



# COUNTY OF SANTA CRUZ

0255

## PLANNING DEPARTMENT

701 OCEAN STREET, 4<sup>TH</sup> FLOOR, SANTA CRUZ, CA 95060  
(831) 454-2580 FAX: (831) 454-2131 TDD: (831) 454-2123  
**KATHLEEN MOLLOY PREVISICH, PLANNING DIRECTOR**

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:

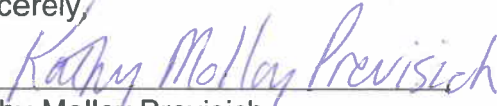
As you may recall, your Board authorized the Planning Department to enter into a contract with BAE Urban Economics in October 2012, to prepare an Economic Vitality Strategy. The first phase of work has been completed, including analysis of demographic and economic trends, and stakeholder meetings to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

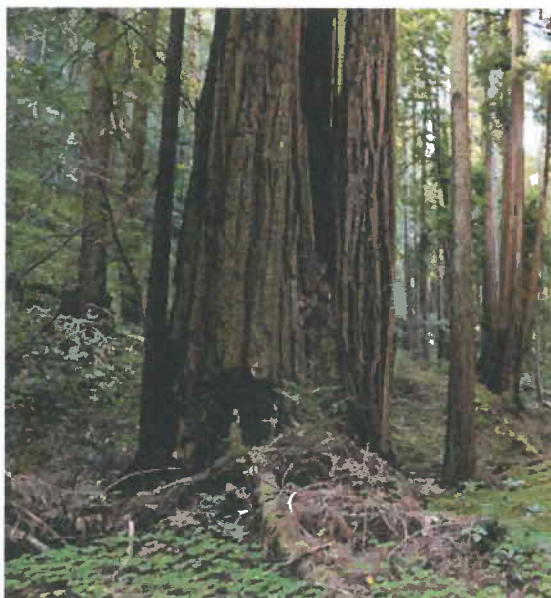
**RECOMMENDED:**  
  
SUSAN A. MAURIELLO  
County Administrative Officer



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, 4<sup>th</sup> Floor  
Santa Cruz County, CA 95060

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,



Janet Smith-Heimer, MBA  
Managing Principal

**San Francisco**  
1285 66<sup>th</sup> Street  
Second Floor  
Emeryville, CA 94608  
510.547.9380

**Sacramento**  
803 2<sup>nd</sup> Street  
Suite A  
Davis, CA 95616  
530.750.2195

**Los Angeles**  
5405 Wilshire Blvd.  
Suite 291  
Los Angeles, CA 90036  
213.471.2666

**Washington DC**  
1436 U Street NW  
Suite 403  
Washington, DC 20009  
202.588.8945

**New York City**  
121 West 27<sup>th</sup> Street  
Suite 705  
New York, NY 10001  
212.683.4486

# Table of Contents

<b>EXECUTIVE SUMMARY</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>9</b>
Overview of the Economic Vitality Strategy .....	9
Report Organization .....	9
Methodology .....	10
Definition of Study Area .....	10
<b>OVERVIEW OF SANTA CRUZ COUNTY ECONOMY</b> .....	<b>12</b>
Employment Trends .....	12
Employment by Firm Size .....	16
Ratio of Jobs to Employed Residents .....	16
Commute Flows and Working from Home .....	17
Workforce Trends .....	19
<b>KEY INDUSTRY SECTORS</b> .....	<b>23</b>
Identification of Key Industry Sectors .....	23
Agriculture .....	24
Education .....	27
Retail Trade .....	31
Leisure & Hospitality .....	34
<b>REAL ESTATE MARKET CONDITIONS</b> .....	<b>39</b>
Office .....	39
Industrial .....	40
Retail .....	42
Residential .....	43
<b>COUNTY FISCAL VITALITY</b> .....	<b>48</b>
General Fund Revenue Trends .....	48
Key Revenue Trends .....	50
<b>LOCAL ECONOMIC DEVELOPMENT INITIATIVES</b> .....	<b>52</b>
City of Santa Cruz .....	52
City of Watsonville .....	53
City of Capitola .....	54
City of Scotts Valley .....	54
County of Santa Cruz .....	54
Other Economic Development Agencies and Organizations .....	55
<b>APPENDIX A: FOCUS GROUP PARTICIPANTS</b> .....	<b>58</b>
<b>APPENDIX B: DETAILED DEMOGRAPHIC DATA</b> .....	<b>61</b>
<b>APPENDIX C: REAL ESTATE MARKET DATA</b> .....	<b>71</b>

# 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 20<sup>th</sup> among all 58 counties in the state in terms of the gross value of crops produced.
- The County ranks 4<sup>th</sup> among all CA counties in the production of strawberries (9.2 percent of the state’s total production value), 3<sup>rd</sup> in flowers and foliage, (9.0 percent), 2<sup>nd</sup> in raspberries (36.4 percent), and 3<sup>rd</sup> 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.

These aspects of retail trade in Santa Cruz County can be the focus of expanded economic vitality strategies to encourage private sector investment and increase sales.

### ***Leisure & Hospitality: Strengths and Challenges***

- Leisure & Hospitality includes all tourism, hotels, arts, recreation, and entertainment economic activity.
- This sector has competitive advantages, but employment has been losing ground in recent years. Although the Boardwalk reports record attendance and hotel occupancy trends show rising performance, average levels of occupancy in the County do not achieve levels indicating optimum success.
- Santa Cruz County has numerous natural and built attractions, including scenery, good weather, numerous parks and beaches, quality golf courses, extensive active recreation opportunities, and a thriving arts culture. The Boardwalk attracts both day visitors from the Bay Area and overnight visitors, with visitation at a record high of three million per year.
- A cornerstone of Santa Cruz tourism is its many festivals and sports events, including music, artist tours, mountain biking, road cycling, and road races and marathons. These are the focus of local promotional activities to increase tourism in off-peak periods.
- The rising farm-to-table movement, along with organic food production and local wine production, are all contributing to growing agri-tourism strength. This combines two of the County's key industry sectors, and should be encouraged.
- The off-peak and shoulder season decline in tourism impacts overall vitality and businesses, indicating the need for more strategies to offset it.
- Addition of conference facilities has the potential to attract off-season business travel; currently there is not a critical mass of sufficient capacity and quality to attract the meetings market to its potential.
- The quality of the hotel stock in Santa Cruz has not kept pace with improvements in other markets. Despite recent advances, this interplay between long-time owners accepting low annual occupancy rates due to off-season declines, while reaping the benefits of strong demand in peak season, results in lost opportunities to create a lodging destination image.
- Promotion of all tourism opportunities lacks a unified countywide marketing message. Although the Convention and Visitor Council recently revamped their branding message to "Santa Cruz – Let's Cruz" this organization's focus is primarily on overnight lodging facilities, and does not capture all of the needs of the Leisure & Hospitality sector in the County. Additional "branding" discussions involving a broader group of stakeholders may be beneficial.
- Some sector stakeholders reported that visitors came to Santa Cruz for one type of activity, and afterwards, don't know what else to do or where else to go. Many often asked for dining recommendations and other attractions.

## REAL ESTATE MARKETS

---

**Office.** The Santa Cruz office market has been improving its performance as the economy rebounds. Although vacancy rates are still high in Santa Cruz City, and Scotts Valley has a long-term large empty facility, other communities are at levels considered indicators of a healthy market.

**Industrial.** Vacancy rates are relatively low throughout the County, especially in Watsonville, indicating opportunities for additional industrial and flex space development to accommodate needs, particularly for ag-related industries.

**Retail.** Vacancy rates indicate a relatively healthy real estate market for retail, although some centers are outdated, and property owners have lagged making investments.

**Housing.** Housing markets in the County are generally very healthy, with high for-sale prices that continue to accelerate rapidly. New permit activity shows that the County is not building sufficient multifamily units relative to the mix indicated statewide.

## LOCAL ECONOMIC DEVELOPMENT INITIATIVES

---

There are several important local economic development initiatives underway, as summarized below:

**City of Santa Cruz.** Santa Cruz City's Economic Development Department is the successor agency to the former Redevelopment Agency, which dissolved in February 2012. With the loss of redevelopment, the City has reprioritized its initiatives to focus on the projects it can fund with fewer resources. The City is currently engaged in economic development activities including business retention and attraction, the Open Counter Project (online business portal), improving the existing hotel stock, tech transfer collaboration with UCSC, increased broadband deployment, and marketing the City.

