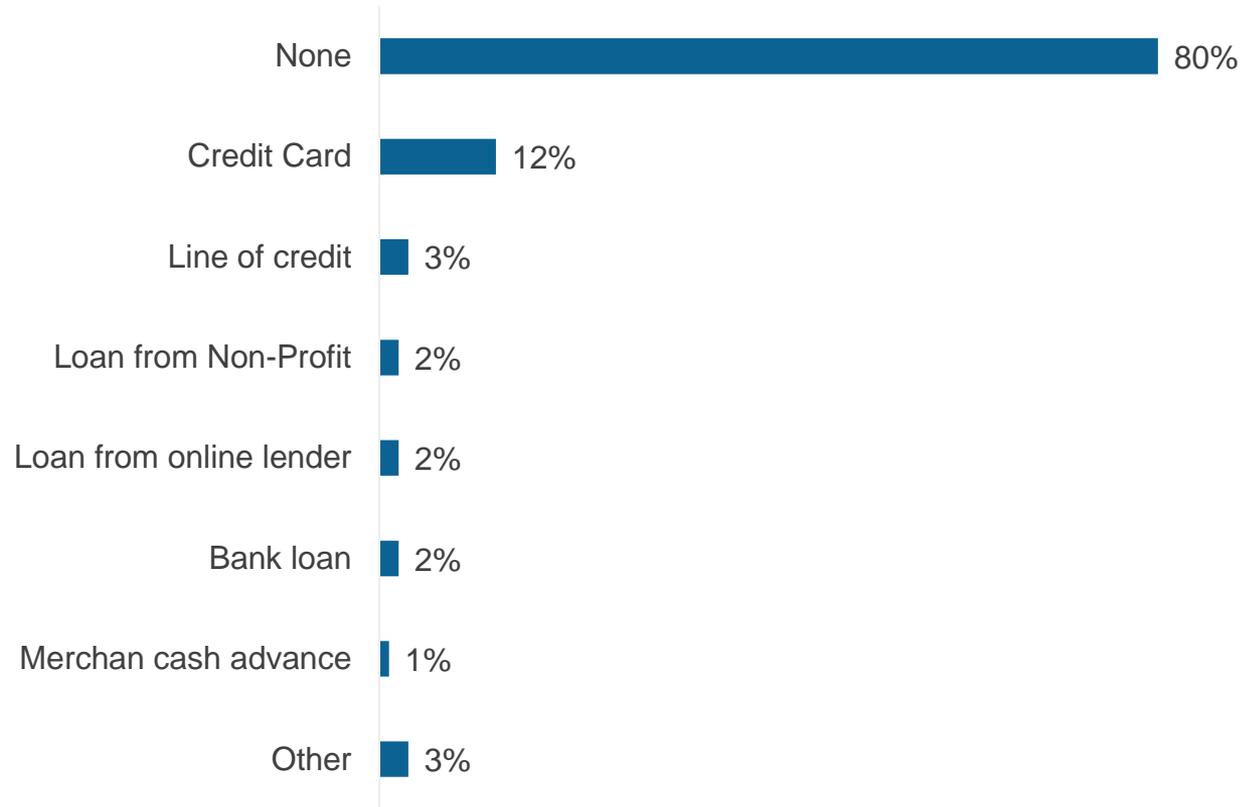


F2: What challenges did you face when seeking capital for your business?

Base: Business Owners who have applied for financing n=15

Finance Options Used in Past Year

- The majority of business owners did not use any financing in the past year. About one in ten used their credit card for financing.

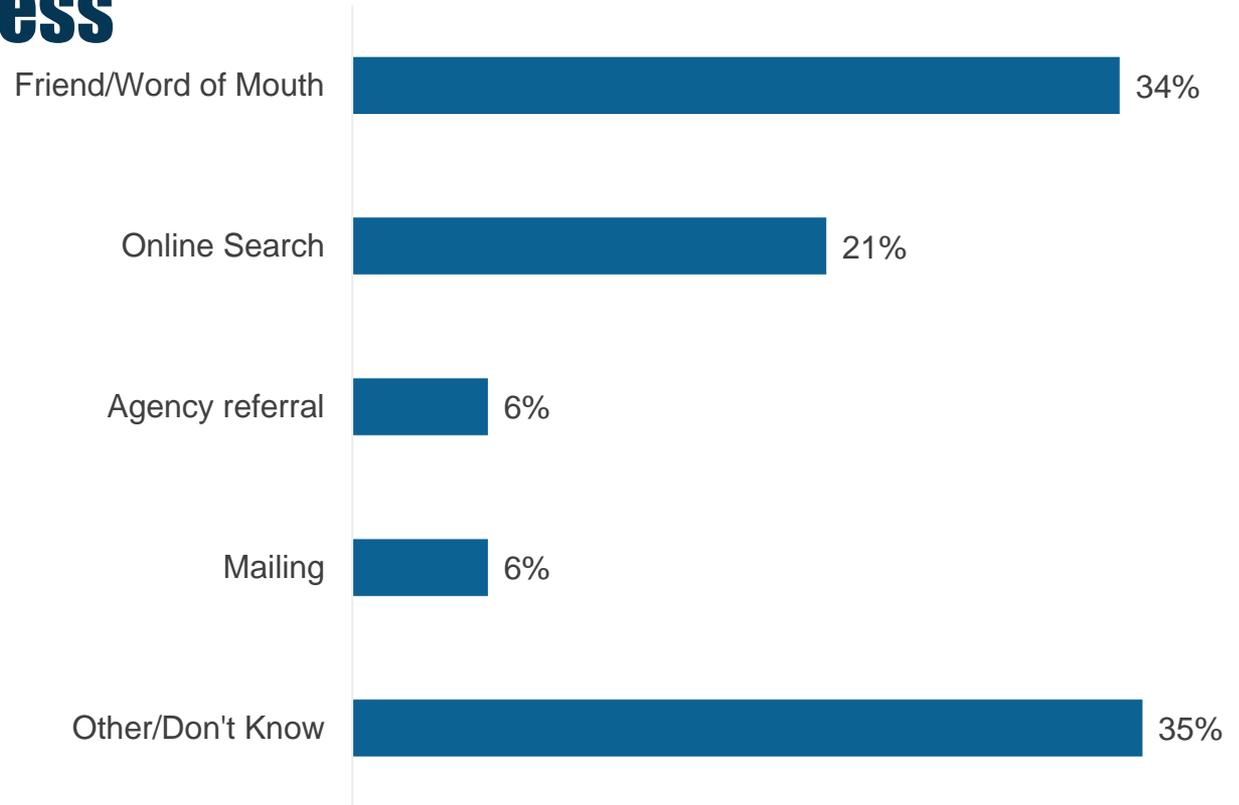


F4: In the past 12 months, have you received any financing for your business through any of these options?

Base: Business Owners n=129

Source of Financing Options Awareness

- Similar to seeking business advise, many business owners do not know where to go to learn about financing options. Friends and online searches are used most frequently.

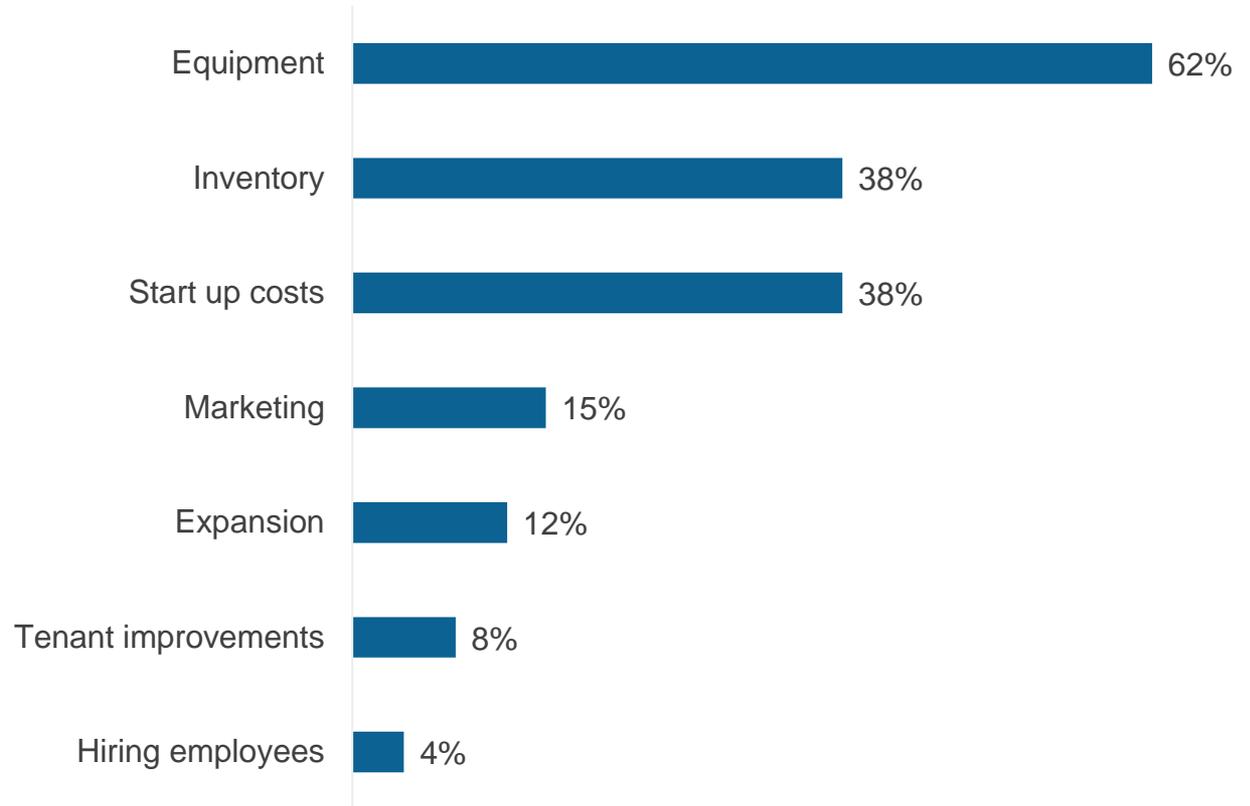


F5: How did you learn about these finance options?

