



COUNTY OF SANTA CRUZ

0255

PLANNING DEPARTMENT

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June 11, 2013

AGENDA DATE: June 18, 2013

Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

SUBJECT: ECONOMIC VITALITY STRATEGY STATUS REPORT

Members of the Board:

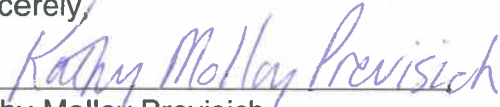
As you may recall, your Board authorized the Planning Department to enter into a contract with BAE Urban Economics in October 2012, to prepare an Economic Vitality Strategy. The first phase of work has been completed, including analysis of demographic and economic trends, and stakeholder meetings to obtain input from key industries and market sectors. Phase I results are summarized in the attached Economic Trends Report. On this June 18th date, the consultants will make a brief presentation about findings of the Report and will be available to answer questions.

The next steps in the process will include BAE preparing a Draft Economic Vitality Strategy and Action Plan, outlining goals, strategies, and metrics to measure progress. This Draft will be presented and discussed at four Community Workshops held at various geographic locations throughout the County. Public input will be obtained and used to refine the proposed Economic Vitality Strategy, which will then be the subject of Planning Commission and Board of Supervisors meetings and presented for acceptance. The recommendations will include proposed text and goals, policies and actions that would constitute a proposed Economic Vitality General Plan amendment. This may undergo CEQA review as a separate project, but it could also be evaluated by the Master EIR prepared for the Sustainable Community General Plan Amendments.

This Strategy will work to avoid duplication within local governments and other economic development initiatives, seeking to lay out a blueprint for how economic vitality and workforce development will occur countywide, and how this process will also interact with statewide initiatives. The Strategy and Action Plan will also form a framework for Santa Cruz County economic vitality staff, identifying its roles and functions over the next 5 and 10 years.

It is therefore **RECOMMENDED** that your Board accept and file the attached Economic Vitality Strategy Economic Trends Report.

Sincerely,


Kathy Molloy Previsich
Planning Director

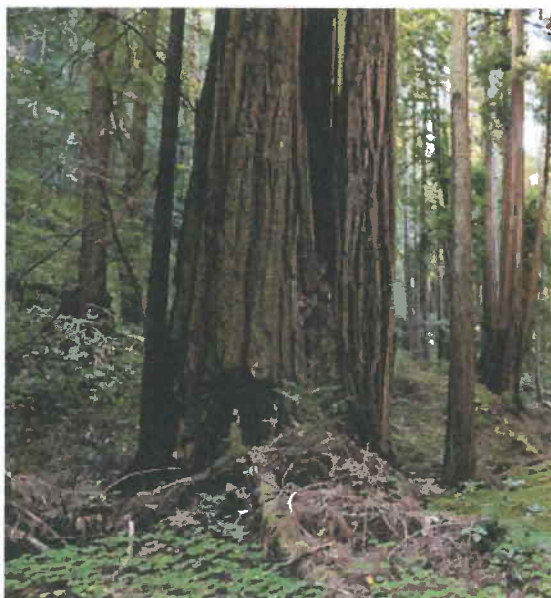
RECOMMENDED:

SUSAN A. MAURIELLO
County Administrative Officer

DRAFT

bae urban economics

Santa Cruz County Economic Vitality Strategy
Phase 1: Economic Trends Report
June 2013



June 11, 2013

Ms. Kathy Previsich, Planning Director
Ms. Barbara Mason, Economic Development Coordinator
County of Santa Cruz Planning Department
701 Ocean Street, 4th Floor
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Dear Kathy and Barbara,

Enclosed please find the Draft Phase 1: Trends Report for the Santa Cruz County Economic Vitality Strategy.

We have enjoyed working with you and all of the stakeholders on this project and look forward to formulating the Economic Vitality Strategy. Please let us know if you have any questions or comments.

Sincerely,



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EXECUTIVE SUMMARY

OVERVIEW OF ECONOMIC VITALITY STRATEGY

The Santa Cruz County Economic Vitality Strategy is an initiative led by the County of Santa Cruz to strengthen the local economy throughout the County. The Economic Vitality Strategy will include a blueprint of goals, policies, and actions to promote job growth, expand workforce development, strengthen public revenues, and improve the quality of life for residents and businesses in Santa Cruz County. The Strategy will draw on the County's unique strengths, identify opportunities, and set forth strategies to provide programs, incentives, and improved locations to attract and retain jobs in a way that enhances economic vitality.

Although the Economic Vitality Strategy will focus on unincorporated portions of the County in terms of actions, it is structured to provide an overall framework for economic vitality for both incorporated and unincorporated areas of the County. This approach was taken to ensure that a single Strategy document reflects the work and initiatives of local communities in a coordinated framework.