**City of Watsonville.** Watsonville adopted its Economic Development Strategy in 2008 as part of its General Plan Update. The City's economic development goals are to create a vibrant community, a business environment that supports the retention of existing businesses, and the attraction of new business and entrepreneurs, and a workforce that can meet the needs of existing businesses. The Strategy also outlines actions to promote business retention and attraction, development of Manabe-Ow property, continued downtown revitalization, consideration of establishing Infrastructure Finance District (IFD), and education and workforce training.

**City of Capitola.** Capitola is currently in the process of updating its General Plan, which includes specific policies and programs to foster economic development. The City's economic development goals are designed to help support a vibrant community, while maintaining a business environment that supports the retention and expansion of existing businesses. The City's primary economic development activities are focused on reinforcing the 41<sup>st</sup> Avenue Corridor as the region's main retail destination, and at the same time, developing a vibrant historic beach village. To accomplish these efforts the City has entered into an agreement with the Capitola Mall owners to assist in the

relocation of the Transit Center, and partnered with the Village Business Improvement Association to enhance Village street and sidewalk maintenance.

**City of Scotts Valley.** Scotts Valley adopted an Economic Development Plan in 2007, and approved a Town Center Specific Plan in December 2008. The Economic Development Plan emphasizes creating a positive business environment and promotion of the City as such; encouraging business expansion, retention and attraction; undertaking other efforts to foster a healthy commercial sector that meets the needs of local shoppers; and assuring that the environment and public infrastructure support a viable business climate. A major economic development activity for Scotts Valley is to foster creation of a “town center”, which would be a mixed-use node with commercial, civic and residential uses that becomes the heart of the city. Due to shift of some major businesses to Silicon Valley in recent years, there is a high office vacancy rate which the City also endeavors to address with business attraction efforts.

**County of Santa Cruz.** The County of Santa Cruz has historically not been pro-actively engaged in economic development efforts, partially in recognition that the incorporated cities in the County were generally considered more attractive areas for development in proximity to other job centers, housing areas, services and infrastructure. In recent years the County has placed a greater emphasis on economic vitality. An effort to create an economic development division within the County Redevelopment Agency in 2010/11 faltered when the State took actions to dissolve redevelopment agencies in 2011/12. However, in July 2012, the Planning Department was able to hire an Economic Development Coordinator to augment other efforts the Department was pursuing to improve the business land use/regulatory environment in support of economic vitality. Grants have been obtained to enable efforts to focus on the CEMEX re-use plan, and on various economic development opportunity sites within Live Oak, Soquel and Aptos. Consultants were hired to prepare this Economic Vitality Strategy. Work to modernize land use regulations, streamline permit processes and improve customer service is well underway, with some phases completed and others to come. Outreach to assist businesses and potential development projects is on-going, and collaborative partnerships throughout the region are making it known that the County is taking a new approach to economic vitality. The Board of Supervisors is expected to augment resources available for economic vitality activities within the County of Santa Cruz in the FY 2013/14 Budget. There is a great degree of potential in the unincorporated area that can be tapped in a manner that recognizes community and environmental values while increasing opportunities for jobs and housing.

**Santa Cruz County Workforce Investment Board (WIB).** The Santa Cruz County Workforce Investment Board (WIB) is a countywide agency which manages employment services funded by the federal Workforce Investment Act. Programs include training and deployment of the labor force, and retraining of unemployed workers to provide new skills.

The WIB also leads the formulation of the Santa Cruz County Comprehensive Economic Development Strategy (CEDS), as required by the federal government for the County to receive funding from the Economic Development Administration. The CEDS establishes six goals for the County, including promoting workforce development, ensuring regional prosperity, improving quality of life, upgrading

infrastructure, supporting the ongoing fiscal health of the County, and building collaborative partnerships. The CEDS also contains a prioritization list of public-private projects proposed for the unincorporated areas.

**Central Coast Small Business Development Center (SBDC).** Founded in 1985, the Central Coast SBDC at Cabrillo College is one of 1,200 SBDCs in the US. This organization contributes essential services to small business. In 2012, the SBDC reports providing free business counseling to 433 small businesses, resulting in 45 new businesses, 251 new jobs, 125 jobs retained and over \$9.1 million dollars in equity and debt capital obtained by Cabrillo College SBDC clients. The Central Coast SBDC is principally funded by the US Small Business Administration and receives local match funding from the City of Santa Cruz and the Workforce Investment Board.

**Santa Cruz County Conference & Visitors Council (CVC).** This non-profit organization promotes Santa Cruz County as a visitor, conference and film destination through marketing programs. The Council's priority is "attracting high-yield overnight business during the off-peak periods of the year." In collaboration with the County Board of Supervisors, one of CVC's recent initiatives has been to form a Tourism Marketing District (TMD) in an effort to provide consistent funding for tourism promotion. The purpose of the special district is to increase overnight visitation at County lodging facilities, particularly during the non-summer months of the year. The Santa Cruz County Conference and Visitors Council (CVC) is the implementing agency, devoting a special tax assessment of each lodging charge to overnight guests to marketing and promotion of lodging in the County. In exchange, local government funding of the CVC will end, with the result being a more consistent, industry-paid revenue stream.

**Santa Cruz Area Chamber of Commerce and Other Business Organizations.** The Santa Cruz Area Chamber of Commerce works to increase employment and investment in Santa Cruz County with the goal of increasing its economic vitality and prosperity. These activities include two standing economic development (ED) committees, each with 25 to 35 members (Community Affairs Committee, which implements strategies to improve economic development; and the Economic Development Council, a partnership with the City of Santa Cruz to share concerns regarding public policy affecting economic vitality in the City of Santa Cruz). The Chamber also conducts Community Leadership Visits (CLV), which provides an immersion experience for key local decision-makers about economic development strategies across the US. In 2013 the CLV visited Boulder and Fort Collins, CO. Other economic development activities undertaken by the Chamber include retail development and attraction, an annual business climate survey, an employer survey regarding training needs under contract with the Workforce Investment Board, beach/downtown trolley development, recruitment of Warriors, and general advocacy.

In addition to the Santa Cruz Area Chamber of Commerce, there are many other business organizations and chambers of commerce throughout the County, including but not limited to the Santa Cruz Business Council, the Capitola Soquel Chamber of Commerce, the San Lorenzo Valley Chamber of Commerce, and the Santa Cruz Downtown Association. Each of these groups advocates for improved business conditions for its members.

# INTRODUCTION

## Overview of the 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:

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

The Economic Vitality Strategy process will be completed during 2013. Its formulation is occurring in tandem with preparation of the Santa Cruz County Sustainable Communities and Transit Corridor Plan. That Plan will contain land use and transportation recommendations for key development opportunity sites and transportation corridors in the portions of Live Oak, Soquel and Aptos that are within the County's Urban Services Line. That area has the highest existing concentration of jobs and housing within unincorporated Santa Cruz County, the strongest connections to regional employment centers, and the most extensive road, transit, pedestrian and bicycle infrastructure. This area has great potential to be improved in ways that increase the sustainability and economic health of the County.

## Report Organization

This report covers Phase 1 as outlined above. The following chapters describe demographic, economic, and real estate market trends to provide an overall profile of Santa Cruz County. Key economic sectors are profiled in more depth, to provide a strong understanding of strengths and weaknesses in the County economy. The County's most recent adopted budget is analyzed to identify key revenue sources. Stakeholder input, obtained through six focus groups, is also incorporated throughout the report. Stakeholder participants in the focus groups are listed in

Appendix A. Subsequent appendices also provide more detailed data tables related to sections of this report.

## Methodology

This Phase 1: Economic Trends Report was developed by analyzing published and unpublished data, and conducting a series of stakeholder focus group meetings. Published data sources used include the U.S. Census, American Community Survey, Census Transportation Planning Products (CTPP), the State of California Employment Development Department (EDD) Quarterly Census of Employment and Wages (QCEW), State Board of Equalization (SBOE) data regarding taxable retail sales, the County of Santa Cruz budget, real estate market data published by Cassidy Turley and Terranomics, and additional data from private vendors. In addition, BAE analyzed unpublished confidential data of firm-by-firm employment categorized by industry sector, provided to the County by EDD.

BAE also convened six stakeholder focus group meetings in April 2013, with a total of 80 participants, including key business leaders, local economic developers, non-profit organizations, and developer representatives. A full list of stakeholder focus group attendees is included in Appendix A.

## Definition of Study Area

For this Economic Trends Report, the Study Area encompasses all of Santa Cruz County, including both incorporated and unincorporated areas. To facilitate strategic planning, and reflect the diversity of the region, Santa Cruz County was also divided into four smaller subregions for further analysis. The subregions were defined by grouping Santa Cruz County's General Plan subareas and aligning the geographies to Census Tract boundaries, in order to enable data collection for demographic and economic conditions<sup>1</sup>. The subregions include the North Coast/Mountains (including Ben Lomand, Felton, and Boulder Creek), the Urban Core (including the incorporated cities of Scotts Valley, Santa Cruz, and Capitola as well as the Live Oak, Soquel and Aptos communities), the Summit, and South County (including Watsonville).