Base: Business Owners n=129

Financing Uses

- Among business owners who have sought out financing, more than half used that financing for equipment. Inventory and start up costs are also leading uses for business financing.

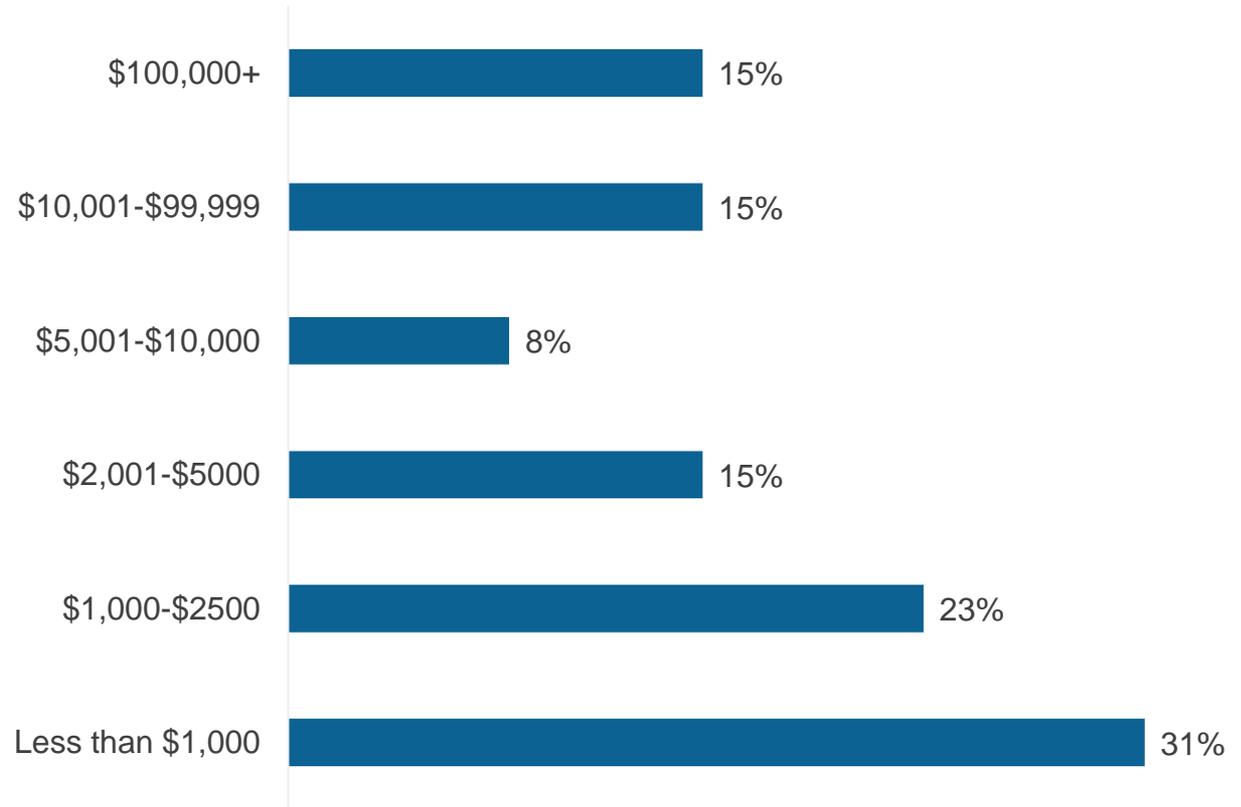


F6: What did you use the financing for?

Base: Business Owners who obtained financing in past year
n=26

Approximate Amount Borrowed

- The amount of business financing borrowed in the past year varies substantially, likely by the size of business. The majority of business owners borrowed a small amount of capital that was \$2,500 or less.

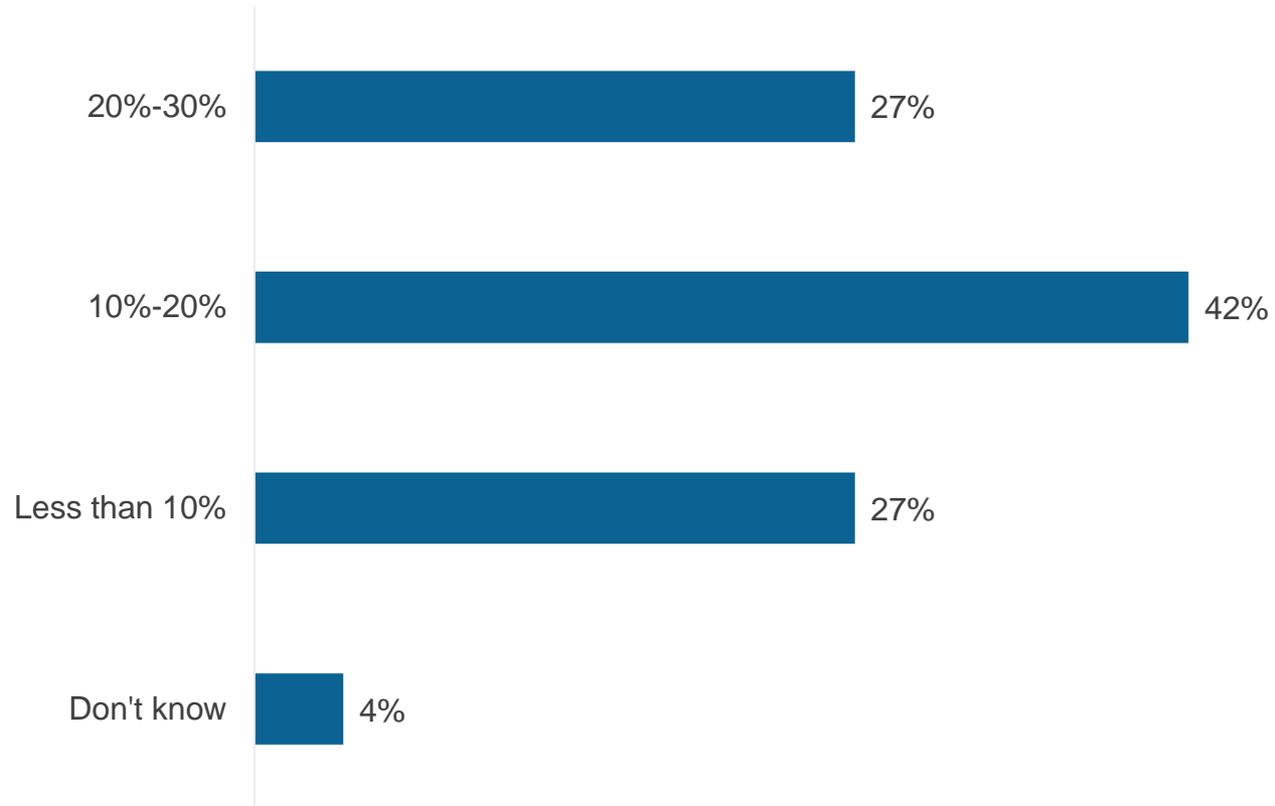


F7: How much money did you borrow for purpose previously selected in the past year?

Base: Business Owners who
obtained financing in past year
n=26

Finance Rate Paid

- The cost of the financing was high for many of them, with only one in four borrowing with an interest rate less than 10%.



F8: As best as you can remember, what is the highest interest rate you have ever paid for business financing?

Base: Business Owners who obtained financing in past year
n=26

Finance Rate Paid

- Expensive options were used due to the lack of awareness of more affordable options or due to the simplicity of the chosen option (e.g., just charged to the credit card).