The Economic Vitality Strategy process takes a phased approach, as follows:

1. **Evaluate Economic Trends** through data analysis and stakeholder focus groups
2. **Identify Economic Opportunities** for increased vitality
3. **Incorporate Public Input** through four at-large public meetings
4. **Formulate the Strategic Plan** including goals, strategies, and implementation actions

ECONOMIC TRENDS

Key Industries. In 2011, the five largest industries in Santa Cruz County were Government (17.7 percent of total County jobs), Education & Health Care (14.5 percent), Retail Trade (12.3 percent), Leisure & Hospitality (12.0 percent), and Agriculture & Mining (9.4 percent). Jobs in these industries accounted for 66.0 percent of employment in the County in 2011.

Recent Job Losses. Between 2001 and 2011, Santa Cruz County experienced significant job losses of almost 11,000, a decline of 10.7 percent. While some of this drop was due to the national recession, during the same period, total employment in the State fell by just 2.8 percent, indicating that Santa Cruz was more severely affected. More recent quarterly data suggests some rebound in employment, as the number of jobs rose by 1.6 percent between Q3 2010 and Q3 2011.

Growth Sectors. Employment declines during the recession were somewhat offset by gains in Health Care & Education, Agriculture & Mining, Wholesale Trade, and Other Services between 2001 and 2011. In total, these sectors added 3,800 jobs, with Education & Health Care leading the way with 69 percent of all new jobs added.

Predominance of Small Business. Most businesses in Santa Cruz County are small businesses with fewer than 10 employees; over 70 percent of businesses fit this description. Approximately one out

of four firms had 10 to 19 employees (23.8 percent), and only a small fraction (5.5 percent) of firms in the County were large firms with over 50 employees.

Low Ratio of Jobs to Working Residents. Santa Cruz County is “jobs poor,” with fewer jobs compared to employed residents, which leads to a high level of out-commuting to more “job rich” areas. In 2011, more than 18,000 employed residents commuted to counties outside of Santa Cruz for work. This high level of out-commuting leads to congestion and longer commute times and impacts quality of life.

Relatively High Unemployment. Unemployment is relatively high in Santa Cruz County, registering 11.8 percent in February 2013, which was higher than the State (9.7 percent) and Santa Clara County (7.4 percent), but lower than Monterey County (13.4 percent). Unemployment is particularly acute in the City of Watsonville, at over 20%.

High Workforce Educational Achievement. For the most part, Santa Cruz County’s residents are highly educated, older, and affluent, making the County’s labor force attractive to employers. Over 38 percent of the County’s residents hold a four year bachelor’s degree or higher, achieving a high educational level relative to the state. This high degree of educational attainment will continue to be an important factor in retaining existing businesses and attracting employers to Santa Cruz County.

Relatively High Household Incomes. The high educational attainment levels translated into higher overall median incomes in the County and lower rates of poverty. In 2011, the median household income in Santa Cruz County was \$66,030, higher than Monterey County (\$59,737) and California (\$61,632), but lower than Santa Clara County (\$89,064). Countywide, 13 percent of residents lived in poverty, a lower rate than Monterey County (15.1 percent) or California (14.4 percent), but higher than Santa Clara County (9.2 percent).

Older Age Profile. Santa Cruz County’s residents, with a median age of 36.9, tend to be somewhat older than Monterey County (32.9), Santa Clara County (36.2), and the State (35.2). The County had proportionately fewer children (21.1 percent of total population), and a fast growing segment between the ages of 55 to 64, which nearly doubled its share from 7.6 percent of the population 2000 to 13.7 percent in 2010. This suggests a growing population choosing to age in place and retire in Santa Cruz. These active seniors represent a potential strength in terms of “encore” careers, with talent and capital that could generate additional businesses and job creation.

Disparities in South County. Within the County, there is a wide disparity between South County and the other subregions. While the County’s overall trends show relatively high educational attainment and high median household incomes, South County significantly diverges from the County. Over 44 percent of South County residents did not graduate from high school, and only 13 percent earned a bachelor’s degree or higher. This translates into higher rates of population living in poverty, and more South County residents with occupations associated with lower wages.

KEY SECTORS

For this study, an index of the relative concentration of employment by industry sector was calculated (known as “location quotient”). This metric identifies those sectors with greater employment than the State of California, indicating competitive advantages of these sectors in Santa Cruz County and the need to support them with enhanced countywide and subregional economic vitality strategies in the next phase of this process.

The four sectors with these identified competitive advantages include Agriculture, Education, Retail Trade, and Leisure & Hospitality (including the arts). For each sector, the following summarizes both analytical and stakeholder input regarding strengths and challenges in the County.