The subregions are shown in Figure 1 on the following page.

---

<sup>1</sup> Although Census Tracts do not correspond exactly with the General Plan subarea boundaries, they are very similar, providing the closest available geographies to obtain Census data for analysis.



# OVERVIEW OF SANTA CRUZ COUNTY ECONOMY

This chapter presents an overview of the County's economy, as well as trends for key industry sectors, and a profile of each subregion. The primary data source for most employment data in this report is the Quarterly Census of Employment and Wages (QCEW), as provided by the California Economic Development Department (CA EDD). Two sets of this employment data were used in the following chapters, both published countywide employment data by industry sector, and confidential detailed firm-by-firm QCEW data obtained from CA EDD regarding employment for all businesses in the County for three periods in time: Q3 2005, Q3 2010, and Q3 2011. The confidential data has been aggregated to analyze employment by industry sector for the four Santa Cruz County subregions.

## Employment Trends

### *Overall Santa Cruz County Employment Trends*

Table 1 summarizes employment data for 2001 and 2011, the most current year for which published data is available. In 2011, Santa Cruz County had a total of approximately 111,600 jobs. The composition of jobs included 91,700 employees of businesses, 8,120 persons who work at home, and about 11,800 sole proprietors who may either work from home or at business locations. The County's largest sectors were Government, Education & Health Care, Retail Trade, Leisure & Hospitality, and Agriculture. Together, these sectors accounted for two-thirds of County employment in 2011.

Between 2001 and 2011, Santa Cruz County employment shrank by 10,991 jobs, an overall decline of 10.7 percent. The most significant job losses occurred in Manufacturing (loss of 3,822 jobs), Construction (loss of 1,919 jobs), and Information (loss of 1,675 jobs). Professional & Technical Services and Leisure & Hospitality also experienced substantial job losses during this period.

Although some of the job losses in Santa Cruz County reflect the effect of the recent national recession, it is important to note that during the same period, total employment in the State fell by just 2.8 percent, far less than the 10.7 percent decline observed in Santa Cruz County. In surrounding counties, Santa Clara County lost 13.6 percent of its jobs during the same time period, reflecting a drop primarily in the Information and related sectors. Surprisingly, Monterey County grew its job base by 0.8 percent in the same period, with particular strength shown in the Education & Health Care sector.

Job losses in Santa Cruz County were somewhat offset by gains in Health Care & Education (2,667 jobs), Other Services (613 jobs), Agriculture & Mining (538 jobs), and Wholesale Trade (56 jobs).

These trends for Santa Cruz County indicate that while the region suffered job losses along with the larger state economy, the County's job losses were particularly acute in several key sectors, signaling the need for strategic actions to strengthen their performance.

**Table 1: Employment Trends for Santa Cruz County 2001-2011**

Industry	SANTA CRUZ COUNTY				SANTA CLARA COUNTY				MONTEREY COUNTY				STATE OF CALIFORNIA				
	2001		2011		2001		2011		2001		2011		2001		2011		
	Number	% Total	Number	% Total	Number	% Total	Number	% Total	Number	% Total	Number	% Total	Number	% Total	Number	% Total	
Agriculture and Mining	8,119	7.9%	8,657	9.4%	4,859	0.5%	3,647	0.4%	34,859	21.0%	46,428	27.7%	406,967	2.7%	415,558	2.9%	
Construction	4,795	4.7%	2,876	3.1%	47,493	4.7%	30,839	3.6%	6,644	4.0%	3,824	2.3%	774,145	5.2%	557,632	3.8%	
Manufacturing	8,996	8.8%	5,174	5.6%	240,686	24.0%	155,515	18.1%	9,463	5.7%	5,605	3.3%	1,779,012	11.9%	1,238,307	8.5%	
Wholesale Trade	3,375	3.3%	3,431	3.7%	40,643	4.1%	35,285	4.1%	4,507	2.7%	4,847	2.9%	652,968	4.4%	655,676	4.5%	
Retail Trade	13,960	13.6%	11,310	12.3%	87,659	8.7%	78,756	9.2%	17,123	10.3%	15,621	9.3%	1,571,994	10.5%	1,527,860	10.5%	
Transport, Warehouse & Utilities	1,661	1.6%	1,514	1.7%	17,658	1.8%	11,500	1.3%	3,467	2.1%	3,214	1.9%	494,510	3.3%	456,963	3.1%	
Information	2,533	2.5%	858	0.9%	42,523	4.2%	48,779	5.7%	2,798	1.7%	1,594	1.0%	528,794	3.5%	424,618	2.9%	
Financial Activities	4,031	3.9%	3,133	3.4%	34,937	3.5%	31,793	3.7%	6,523	3.9%	4,166	2.5%	833,189	5.6%	758,241	5.2%	
Professional & Technical Services	5,281	5.1%	4,049	4.4%	126,908	12.7%	110,813	12.9%	5,047	3.0%	5,446	3.3%	968,500	6.5%	1,052,924	7.2%	
Management & Administration	6,194	6.0%	5,507	6.0%	82,056	8.2%	58,158	6.8%	9,566	5.8%	6,192	3.7%	1,243,371	8.3%	1,072,017	7.4%	
Education and Health Care	10,658	10.4%	13,325	14.5%	87,517	8.7%	108,842	12.7%	11,647	7.0%	13,466	8.0%	1,412,809	9.4%	1,789,407	12.3%	
Leisure & Hospitality	12,117	11.8%	11,002	12.0%	72,416	7.2%	31,528	3.7%	20,284	12.2%	20,196	12.1%	1,361,700	9.1%	1,524,841	10.5%	
Other Services	4,028	3.9%	4,641	5.1%	25,773	2.6%	77,314	9.0%	5,252	3.2%	6,968	4.2%	640,264	4.3%	791,445	5.4%	
Government	16,922	16.5%	16,200	17.7%	91,511	9.1%	75,792	8.8%	29,006	17.5%	30,002	17.9%	2,313,534	15.4%	2,301,641	15.8%	
<b>Total (a)</b>	<b>102,669</b>	<b>100.0%</b>	<b>91,678</b>	<b>100.0%</b>	<b>1,002,637</b>	<b>100.0%</b>	<b>866,541</b>	<b>100.0%</b>	<b>166,186</b>	<b>100.0%</b>	<b>167,569</b>	<b>100.0%</b>	<b>14,981,757</b>	<b>100.0%</b>	<b>14,567,128</b>	<b>100.0%</b>	<b>-2.8%</b>

Note:

(a) Totals may not sum from parts due to independent rounding.

Universe consists of all wage and salary employment by place of work. Does not include self-employed persons not on payroll. Industry classification is not self-reported by individual workers. Counts may vary from other tables.

Sources: Quarterly Census of Employment and Wages (QCEW), CA EDD, 2001, 2011; BAE, 2013.

### ***Subregional Employment Trends***

The tables on the following page describe the composition and change over time of each subregion of the County used for analysis in this report. The first table shown contains detailed employment data by industry sector, for each subregion compared to the County overall. The second table shown calculates change in those sectors by subregion, between the 2005 – 2010 period, and between 2010 and 2011 (last year for available data). All of this information is based on a comprehensive, confidential firm-by-firm data series obtained especially for Santa Cruz County as part of the Economic Vitality Strategy process. Due to confidentiality rules, certain sectors with fewer than four employers in a subregion cannot be shown, and are instead represented by symbols to provide a sense of overall direction.

#### ***North Coast/Mountains***

With just over three percent of all County jobs, this subregion was heavily impacted by the recent recession, losing over 500 jobs between the 3,441 jobs that existed in 2005 and 2010. However, this subregion appears to have rebounded since 2010, gaining almost 150 jobs in one year, a faster growth rate than the County overall. Dominant industries in the North Coast/Mountain subregion include Leisure & Hospitality, Retail, and Manufacturing. Although the area has experienced recent growth in Leisure & Hospitality, its Manufacturing sector appears to be continuing to slide, indicating the need for special strategies to strengthen and reinvigorate this sector. The most significant source of job losses was closure of the CEMEX cement plant. The County has obtained a grant and will soon initiate a CEMEX site re-use study. That site has the potential to generate jobs in the future, with the nature of those jobs to be discussed during the re-use planning process.