Did not know of more affordable options

29%

It was a simple process

29%

Interest rate wasn't clear

14%

I needed money fast

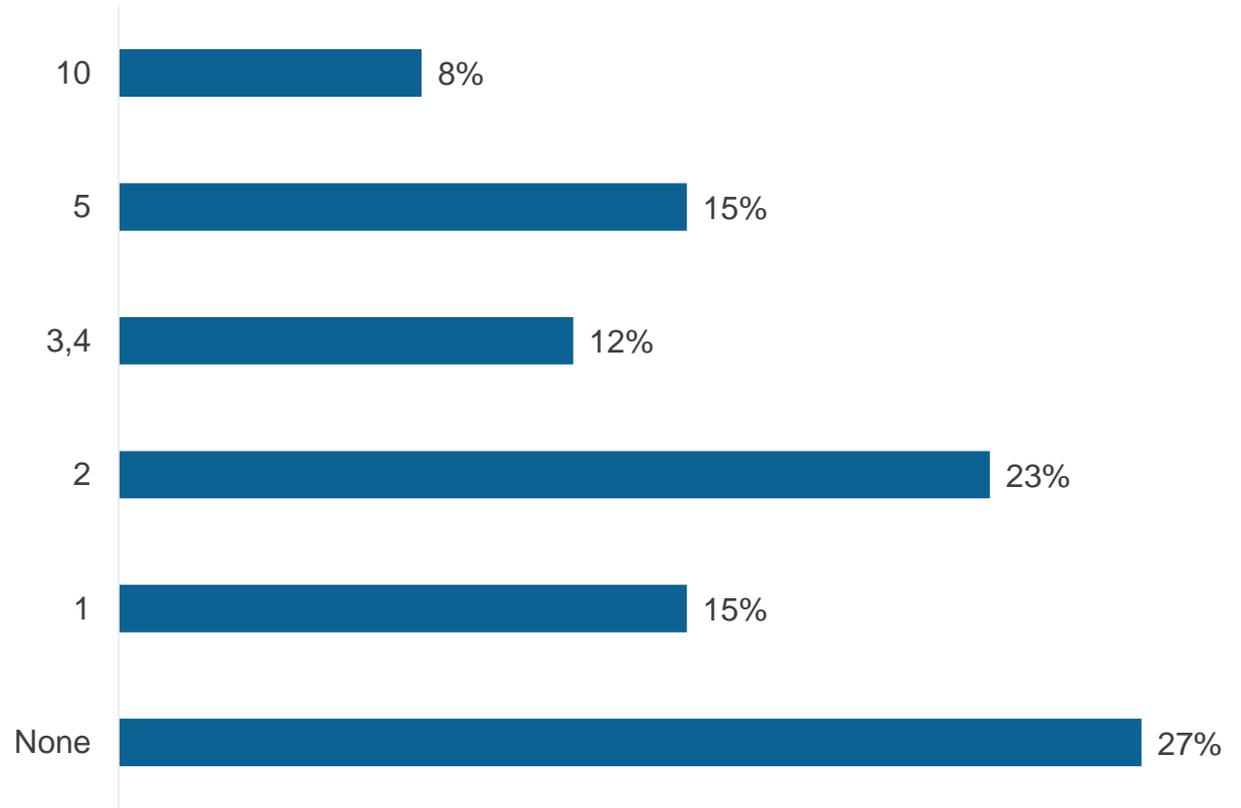
14%

F9: You mentioned you paid over 20% or did not know your interest rate. Which of the following best describes your reasoning behind this choice?

Base: Business Owners who obtained 20%+ interest financing in past year n=7

Future Hires

- Many of the business owners have hiring plans for the next two years, with only one in four not planning to hire anyone.

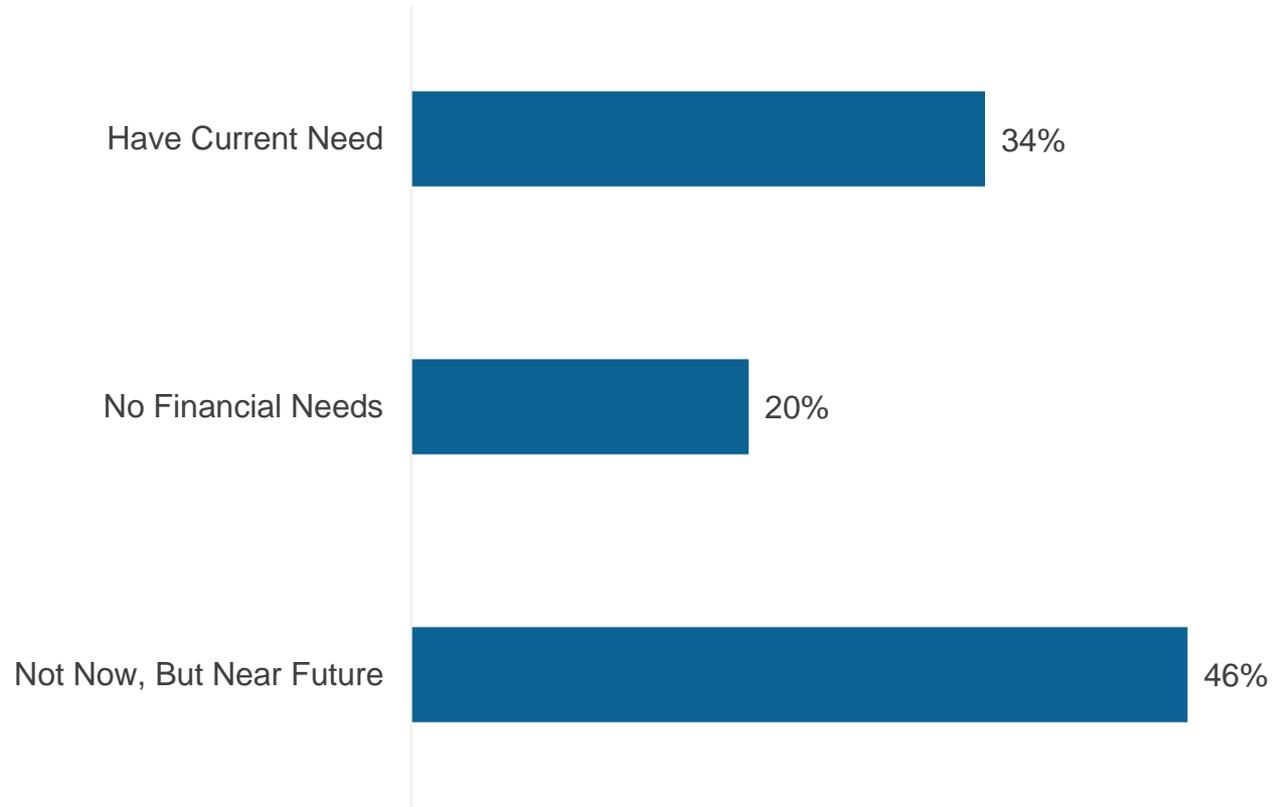


F10: How many employees do you plan to hire in the next 2 years?

Base: Business Owners n=129

Financial Needs

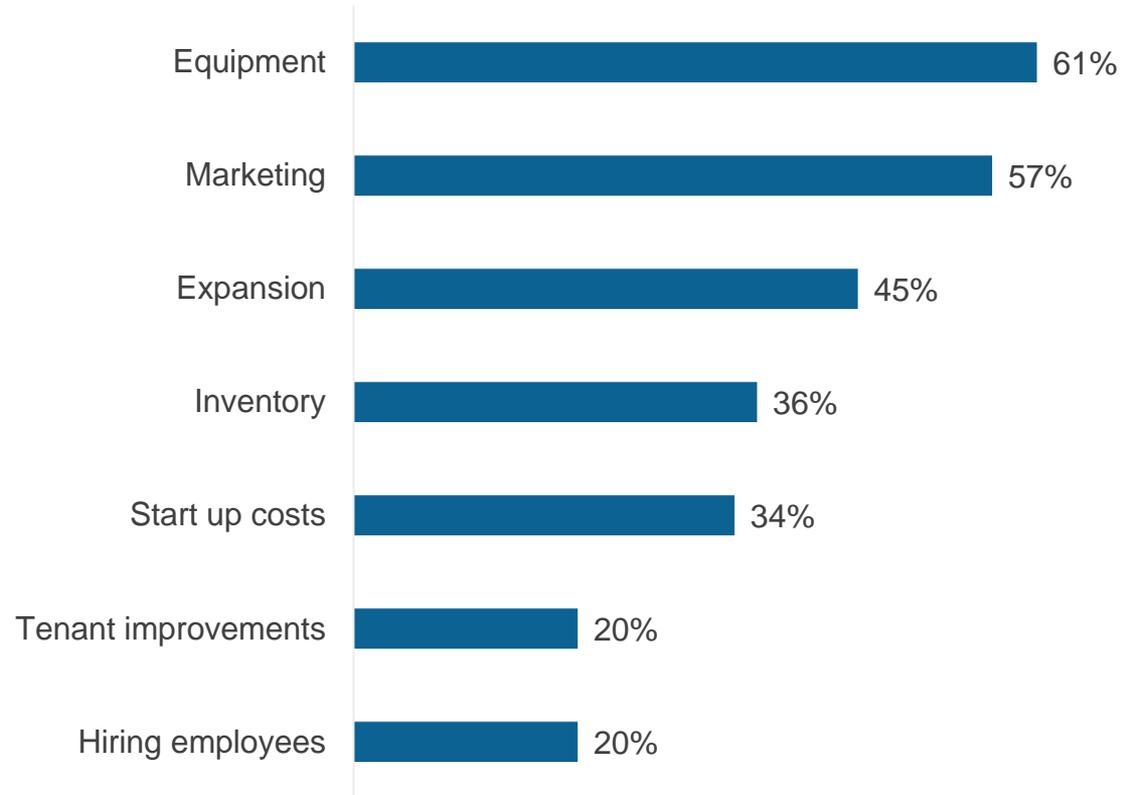
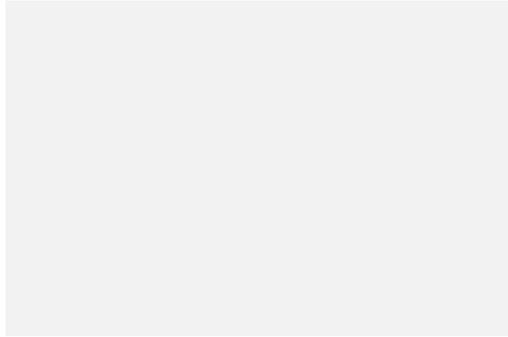
- The majority of business owners claim a need for financing, with one in three having an immediate need and one half acknowledging a future need.