Agriculture: Strengths and Challenges

- This sector has a concentration more than 3 times that of the state, indicating its importance to County economic vitality and its competitive advantages.
- The total value of crops produced in Santa Cruz County has been increasing over time. In 2011, Santa Cruz County ranked 20th among all 58 counties in the state in terms of the gross value of crops produced.
- The County ranks 4th among all CA counties in the production of strawberries (9.2 percent of the state’s total production value), 3rd in flowers and foliage, (9.0 percent), 2nd in raspberries (36.4 percent), and 3rd in apples (10.5 percent).
- Employment in berry production is strong and accounts for a significant portion of agriculture jobs in the County (from confidential data). Employment in this crop category has also been increasing over time.
- The County maintains a strong agricultural base with world-class businesses, including Driscoll’s and Martinelli’s. Wineries such as Ridge and Storr’s are widely known.
- Santa Cruz County is home of many food industry leaders, such as Newman’s Own Organics, the California Certified Organic Farmers (CCOF), SunOpta, Santa Cruz Nutritionals and others.
- The cottage food industry is emerging. In 2012, the state passed the California Homemade Food Act, which allows small purveyors of foods that do not require refrigeration temperatures, including homemade baked goods, jams, vinegars, dried pasta, etc. to sell products directly to consumers. Small businesses in the County have already begun to capitalize on this trend, and the number of cottage food operators in Santa Cruz County has grown steadily in recent months.
- According to some stakeholders, County agricultural regulations are perceived as too restrictive. For example, County code limits the days and hours of operations for wineries, which constrain direct sales to consumers. Wineries are also restricted in their ability to host special events, which is an important source of revenue. Other stakeholders mentioned restrictions on fencing, signage, farm stands, and bed & breakfast lodging on agricultural lands. As the farm-to-table and local food movements gain momentum, these restrictions should be reviewed and updated to best capture economic opportunities.
- Facilities to accommodate larger processing operations are not available in Santa Cruz County. Food processing facilities that used to operate in Watsonville have been re-purposed

or are no longer competitive. Stakeholders were concerned that when businesses expand, they will move to another county unless a suitable facility or site is identified.

Education: Strengths and Challenges

- The Education sector plays a dual role in the economic vitality of Santa Cruz County. It is both a large employment sector, with over 11,300 jobs, and a key partner in workforce training and technology transfer initiatives throughout the County.
- UCSC can be a cornerstone in leading the County's economic engine. With scientific and technological research, the Human Genome project, advanced video game design, integrated teacher training, and undergraduate community service programs, the University offers untapped opportunities to enhance economic development efforts.
- Cabrillo College, with its strong record of improving educational attainment for high school graduates, and its specialized workforce training programs, is also an important partner in economic vitality initiatives for the County.
- Although both UCSC and Cabrillo College have partnered with local government throughout the County for specific initiatives, these institutions have not had a clear mechanism to partner with the County for broader economic strategies.
- The relatively low educational attainment rates in South County, identified as a key workforce issue for the County's economic vitality, need strong partnerships with both UCSC and Cabrillo College. The strength and quality of these two educational institutions, and success with model programs, calls for exploring opportunities to expand what works, and to create new partnerships at all levels of education throughout the County, including early childhood (pre-K) and adult education/job retraining.

Retail Trade: Strengths and Challenges

- The Retail Trade sector shows some competitive advantages, but has suffered from economic downturn. Recent trends indicate recovery, although overall there can be more opportunities to capture sales within the County that are currently leaking.
- Santa Cruz enjoys a "brand" that is known worldwide, which is unusual for such a small area. This derives primarily through NHS and its "Santa Cruz Skateboards", but also through companies such as O'Neill, Santa Cruz Bicycles, Fox Racing Shocks, and others. Better leveraging of these brands with economic vitality strategies would give Santa Cruz a competitive advantage for marketing, investment and attraction.
- The County and its cities should benefit more from the influx of tourists (see next section) for retail sales, especially in the restaurant and bar category.
- Sales for clothing, restaurants and bars, and general merchandise are all below their potential, suggesting the need for strategies to attract and develop additional stores.
- Several stakeholders expressed that the County is perceived as anti-growth, discouraging retail investment. While this is a complex subject, it should be noted that other "anti-growth" communities in Northern California do attract strong retailers; in general, retailers will operate where the business is strong and the demographics are well-understood.
- Some of the County's retail facilities are outdated, and are the focus of current planning initiatives. In general, retail facilities in unincorporated areas have not kept pace with contemporary retailing concepts that have emerged in other parts of Northern California.