#### ***Urban Core***

With just over 63 percent of all County jobs, the Urban Core is the employment center for the County. The largest industry sectors reflect the more urbanized nature of this subregion, with Leisure & Hospitality, Education, and Health Care predominating. This subregion lost employment at a faster rate than the County overall between 2005 and 2010, but it is also rebounding more quickly, gaining 2.2 percent between 2010 and 2011, compared to 1.6 percent increase in employment for the County overall.

#### ***South County***

This subregion has the second largest number of jobs, containing just over 30 percent of total County employment in 2011. Agriculture is the key dominant sector here, with over 10,000 jobs in 2011 (more than 30 percent of total subregional employment). In contrast to the rest of the County, South County actually gained jobs during the recession and reflects a strong agricultural sector.

#### ***Summit***

With just under three percent of total County jobs, the Summit subregion is also dominated by agriculture. This sector performed well during the recession and through 2011, growing substantially more rapidly than for the County overall. Management and administration jobs also increased, likely reflecting an increase in the number of Silicon Valley executives who live in the Summit area.

**Table 2A: Subregional Employment by Industry, Santa Cruz County, Q3 2005 – Q3 2011**

	North Coast/Mountains		Urban Core		South County		Summit		Santa Cruz County	
	Q3 2005	Q3 2010	Q3 2005	Q3 2010	Q3 2005	Q3 2010	Q3 2005	Q3 2010	Q3 2005	Q3 2010
Agriculture & Mining	175	159	334	286	8,709	11,235	11,010	632	9,850	12,817
Construction	253	260	3,418	2,415	2,226	803	779	269	6,169	3,724
Manufacturing	441	382	3,836	2,831	2,551	2,108	2,078	68	6,897	5,355
Wholesale Trade	74	113	2,254	1,844	1,227	1,488	1,387	30	3,702	3,475
Retail Trade	645	533	8,940	7,921	3,500	2,635	2,435	114	13,153	11,263
Transport, Warehousing, Utilities	123	91	1,409	1,184	760	624	677	27	2,319	1,923
Information	38	13	1,523	802	243	219	191	7	1,804	1,041
Finance & Real Estate	131	83	2,705	2,317	831	782	773	52	3,719	3,223
Professional & Technical Services	150	135	3,033	3,038	692	629	616	71	3,946	3,881
Management & Administration	109	96	3,664	3,013	898	1,846	2,077	50	4,721	4,984
Education	246	233	8,327	8,532	2,378	2,018	2,076	325	11,276	11,033
Health Care	242	213	7,759	8,508	2,295	2,286	2,351	123	10,419	11,104
Leisure & Hospitality	616	453	10,123	9,929	1,282	1,328	1,352	131	12,152	11,866
Public Administration	30	13	3,117	3,113	574	572	553	6	3,727	3,699
Unclassified & Other Services (a)	168	153	2,223	2,343	473	552	620	99	2,963	3,418
<b>Total (b)</b>	<b>3,441</b>	<b>2,930</b>	<b>62,665</b>	<b>59,076</b>	<b>28,639</b>	<b>29,125</b>	<b>28,975</b>	<b>2,068</b>	<b>96,817</b>	<b>92,482</b>

**Notes:**

(a) Excludes private households employing workers due to inconsistencies in reporting from year to year.  
 (b) Based on geocoded EDD point-level data. Employment figures differ from EDD published figures because this analysis excludes businesses with physical addresses outside of Santa Cruz County.  
 \* Data needs to be suppressed prior to publication due to disclosure issues.  
 Sources: QCEW, CA EDD; BAE, 2013.

**Table 2B: Subregional Change in Employment, Santa Cruz County, Q3 2005 – Q3 2011**

	North Coast/Mountains		Urban Core		South County		Summit		Santa Cruz County	
	% Change	2005-2010	% Change	2005-2010	% Change	2005-2010	% Change	2005-2010	% Change	2005-2010
Agriculture & Mining	-9.1%	6.3%	-14.4%	-17.8%	29.0%	-2.0%	79.9%	14.2%	30.1%	-0.8%
Construction	2.8%	1.2%	-29.3%	-12.3%	-63.9%	-3.0%	-9.7%	-20.6%	-39.6%	-10.0%
Manufacturing	-13.4%	-10.5%	-26.2%	2.2%	-17.4%	-1.4%	-50.0%	-23.5%*	-22.4%	-0.3%
Wholesale Trade	52.7%	-2.7%	-18.2%	-2.3%	21.3%	-6.8%	-79.6%	93.3%	-6.1%	-3.4%
Retail Trade	-17.4%	1.9%	-11.4%	3.1%	-24.7%	-7.6%	67.6%	2.6%	-14.8%	0.5%
Transport, Warehousing, Utilities	-26.0%	16.5%	-16.0%	1.2%	-17.9%	8.5%	-11.1%	16.7%*	-17.1%	4.5%
Information	-65.8%	-7.7%*	-47.3%	0.0%	-9.9%	-12.8%	N/A	0.0%*	-42.3%	-2.8%
Finance & Real Estate	-36.6%	13.5%	-14.3%	-0.9%	-5.9%	-1.2%	-21.2%	0.0%	-13.3%	-1.8%
Professional & Technical Services	-10.0%	18.5%	0.2%	6.6%	-9.1%	-2.1%	11.3%	-7.6%	-1.6%	5.3%
Management & Administration	-11.9%	13.5%	-17.8%	7.0%	105.6%	12.5%	-42.0%	41.4%	5.6%	9.3%
Education	-5.3%	-3.9%	2.5%	1.8%	-15.1%	2.9%	-23.1%	30.4%	-2.2%	2.5%
Health Care	-12.0%	-6.6%	9.7%	5.8%	-21.1%	2.8%	7.2%	6.6%	6.6%	4.9%
Leisure & Hospitality	-26.5%	15.0%	-1.9%	2.1%	3.6%	1.8%	19.1%	12.8%	-2.4%	2.7%
Public Administration	-56.7%	192.3%	-0.1%	-1.2%	-0.3%*	-3.3%*	-83.3%	600.0%*	-0.8%	-0.6%
Unclassified & Other Services (a)	N/A	48.4%	N/A	5.5%	N/A	12.3%	N/A	-5.7%	N/A	8.4%
<b>Total (b)</b>	<b>-14.9%</b>	<b>5.1%</b>	<b>-7.3%</b>	<b>2.2%</b>	<b>1.7%</b>	<b>-0.5%</b>	<b>13.5%</b>	<b>10.5%</b>	<b>-4.5%</b>	<b>1.6%</b>

**Notes:**

(a) Excludes private households employing workers due to inconsistencies in reporting from year to year.  
 (b) Based on geocoded EDD point-level data. Employment figures differ from EDD published figures because this analysis excludes businesses with physical addresses outside of Santa Cruz County.  
 \* Data needs to be suppressed prior to publication due to disclosure issues.  
 Sources: QCEW, CA EDD; BAE, 2013.

## Employment by Firm Size

Table 2 summarizes employment data by the size of the firm for Q3 2011, based on confidential raw data obtained from EDD for this study. As shown, more than 67 percent of all businesses in the County had between 0 and 4 employees<sup>2</sup>. Firms with less than 50 employees (the typical definition of small business) accounted for almost 97 percent of the roughly 8,400 businesses in the County. This finding indicates the need to formulate strategies to help very small and small businesses prosper, as these companies form the backbone of the County's economy.

**Table 3: Santa Cruz County Distribution of Firms by Number of Employees, Q3 2011**

	Number of Employees									Total
	0-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	1000+	
Agriculture	90	25	32	56	28	13	5	6	-	
Mining, Construction	520	126	54	19 (b)	(a)	-	-	-	-	
Utilities	(b)	(a)	-	-	-	(a)	-	-	-	
Manufacturing	112	60	42	29	11	3	(a)	(a)	-	
Wholesale Trade	149	58	33	25	9	7	-	-	-	
Retail Trade	342	185	134	(b)	39	15	(a)	-	-	
Transport, Warehousing	(b)	21	20	11	4	(a)	-	-	-	
Information	52	(b)	14	10	(a)	-	-	-	-	
Finance & Insurance	168	43	41	14	(a)	(a)	-	-	-	
Real Estate	243	55	19	(b)	(a)	-	-	-	-	
Services	3,956	647	443	279	78	36	8	(b)	(a)	
<b>Total</b>	<b>5,632</b>	<b>1,220</b>	<b>832</b>	<b>443</b>	<b>169</b>	<b>74</b>	<b>13</b>	<b>6</b>	<b>-</b>	<b>8,389</b>
% of Firms in County	67.1%	14.5%	9.9%	5.3%	2.0%	0.9%	0.2%	0.1%	0.0%	

Notes:

(a) Data are confidential if there are fewer than 3 businesses in a category or one employer makes up 80 percent or more of the employment in a category.