G1: Are you currently in need of financing to invest in your business?

Base: Business Owners n=129

Investment Financing Needed for

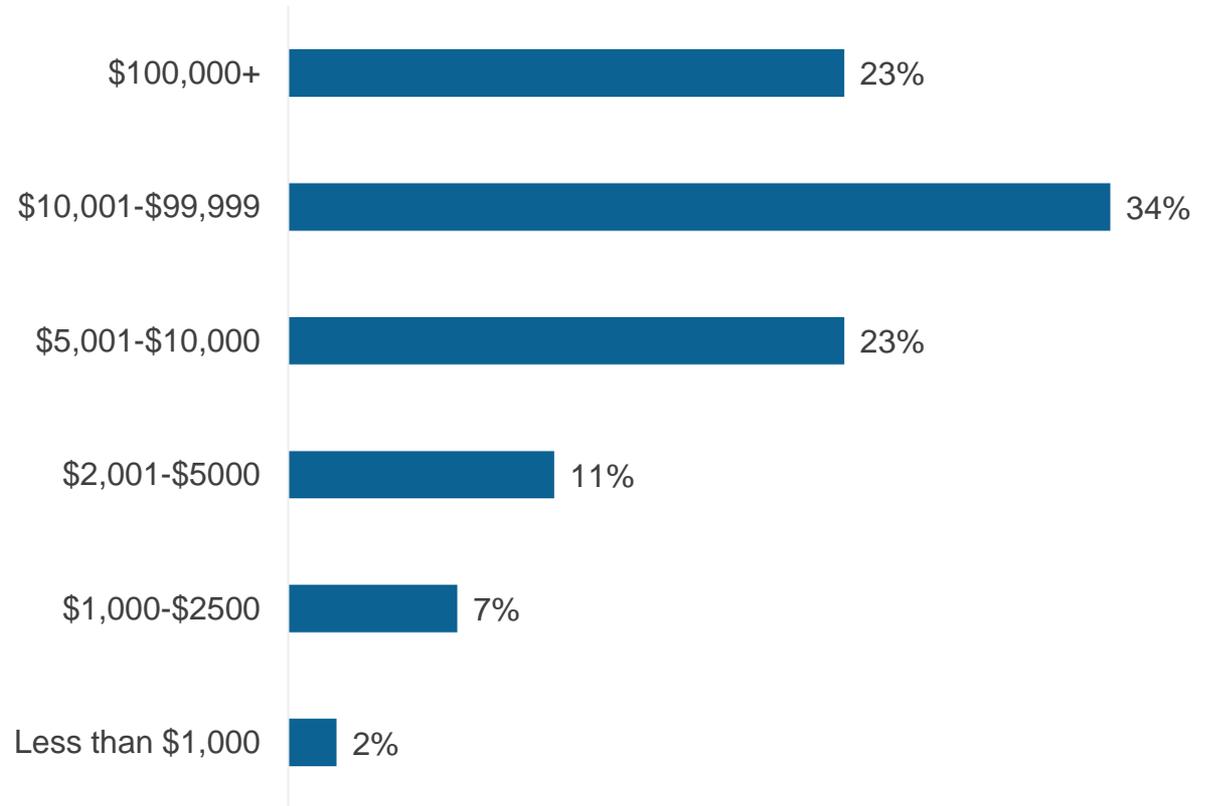


G2: What are you looking to invest in?

Base: Business Owners who have a need for financing n=44

Amount of Financing Needed

- The anticipated future financing need amounts are varied, ranging from under \$1,000 to many requiring more than \$100,000.



G3: How much money do you anticipate needing to borrow previously selected?

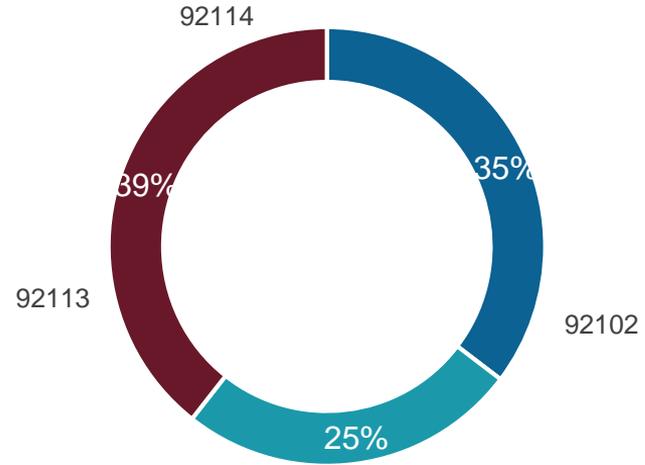
Base: Business Owners who have a need for financing n=44



Prospective Owners

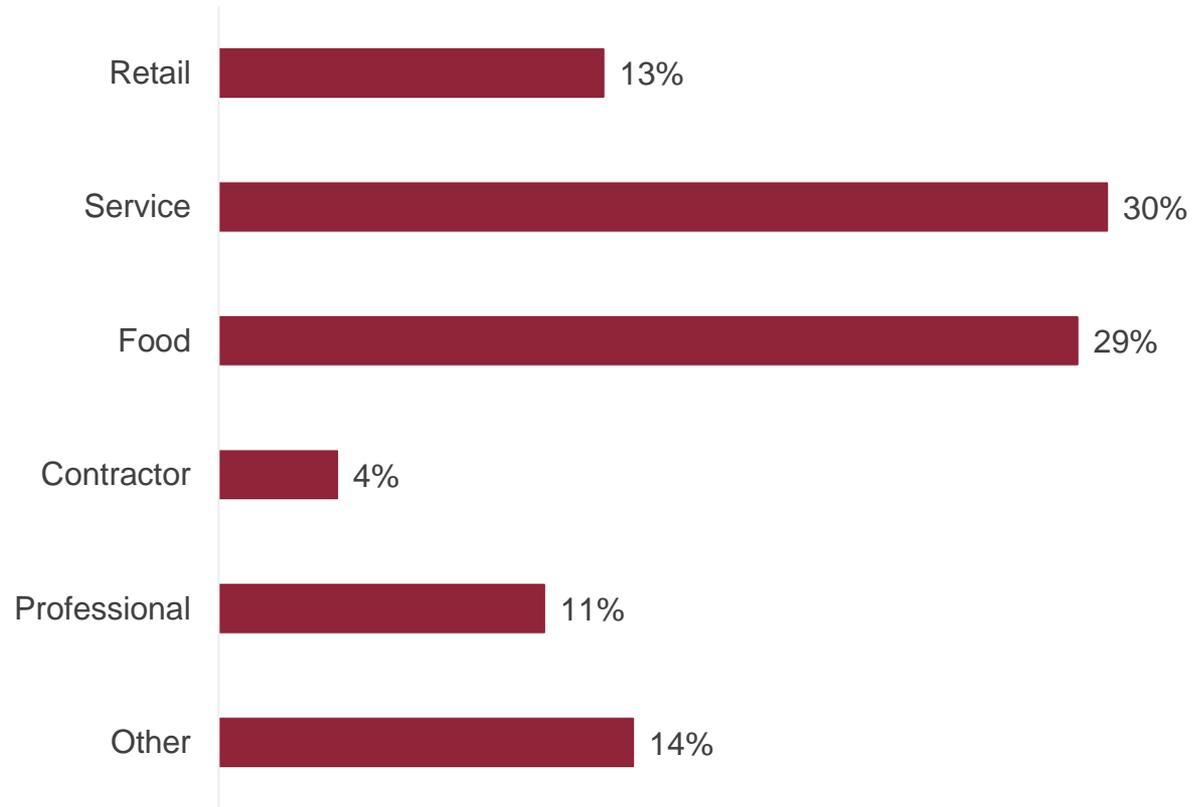
Residence Zip Code

- Survey participating residences in the zone of interest who plan to start a business owners are split relatively equally between the 3 zip codes of interest.



Type of Business

- Services and food related businesses are the leading type of business that future owners are interested in starting up.

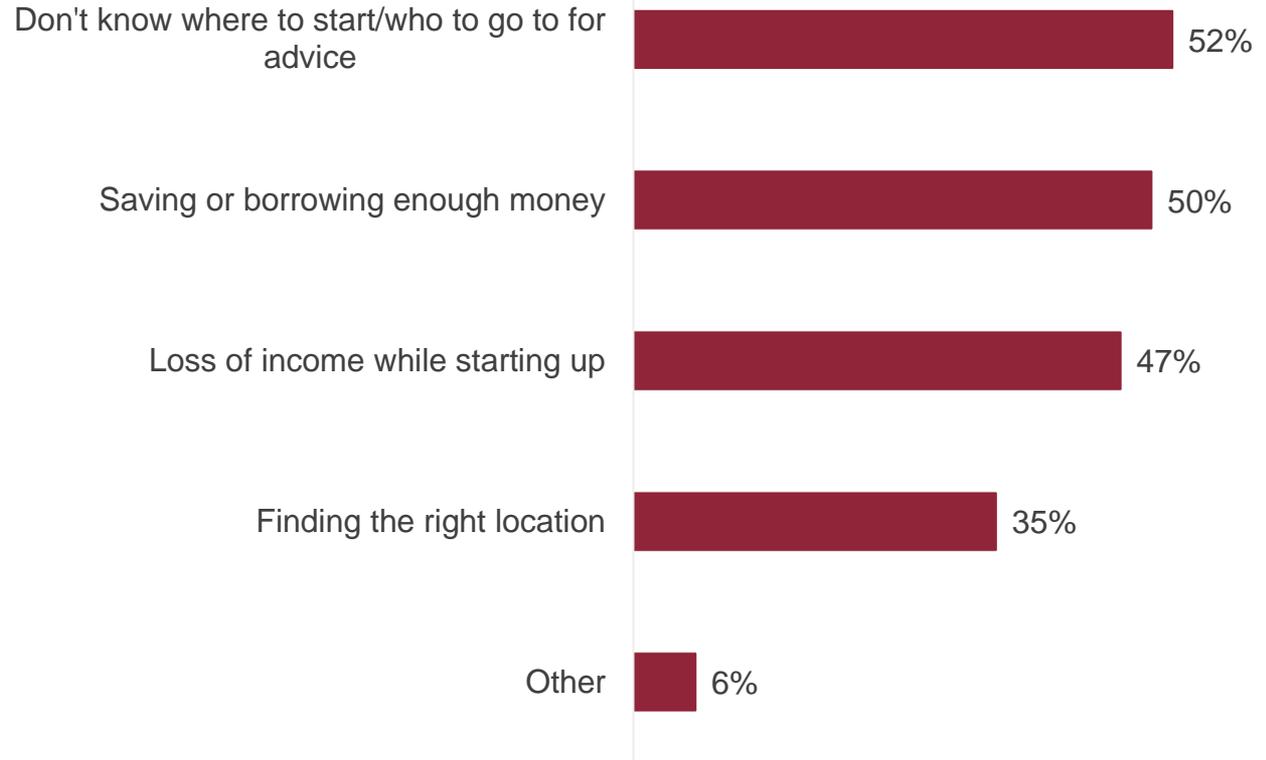


H1: You mentioned you have a hobby or idea that you are considering setting up as a business. What type of business are you interested in starting?

Base: Prospective Owners n=101

Anticipated Challenges

- Prospective business owners are anticipating many challenges with one half not even knowing where to start or how to go about doing it. Others are trying to save enough money and many are also concerned about the loss of income while starting a business.



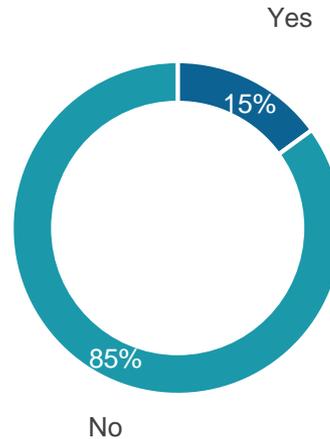
H4: What challenges do you think you will face in starting your own business?

Base: Prospective Owners n=101

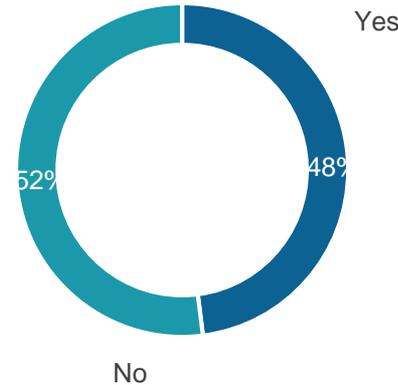
Advice from Mentors

- Very few prospective business owners are currently seeking advice from mentors. Nearly one half are currently raising money to start the business but one in four need help to figure out how much financing they are going to need.

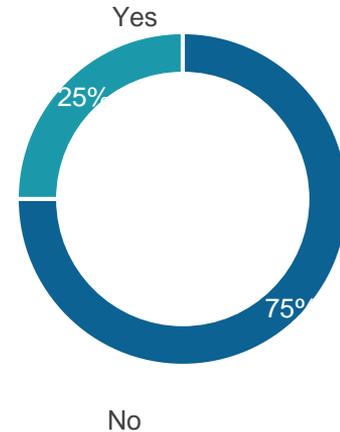
Advice from Mentors



Currently raising money



Need help to figure out financing

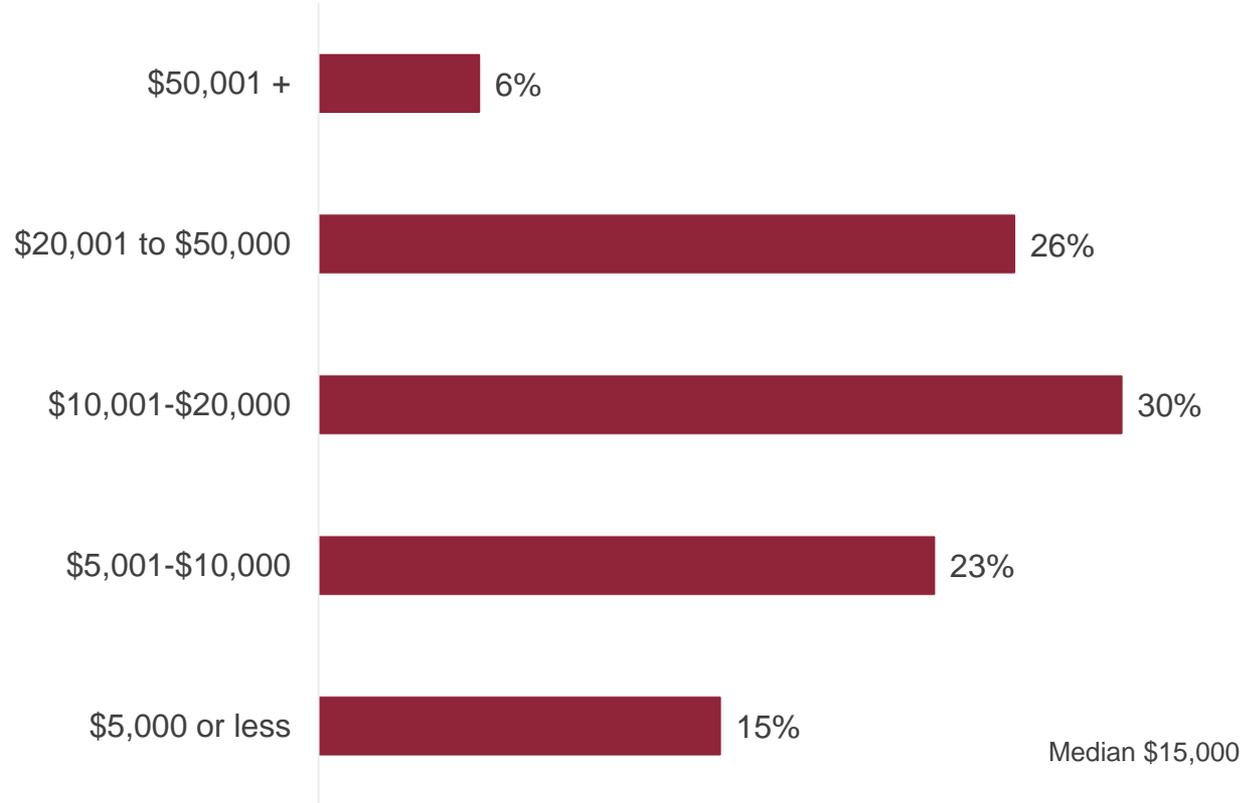


H6: Are you currently getting advice from any mentors?
H8: Are you trying to raise money for your business?
H10: Do you need help is figuring how much to raise?