(b) Data are suppressed because confidential data could be extrapolated if these totals were included.

(c) Data do not include totals for government employment.

Source: Based on confidential QCEW data obtained from CA EDD, BAE, 2013.

## Ratio of Jobs to Employed Residents

One measure of economic vitality is the number of jobs in an area to the number of employed residents living in the same area. If this ratio is 1.0 or more, it means that there is theoretically a job for each working resident, creating a sufficient job base to employ residents locally. While the ratio does not account for the exact match between residents and local jobs, it helps to balance jobs and housing, creating a "complete" community with economic opportunity for residents as well as potential for certain environmental benefits such as decreased greenhouse gas (GHG) emissions.

Santa Cruz County has a relatively low number of jobs compared to employed residents. The County's ratio of jobs to employed residents was 0.90 in 2011, leading to substantial out-commuting. In contrast, Monterey County has a balanced ratio of jobs to employment residents at 1.00, and Santa Clara County has a surplus of jobs to employed residents, at 1.12.

<sup>2</sup> In this case, 0 employees is how business owners without any employees (e.g., sole proprietorships) would report.

**Table 4: Ratio of Jobs to Employed Residents, 2011**

	<u>Santa Cruz County</u>	<u>Monterey County</u>	<u>Santa Clara County</u>	<u>California</u>
Jobs (a)	111,629	175,422	929,952	16,249,359
Employed Residents (a)	123,591	175,968	828,082	16,251,032
<b>Ratio of Jobs to Employed Residents</b>	0.90	1.00	1.12	1.00

Note:

(a) Universe consists of members of the Armed Forces and civilian workers age 16 and older who were at work the week prior to the survey.

Sources: ACS, 2007-2011, Tables B08604 and B08007; BAE, 2013.

This ratio is one way to measure job creation goals – if Santa Cruz County were to achieve a balance of one job in the County for every employed resident, the County would have needed at least 12,000 more jobs in 2011. However, it should be recognized that not all jobs are full-time, and many people work more than one job in order to afford housing and other expenses. It may be that from 15,000 to 19,000 jobs (both part- and full-time) would be needed in order to achieve a healthy balance that allows a more standard percentage of income for housing.

## Commute Flows and Working from Home

The patterns of where employed residents go to work, compared to where workers in the County live, are shown below.

**Table 5: Commute Flows for Santa Cruz County, 2006-2008**

<u>Employed Residents of Santa Cruz County (a)</u>			<u>Workers in Santa Cruz County (b)</u>		
<u>Place of Work</u>	<u>Number</u>	<u>% Total</u>	<u>Place of Residence</u>	<u>Number</u>	<u>% Total</u>
In Santa Cruz County	94,055	75.7%	In Santa Cruz County	94,055	84.8%
<i>Worked at Home</i>	8,120	6.5%	<i>Worked at Home</i>	8,120	7.3%
<i>Worked Elsewhere in County</i>	85,935	69.2%	<i>Lived Elsewhere in County</i>	85,935	77.5%
In Santa Clara County	18,730	15.1%	In Santa Clara County	3,515	3.2%
In Monterey County	6,355	5.1%	In Monterey County	8,345	7.5%
Other SF Bay Area (c)	3,905	3.1%	Other SF Bay Area (c)	1,865	1.7%
All Other Locations	1,220	1.0%	All Other Locations	3,099	2.8%
<b>Total</b>	<b>124,265</b>	<b>100.0%</b>	<b>Total</b>	<b>110,879</b>	<b>100.0%</b>

Notes:

Based on Census Transportation Planning Package data using 2006-2008 American Community Survey (ACS) estimate which are based on statistical sampling conducted continuously between 2006 and 2008.

Both employed residents and workers (e.g., jobs) include members of the Armed Forces and civilians 16 and older who were at work during the week prior to being surveyed.

(a) Employed residents include all age 16 and older who live in the area and work somewhere.

(b) Workers represent the number of jobs in the area, with job-holders living in locations shown

(c) Includes the remaining counties in the 9-County Bay Area: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Solano, and Sonoma counties.

Sources: Census Transportation Planning Package, 2006-2008; BAE 2013.

As shown, roughly 76 percent of employed residents living in Santa Cruz County also work in the County, including those who work at home. Just over 15 percent of employed residents (18,700 people) commute from their home in Santa Cruz to Santa Clara County,

Conversely, of the jobs located in Santa Cruz County, almost 85 percent are held by Santa Cruz residents, with a small percent of workers coming into the County for work from their place of residence elsewhere.

An important feature of the County's economy is its high proportion of residents who work from their home. According to data from the American Community Survey, the County's economy included 8,120 residents who worked at home in 2008, equivalent to 6.5 percent of all employed residents living in Santa Cruz County. This percentage was higher than the percentage of residents working from home in Monterey County (4.5 percent), Santa Clara County (4.4 percent), and California (4.8%), as shown below.

**Table 6: Working at Home, 2008**

<b>Resident Workers</b>	<b>Santa Cruz County</b>	<b>Monterey County</b>	<b>Santa Clara County</b>	<b>State of California</b>
Worked at Home	8,119	7,995	36,153	788,399
Worked Outside of Home	116,209	168,517	794,709	15,662,221
<b>Total Workers (a) (b)</b>	<b>124,328</b>	<b>176,512</b>	<b>830,862</b>	<b>16,450,620</b>
Worked at Home	6.5%	4.5%	4.4%	4.8%
Worked Outside of Home	93.5%	95.5%	95.6%	95.2%
<b>Total Workers (a) (b)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Notes:

(b) Universe consists of members of the Armed Forces and civilians 16 and older.

(b) Totals may not match employed residents in other tables because the ACS 2008 3-year estimates were used for this analysis to correspond to data presented from the Census Transportation Planning Package.

Sources: ACS, 2006-2008; BAE, 2013.

## Workforce Trends

The County's resident workforce is one of its key economic strengths, shaping the region's economy and ability to attract and retain jobs. The following data are drawn from the US Census (2000 and 2010), and the American Community Survey. For benchmarking purposes, the County of Santa Cruz is compared to Monterey County, Santa Clara County, and to the State of California. Data is also presented for the four regions within Santa Cruz County to highlight local trends. Detailed data tables for the following analysis are included in Appendix B.

### ***Population and Household Trends: Overall Santa Cruz County***

The County's population grew modestly between 2000 and 2010, rising from 255,602 residents in 2000 to 262,382 in 2010, a 2.7 percent growth rate for the period. Santa Cruz County's growth lagged Monterey County (3.3 percent rise), Santa Clara County (5.9 percent rise), and California (10.0 percent rise) during the same period. The number of households in Santa Cruz County increased somewhat more rapidly, at 3.5 percent, than population, indicating healthy household formations and a reduction in average household size. This may also reflect a higher rate of incoming students to USCS and Cabrillo who move here and form smaller-sized households.

### ***Population and Household Trends: Subregional Trends***

In 2010, more than 53 percent of County residents lived in the Urban Core, while 26.7 percent resided in South County. The remaining 20.4 percent of the County's population lived in the North Coast and Summit.

Population increased only in the Urban Core and South County, rising at a faster rate in South County (7.8 percent) than the Urban Core (3.7 percent). In contrast, population losses were observed in the North Coast and Summit between 2000 and 2010.

### ***Age Distribution: Overall Santa Cruz County***

The age distribution of Santa Cruz County reveals interesting patterns, particularly the rising share of the population over the age of 55. Santa Cruz County's median age in 2010 was 36.9, higher than the median age of 32.9 in Monterey County, 36.2 in Santa Clara County, and 35.2 in California. The County's mature median age was shaped by the rising share of residents in older age groups. Between 2000 and 2010, the distribution of the population age 55 and older increased from 17.6 percent to 24.8 percent of the population, rising faster than all the comparison geographies, which may be attributable to residents choosing to age in place. The only other age cohort that saw its share increase from 2000 was the 18 to 24 age group, which may be due in part to higher university enrollment at UCSC and Cabrillo College. In recent years, it has become somewhat more common for students to come to Santa Cruz from other communities to attend Cabrillo College, which may account for some of this increase.

From an economic development standpoint, this age distribution has many implications. Santa Cruz County has successfully attracted a growing share of the "baby boom" generation, and this affects local demand for certain types of retail, health care, transportation, and community services. At the

same time, the County's population between the ages of 25 and 54, which constitute its primary workforce, fell by 11.6 percent from 119,500 to 105,600, a greater drop than in Monterey County (2.9 percent decline), Santa Clara County (0.4 percent decline), and California (4.7 percent increase). The drop in this segment of the population has an effect on economic development, since there are fewer residents in this working age group living in Santa Cruz County. Provision of goods and services needed by college students will continue to be a strong consideration for businesses.

#### ***Age Distribution: Subregional Trends***

The Urban Core's age distribution in 2010 was similar to the County, while South County had a younger age profile, and North Coast and Summit had an older age profile.

In 2010, the Urban Core's median age of 37.1 mirrored the County's median age of 36.9. In contrast, the median age was much lower in South County, at 29.9, which reflected the high proportion of children under the age of 18. In fact, 30.7 percent of South County's population was under the age of 18 in 2010.

The median age in the North Coast and Summit was significantly higher than the County. Both North Coast and Summit saw a jump in the median age, driven in part by a population that is aging in place. Between 2000 and 2010, the median age rose from 38.0 to 45.2 in the North Coast, and from 41.4 to 46.9 in the Summit. The population aged 55 to 64 nearly doubled its share of the population, rising from 8.5 percent of the North Coast's population in 2000 to 19.9 percent in 2010. A similar trend was observed in the Summit, which saw this age group increase its share of the population from 10.6 percent in 2000 to 20.1 percent in 2010.

#### ***Educational Attainment: Overall Santa Cruz County***

For Santa Cruz County adults, educational attainment was higher than Monterey County and the State. Approximately 38 percent of Santa Cruz County's residents aged 25 or older held a four-year bachelor's degree or higher, while only 23 to 30 percent of Monterey County and the State were in this category, respectively. In contrast, Santa Clara County residents had higher educational attainment levels, with nearly 46 percent earning a four-year degree or higher.

#### ***Educational Attainment: Subregional Trends***

The Urban Core, North Coast, and Summit all displayed high educational attainment levels, while South County lagged far behind. Approximately 44 to 46 percent of residents in the Urban Core, North Coast, and Summit held a four-year bachelor's degree or higher, similar to the rate in Santa Clara County. Meanwhile, only 13 percent of South County residents held a bachelor's degree or higher, with 44 percent of residents not graduating from high school.

The public K-12 school district that covers South County, Pajaro Valley Unified, also ranks low in state standardized test scores, which suggest that educational opportunities even for those in kindergarten through 12<sup>th</sup> grade lag behind the other school districts in the County. Compared to other school districts in California, Pajaro Valley Unified ranks in the lower quartile in terms of state standardized test scores. In contrast, Bonny Doon Union Elementary, Mountain Elementary, and

Happy Valley Elementary, school districts in the northern part of Santa Cruz County all rank in the top five percent in the state. The Pacific Collegiate School, a public charter school located in the urban core, has been ranked one of the ten best public high schools in the United States. Efforts to extend this level of quality and support for public schools and their students would be beneficial.

**Labor Force and Unemployment: Overall Santa Cruz County and Subregional Trends**

Between 2002 and 2012, Santa Cruz County’s labor force (i.e. residents either working or seeking work) increased by 1.9 percent. Unfortunately, the increase in residents seeking employment has not been accompanied by an equal rise in jobs. Between 2002 and 2012, the number of jobs in Santa Cruz County fell by 2.2 percent, resulting in a rising unemployment rate among Santa Cruz County residents from 7.4 percent in 2002 to 11.1 percent in 2012.

More recent unemployment data for Santa Cruz County and comparison counties, along with incorporated cities in Santa Cruz, is shown below<sup>3</sup>.

**Table 7: Unemployment Rates for Santa Cruz County and Cities, March 2013**

Geography	Number of Workers		Unemployment Rate (a)
	Employed	In Labor Force	
Santa Cruz County	136,100	153,500	11.4%
Capitola	6,300	6,700	6.4%
Santa Cruz City	30,200	33,300	9.5%
Scotts Valley	5,800	6,100	5.5%
Watsonville	18,400	24,100	23.6%
Monterey County	195,800	223,800	12.5%
Santa Clara County	858,100	924,200	7.2%
California	16,816,800	18,557,800	9.4%

Notes:

(a) Data are not seasonally adjusted. Unemployment rates are based on CA EDD published data.

Sources: CA EDD; BAE, 2013.

Currently, Santa Cruz County still has a relatively high unemployment rate of 11.4 percent, compared to the lower rates for Santa Clara County (7.2 percent) and the State of California (9.4 percent). However, Santa Cruz is faring better than Monterey County, with 12.5 percent unemployment in March 2013.

Unemployment rates vary substantially between incorporated cities in Santa Cruz County. Scotts Valley (5.5 percent) and Capitola (6.4 percent) are thriving in this regard. Santa Cruz City, with 9.5 percent unemployment, is still relatively high, while Watsonville, at almost 24 percent unemployment, is suffering

<sup>3</sup> Unemployment rates by subregion, and for unincorporated parts of Santa Cruz County, are not available.

### ***Household Income and Poverty: Overall Santa Cruz County***

Santa Cruz County's household incomes were higher than Monterey County and the State, but lower than Santa Clara County. In 2010, the median household income for Santa Cruz County, at \$66,030, was higher than the Monterey County (\$59,737), and California (\$61,632), but lower than Santa Clara County (\$89,064). Santa Cruz County had a similar proportion of low income households (below \$25,000) as Monterey County and California, but a larger concentration of households with incomes of \$100,000 or more.

Reflecting this overall household affluence, fewer residents in Santa Cruz County lived below the federally-defined poverty level than in Monterey County and California. In 2011, 13.7 percent of Santa Cruz residents lived in poverty, compared to 15.4 percent in Monterey County and 14.4 percent in the State. Santa Clara County demonstrates more overall prosperity than Santa Cruz County, with just 9.2 percent of Santa Clara County's residents living in poverty.

### ***Income and Poverty: Subregional Trends***

Median household incomes in the Urban Core, North Coast, and Summit were significantly higher than South County, mirroring variations in educational attainment. In 2010, the median household income was \$67,927 in the Urban Core. North Coast and Summit households displayed higher incomes (similar to those in Santa Clara County), with a median household income of \$83,661 in the North Coast, and \$86,133 in the Summit. In contrast, the median income in South County was only \$49,092, with nearly one out of every four households (23.4 percent) in South County earning less than \$25,000 per year.

Reflecting this disparity, individuals in South County had substantially higher poverty rates than the County overall. Almost one out of every five residents in South County (19.4 percent) lived in poverty in 2011. In contrast, the poverty rate in was just 6.1 percent for residents of the North Coast, 7.0 percent in the Summit, and 13.7 percent for the Urban Core. This disparity strongly indicates a need for strategies that address South County education, job training and access to opportunities, particularly for young people preparing to become independent adults.

# KEY INDUSTRY SECTORS

This chapter provides an in-depth analysis of key industry sectors of the Santa Cruz County economy, in order to set the foundation for economic vitality strategies and actions.

## Identification of Key Industry Sectors

Economists use several methods to identify key industry sectors within a regional economy. One common measure is known as location quotient, which measure the relative concentration of an industry sector within the local economy compared to a larger benchmark economy. If the local concentration of total jobs in that industry sector divided by the larger economy’s concentration is higher than 1.0, it means that the industry is has a more substantial local presence than would otherwise be expected, indicating local competitive advantages.

The table below shows the calculation of location quotients by major industry sector for Santa Cruz County compared to the larger California economy, ranked by largest to smallest for 2011. The state’s economy was selected as the benchmark, rather than the US as a whole, to identify local advantages within the economy that most affects it. As shown, Santa Cruz County has a strong location quotient for Agriculture, as well as relatively strong indicators for Education & Health Care, Retail Trade, and Leisure & Hospitality. These top four sectors, demonstrating local competitive advantages compared to the state’s economy, are profiled in more depth below, to set the foundation for subsequent strategic planning.

**Table 8: Location Quotients for Santa Cruz County Compared to California, 2001 & 2011**

Santa Cruz County	Location Quotient	
	2001	2011
Agriculture and Mining	2.9	3.3
Education and Health Care	1.1	1.2
Retail Trade	1.3	1.2
Leisure & Hospitality	1.3	1.1
Government	1.1	1.1
Other Services	0.9	0.9
Wholesale Trade	0.8	0.8
Construction	0.9	0.8
Management & Administration	0.7	0.8
Manufacturing	0.7	0.7
Financial Activities	0.7	0.7
Professional & Technical Services	0.8	0.6
Transportation, Warehousing & Utilities	0.5	0.5
Information	0.7	0.3

**Notes:**

Location quotient is the concentration of the industry in the County divided by the concentration for the same industry in the state.

A location quotient greater than 1.0 indicates local strength in that industry sector compared to California.

Sources: CA EDD, Quarterly Census of Employment and Wages 2001 and 2011, BAE, 2013.