Base: Prospective Owners n=101

Amount of Financing Needed

- Prospective business owners are anticipating the need for fairly substantial financing, with the median amount being \$15,000.

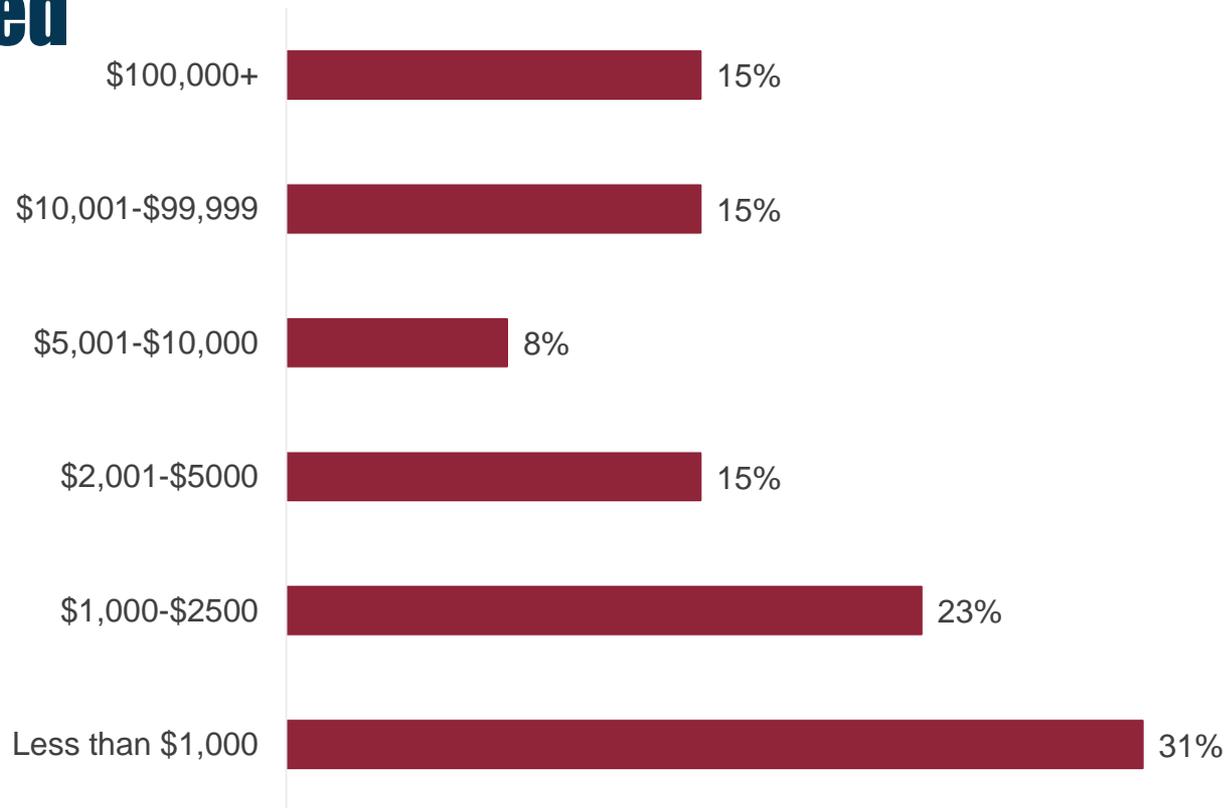


H9: How much do you anticipate you need to raise?

Base: Prospective Owners n=101

Approximate Amount of Financing Needed

- The amount of capital anticipated by prospects already raising capital is much less. The majority of these prospective business owners figure they need to raise less than \$2,500 to start their business.

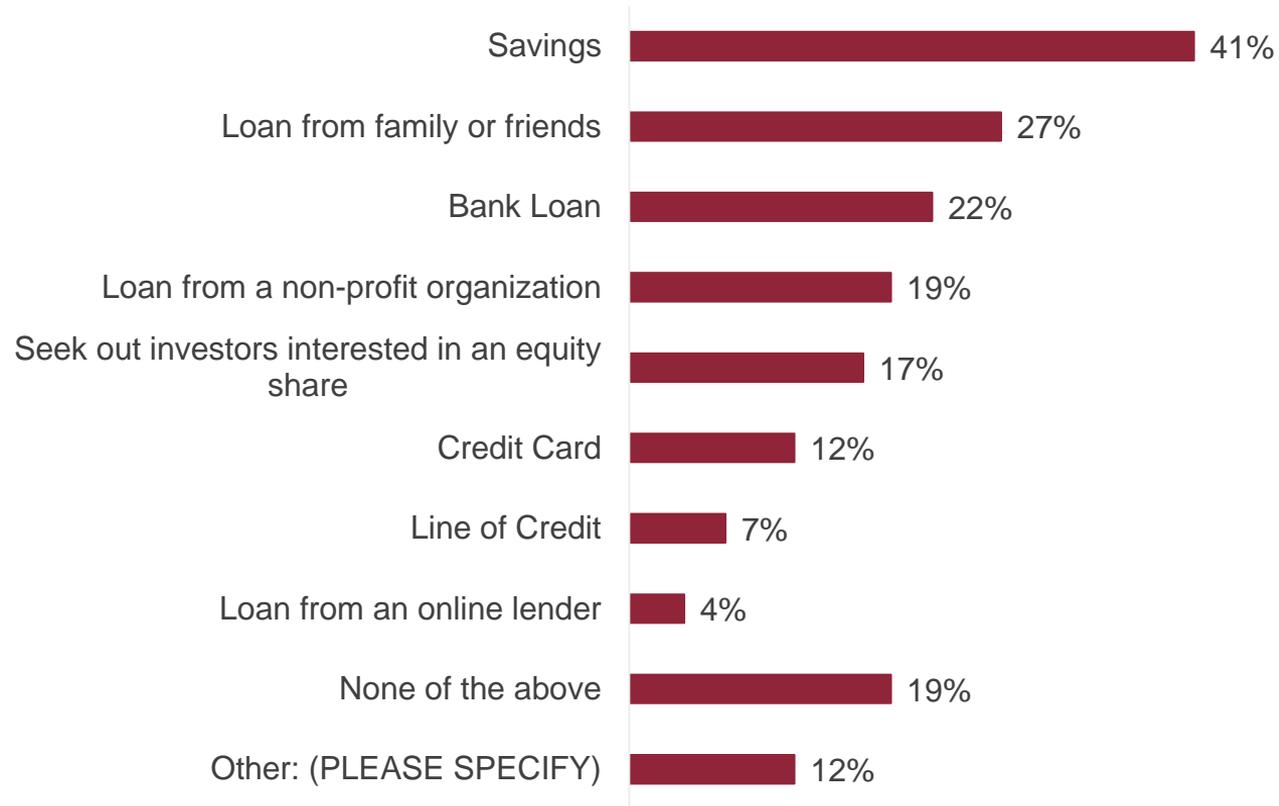


H1: How much do you anticipate you need to raise?

Base: Currently raising money
n=48

Plans for Financing

- Nearly one half of prospective business owners plan to finance their business with their own savings. One in five plan to get a loan from a non-profit.

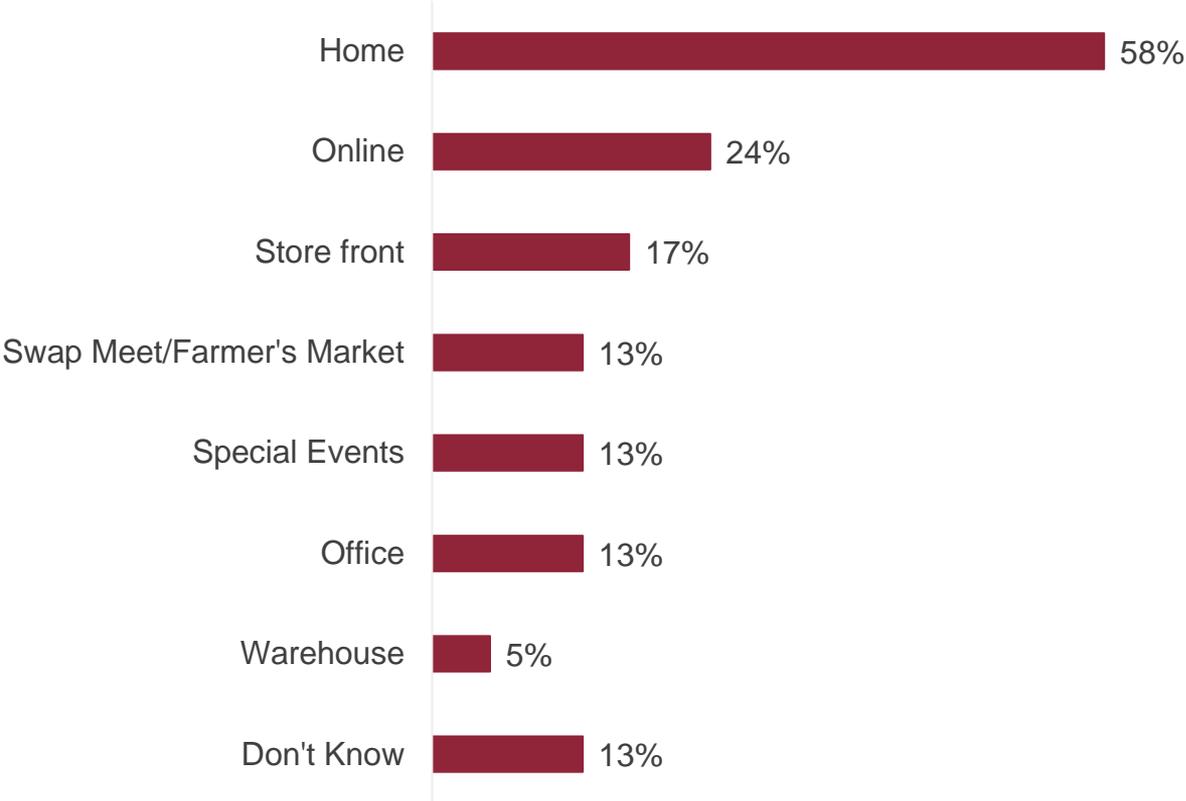


H7: How do you plan to finance your business?

Base: Prospective Owners n=101

Planned Location of Business

- Over one half of prospective business owners plan to work out of their home, with one in four indicating there will be an online component to their business.

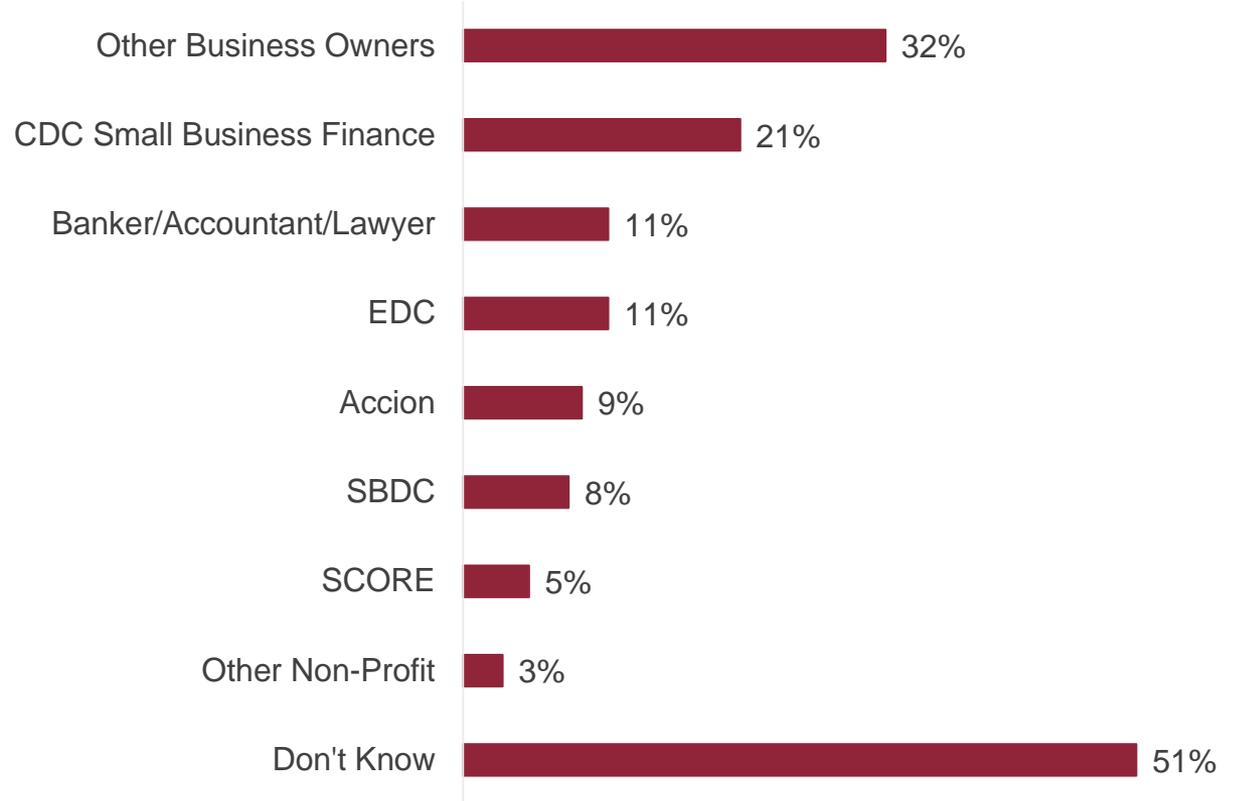


H2: Where do you plan to operate this business from?

Base: Prospective Owners n=101

Sources Plan to Use for Advice

- One half of prospective business owners have no idea where to turn to for advice on their business. One in three will turn to other business owners for guidance, with few planning to use non-profits to help get started.

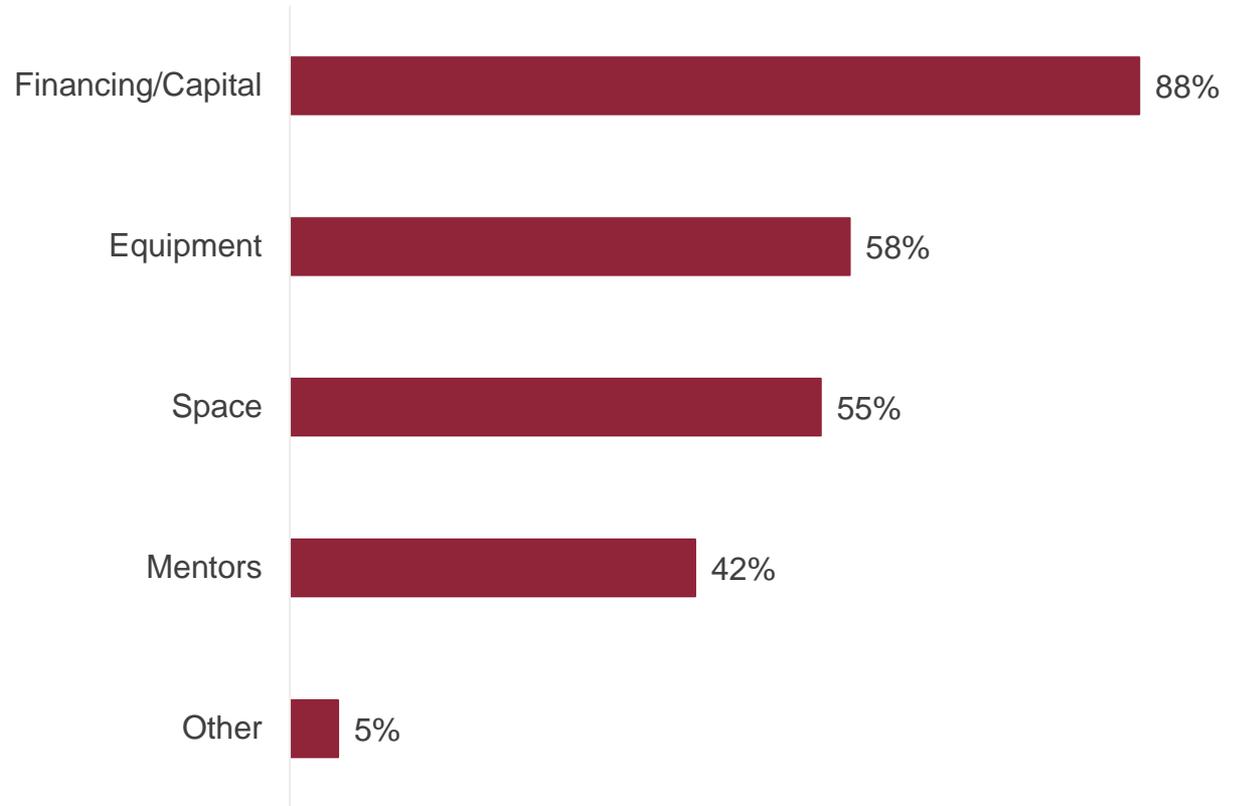


H3: Who would you go to for advice about your business?

Base: Prospective Owners n=101

Resources Needed

- Prospective owners recognize the need for financing and equipment to start their business. Fewer than one half recognize the need for mentors in getting started.