## Agriculture

The Agriculture sector shows a very strong competitive advantage through its location quotient for Santa Cruz County, both in 2001 and 2011, including rising strength compared to the state overall. In 2011, this sector had a location quotient of 3.3, meaning that its employment was over three times as prevalent within the County as statewide agriculture to total statewide employment.

Agriculture ranked as the fifth largest industry in the County by total employment in 2011, accounting for 9.4 percent or 8,657 jobs. Between 2001 and 2011, jobs in Agriculture increased by 6.6 percent, faster than the rate of growth in the State (2.1 percent increase). Agriculture was the third fastest growing sector in the County between 2001 and 2011. Clearly agriculture and related industries of food processing and agro-tourism form a key backbone of the County's economy.

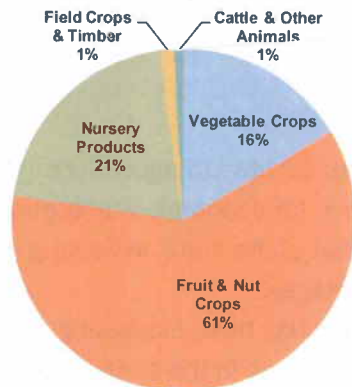
### Statewide Trends in the Agriculture Sector

In 2011, California was the top state in agricultural production measured by cash receipts, with \$43.5 billion in revenue (11.6 percent of US total)<sup>4</sup>. California owes this abundance to the production of over 400 commodities, producing nearly half of US grown fruits, nuts, and vegetables. California's agriculture industry also grew significantly during the past decade, rising from 25.9 billion in 2001 to \$43.5 billion in 2011 (68 percent increase).

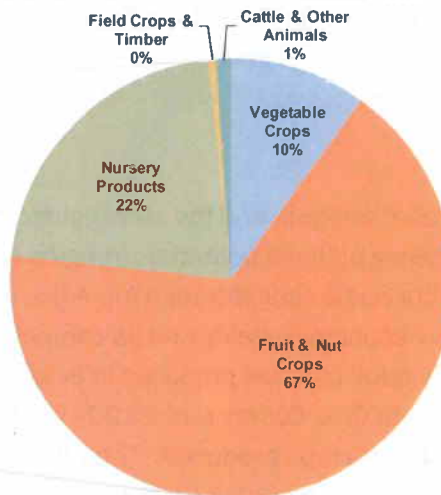
In 2011, Santa Cruz County ranked 20<sup>th</sup> in terms of total value of production among 58 counties in the State. Similar to state trends, the County experienced strong production value increases between 2001 and 2011, growing from \$365.1 million in 2001 to \$565.7 million in 2011 (55.0 percent increase in value).

**Figure 1: Agriculture Production Values by Category, Santa Cruz County, 2001-2011**

2001 Production Value: \$365.1 million



2011 Production Value: \$565.7 million



Sources: Agricultural Impact Associates, *Economic Contributions of Santa Cruz County Agriculture*, 2013.

<sup>4</sup> According to *California Agriculture Statistical Overview*, 2012-13.

In 2011, Fruit Crops were the largest production category by dollar value, comprising 66.8 percent of the county total. Berries dominated this category, led by strawberries (\$198.3 million), raspberries (\$132.4 million), and blackberries (\$29.4 million). Nursery Crops were the second largest production category (21.7 percent), which includes cut flowers (\$67.4 million). These two categories accounted for 88.5 percent of the county's direct farm production values.

Fruit crops, particularly strawberries and raspberries, have grown to represent a larger piece of the County's agricultural production between 2001 and 2011. The rising share of these crops may be driven in part by higher production values, which causes farmers to shift from lower to higher production crops. According to a report published by Agricultural Impact Associates in 2013, *Economic Contributions of Santa Cruz County Agriculture*, the County's production value for berries was \$49,003 per acre in 2011, significantly higher than the average County agriculture production of \$29,181 per acre.

### ***Santa Cruz County Employment Growth***

The confidential data obtained for this report indicates changes in employment by specific type of crop (numerical values cannot be shown here, but general trends are described). Between Q3 2005 and Q3 2011, the number of jobs increased for establishments specializing in strawberry and berry farming, and timber and logging operations. Jobs in berry production experienced the highest growth in total jobs between Q3 2005 and Q3 2011, and accounted for over 75 percent of all agriculture jobs in the County by Q3 2011. Businesses that specialized in apple production and animal production saw employment decline between Q3 2005 and Q3 2011. Categories that showed no change in employment included grape vineyards, floriculture, and nursery and tree production.

A recent study of economic impacts of agriculture in the County estimated total impacts at \$1.46 billion for 2011.<sup>5</sup> This includes \$898 million in direct economic benefits generated from agricultural production and processing in the County, along with \$563 million in indirect and induced benefits, which include additional spending by agriculture business and employees. The analysis also estimates that agriculture supports 11,085 jobs throughout the County, including direct, indirect, and induced impacts.

### ***Strengths***

Based on the above analysis and the stakeholder focus group devoted to agriculture in Santa Cruz County, the following outlines potential strengths to build upon for economic vitality strategies:

- 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 20<sup>th</sup> among all 58 counties in the state in terms of the gross value of crops produced. The County was fourth among all CA counties in the production of strawberries (9.2 percent of the state's total production value), third in flowers

---

<sup>5</sup> Agricultural Impact Associates, *Economic Contributions of Santa Cruz County Agriculture*, May 2013

and foliage, (9.0 percent), second in raspberries (36.4 percent), and third in apples (10.5 percent).

- Berry production is strong and accounts for a significant portion of agriculture jobs in the County. Employment in this crop category has been increasing over time.
- The County maintains a strong agricultural base with world-class businesses, including Driscoll's and Martinelli's.
- 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.

### **Challenges**

Some of the stakeholders expressed challenges to the agriculture sector in Santa Cruz, highlighting issues to form the basis for potential strategies:

- According to some stakeholders, County regulations are perceived as too restrictive with respect to agriculture. 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 to strengthen this sector and facilitate the sustainability of small scale agriculture.
- The availability of water, and addressing saltwater intrusion into the aquifers, is an important issue that is a current topic of discussion throughout the County. Certain crop types use more water than others, and therefore use of technology to minimize waste is a key strategy.
- 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

The Education and Health Care sectors are combined in published data, and together show a location quotient of 1.2, meaning that Santa Cruz County exceeds California in the concentration of these sectors' total employment, demonstrating a competitive advantage.

BAE analyzed these two sectors separately, however, using the confidential employment data obtained for this study. Some education jobs, particularly those at UCSC and Cabrillo College, are actually reported in the published material within the Government sector. When the confidential data is adjusted to account for these as Education jobs, this sector rises in prominence. Thus, Education is considered herein as its own industry category. With the adjustments described, as of Q3 2011, Education was the fourth largest sector in the County, accounting for 12.0 percent, or 11,309 jobs. Growth in this sector remained flat between Q3 2005 and Q3 2011, increasing by only 0.3 percent.

UCSC and Cabrillo College are the two major leading institutions of higher education in the County, and play an integral role in the local economy. UCSC is one of ten campuses in the University of California system. Cabrillo College is a public community college, one of 110 community colleges in the state. These two institutions are among the County's top ten employers, and the economic benefits that these institutions contribute are significant.

### ***Statewide Trends in the Education Sector***

In the last decade, funding for higher education has declined, as dwindling state budgets and competing priorities have lowered the amount of state funding available for higher education. According to a May 2012 report by the Public Policy Institute of California (PPIC) *Defunding Higher Education*, California spent \$1.6 billion less on higher education in 2010-11 than it did a decade earlier. In response to declining state support, the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) have responded by increasing tuition and fees, lowering costs, reducing course offerings, limiting enrollment, and increasing out-of-state and international student populations who pay higher fees. The combination of these adjustments has resulted in lower enrollment rates within the overall UC and CSU systems, although enrollment has risen at UC Santa Cruz (see below).

To combat this disinvestment, California voters approved Proposition 30 in 2012, which raises taxes and directs most of the proceeds to education. The combination of this voter initiative, along with improving state revenues, should help reverse some of the damage. However, the PPIC report raises questions about whether California is training the highly skilled workforce necessary to compete in the future. By 2025, it is estimated that two of every five jobs in the state will require a bachelor's degree, but enrollment rates of high school graduates in California's public colleges and universities have not kept pace. In order to remain competitive, PPIC estimates the state will need more high school graduates to earn degrees from technical and community colleges, and more students to graduate from four-year institutions. In addition, reaching underrepresented groups is also an important factor in ensuring the state remains competitive.