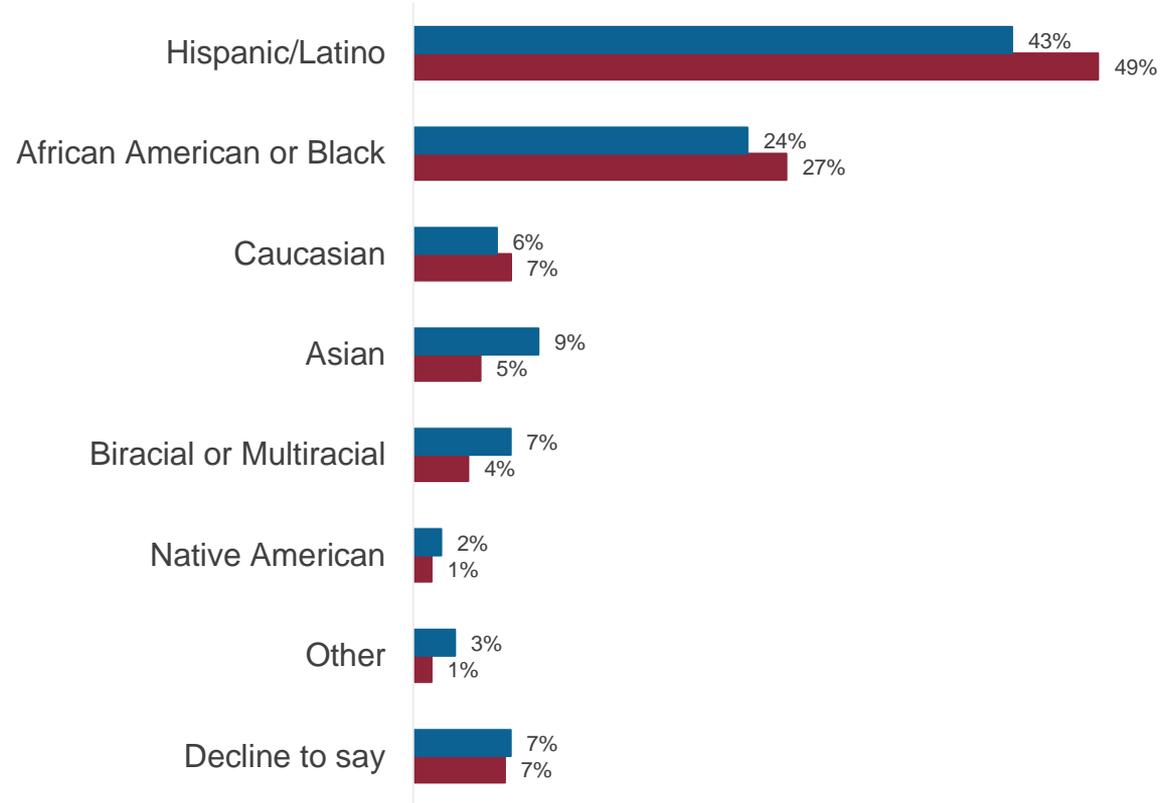
H5: What resources do you need to launch your business?

Base: Prospective Owners n=101



DEMOGRAPHICS

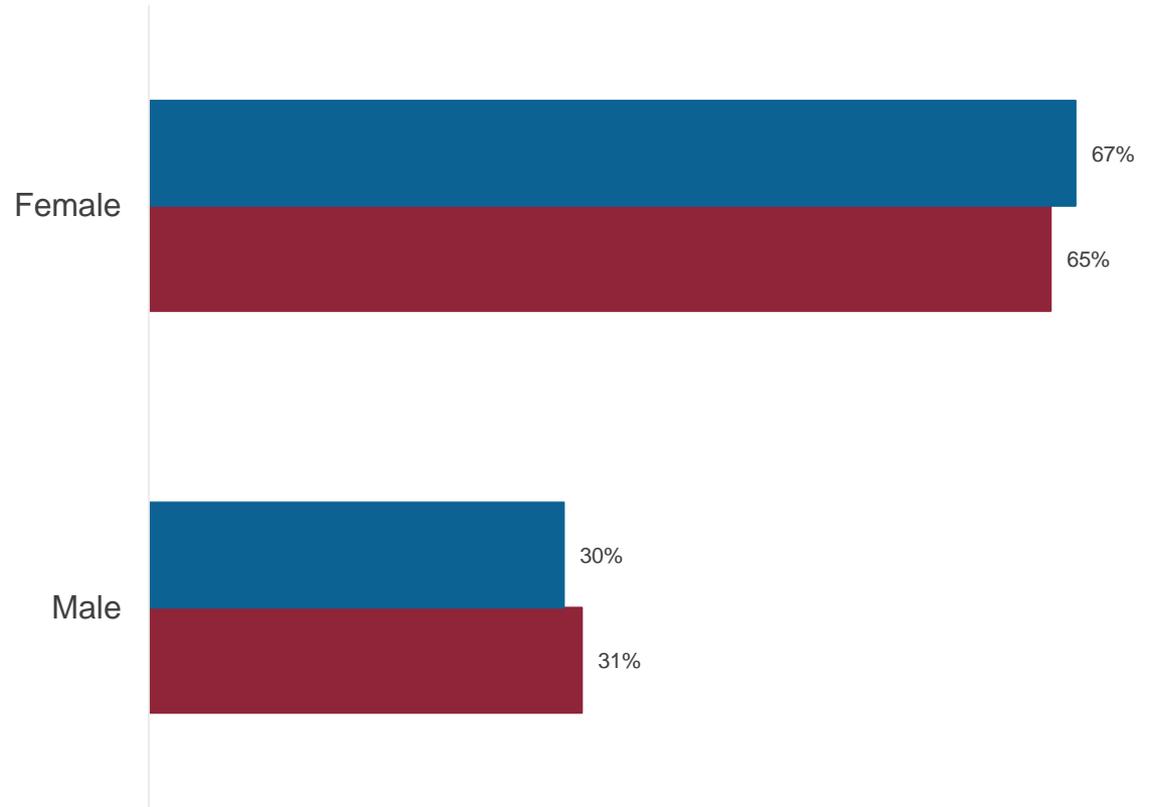
Race



D1: What race do you identify with?

Base: Business Owners n = 129
Prospective Owners n=101

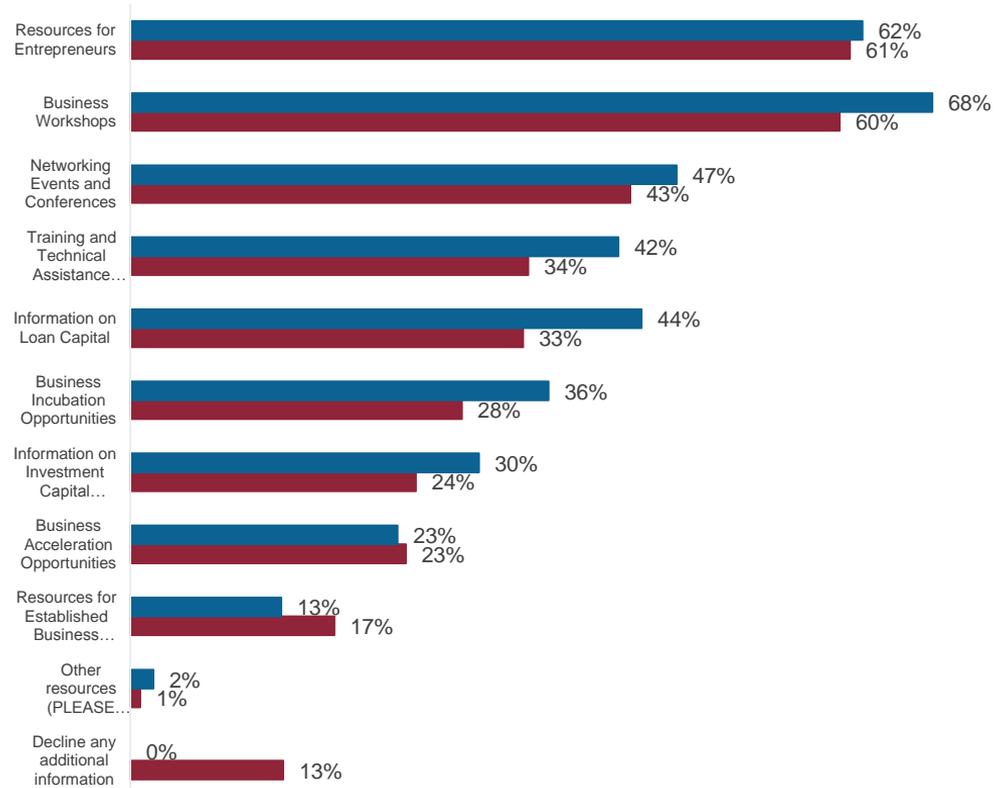
Gender



D2: What gender do you identify with?

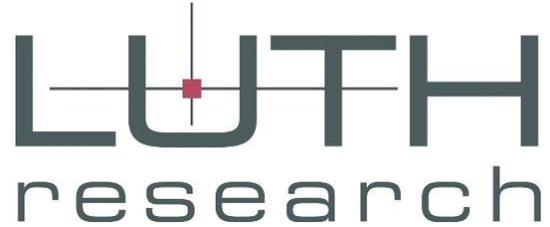
Base: Business Owners n = 129
Prospective Owners n=101

Topics of Interest



What topics are of interest to you?

Base: Business Owners n = 129
Prospective Owners n=101



Get In Touch With Us

Luth Research



1365 Fourth Avenue
San Diego, CA, 92101



619.234.5884 Ext. 8053



www.luthresearch.com