### **Enrollment Trends**

The table below shows enrollment trends for UCSC and Cabrillo College between the 2001-02 school year through the 2011-12 school year (most recent data available). Contrary to state trends, enrollment at UCSC has actually increased over time, rising from 12,749 students in the 2001-02 school year to over 16,700 students in 2011-12. Enrollment in Cabrillo College declined during the same period.

**Table 9: Student Enrollment, UCSC and Cabrillo College, 2001-02 to 2011-12**

<u>Year</u>	<u>UCSC</u>	<u>Cabrillo College</u>	<u>Total (a)</u>
2001-02	12,749	15,228	27,977
2002-03	13,614	14,867	28,481
2003-04	14,376	14,619	28,995
2004-05	14,542	15,151	29,693
2005-06	14,495	15,052	29,547
2006-07	14,894	16,068	30,962
2007-08	15,278	16,924	32,202
2008-09	16,087	16,467	32,554
2009-10	16,332	15,732	32,064
2010-11	16,451	14,842	31,293
2011-12	16,704	14,222	30,926

Note:

(a) Enrollment figures for UCSC represent an average of three quarters of enrollment for each school year. Enrollment figures for Cabrillo reflect student headcount and enrollment during the fall semester.

Sources: Cabrillo College Fact Book, 2012; UCSC Institutional Research & Policy Studies, 2013; BAE, 2013.

The combined institutions supported almost 8,000 jobs in 2011. According to the UCSC Personnel Profile, as of October 2011, UCSC employed 7,101 employees, of which 43 percent (3,018 jobs) were full-time, and 57 percent were part-time (4,083 jobs). In addition, Cabrillo College employed 850 employees in 2011. Together, these two institutions employed 7,951 in 2011.

### **Economic Vitality Initiatives at UCSC**

In 2011, the University of California commissioned a statewide report to update each campus's economic impacts within its local economy. For UCSC, this updated prior work conducted by BAE for that campus. The total economic impact of UCSC, including direct spending by the University, along with the multiplier effects of this spending in the local economy, totaled \$1.3 billion for the Santa Cruz regional area in 2011-12.

UCSC also confers other benefits to the economy, based on collaborations with local partners and its world-class research. Achievements by UCSC include its role in sequencing the human genome in 2000, its participation in two major experiments in the search for the Higgs Boson particle, the development of advanced robotic surgery systems for medical research, its partnership with the National Cancer Institute to launch the Cancer Genomics Hub, and UCSC's leading role in

sustainable agriculture. UCSC recently launched the Center for Entrepreneurship (C4E), which offers a multi-disciplinary approach to bringing innovations to market. The Center is expected to work with faculty on promising ideas that emerge from campus research labs. C4E hopes to leverage UCSC's leading researchers in information technology, energy and sustainability and biomedicine.

UCSC also partners with local institutions to collaborate on important regional issues. The Institute of Marine Sciences at UCSC monitors the state's network of Marine Protected Areas, particularly for toxic algae blooms, and is a leading force in sea otter research and sea level rise. UCSC also sponsors collaborative research with local farmers on organic farming and innovative practices which translates research into sustainable farming techniques. UCSC helped pioneer a unified approach to education, by transitioning students who have earned teaching credentials at UCSC to Santa Cruz County schools. UCSC's Health Sciences also pairs students with opportunities in medical offices and clinics throughout the county for hands-on experience.

Although UCSC has partnered in the past directly with the City of Santa Cruz on many local economic development initiatives and programs, its links to the County on these topics is less direct, offering potential new opportunities to take advantage of this strong economic engine for the benefit of all of the County's economic activities.

#### ***Economic Vitality Initiatives at Cabrillo College***

Cabrillo College recently completed its Education Master Plan, a long-term planning document to guide the college's educational programs, services, and facilities through 2025. According to the Master Plan, 50 percent of local high school graduates from Santa Cruz County public schools enrolled in Cabrillo College in 2010-11, highlighting the importance of this educational institution within the County for workforce training. Moreover, Cabrillo College is a leading member of the Santa Cruz County College Commitment (S4C), a county-wide collaboration that aims to prepare every Santa Cruz County K-12 student for college-level work. The partnership includes all K-12 public school institutions in the County, Cabrillo College, CSU Monterey Bay, San Jose State University, and UCSC. Public school students start visiting college campuses in the 4<sup>th</sup> grade, where they interact with teachers in small workshops that introduce them to institutions of higher learning. In 2012, the Cabrillo College Foundation made \$500 scholarships available to Santa Cruz County high school seniors as a part of this S4C initiative.

Cabrillo College operates a satellite branch in Watsonville called the Watsonville Center. This branch was created to increase access to higher education for the Pajaro Valley community, focusing on students who are traditionally underrepresented in higher education. Classes offered at the Watsonville Center include those that fulfill requirements for general education, ESL, transfer, career training, and associate degree level programs. The Solari Green Technology Center, a job training program for energy efficient construction, solar technology, renewable/recycled building materials, and construction management, is also based at the Watsonville Center.

### **Strengths**

Based on the above analysis and stakeholder input, the following outlines potential strengths to build upon for economic vitality strategies:

- 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 lead economic development.
- 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.
- Partnerships with California State Universities at San Jose and at Monterey Bay can lead to increased collaboration on strengthening educational and job training resources, as well as other avenues of increasing the vitality of key economic sectors in Santa Cruz County.

### **Challenges**

Based on the above analysis and input from stakeholders, the following highlights issues to form the basis for potential strategies:

- 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.
- Partnerships with public and private universities (such as Stanford and Santa Clara University) that are located outside of Santa Cruz County could support access to education as well as increasing the vitality of key economic sectors in Santa Cruz County, however there may be resistance due to competition for the attentions of these schools, and there may be a lack of awareness of the current attributes and opportunities that exist at UCSC and in the County.

## Retail Trade

This industry sector had a location quotient of 1.2 in 2011, meaning that its employment is 20 percent more concentrated in Santa Cruz County than statewide.

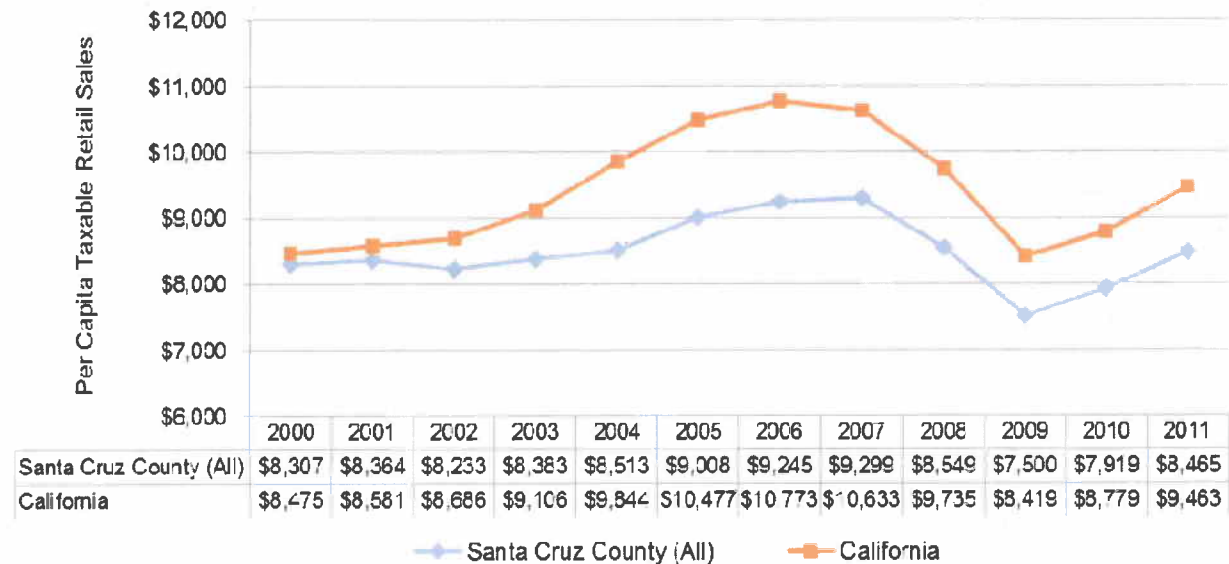
Retail trade was the third largest industry in the County by total employment, accounting for 11,310 jobs in 2011. However, due in part to the national recession, between 2001 and 2011, jobs in Retail Trade in the County declined by 19.0 percent, a steeper decline than for the State (down 2.8 percent).

To track retail trade trends, the following analyzes taxable retail sales data as published by the State Board of Equalization (SBOE) for all of Santa Cruz County, including both incorporated and unincorporated areas.

### Statewide Trends in the Retail Sector

A good way to measure taxable retail sales is to divide total sales by population, to get a per-capita metric. This approach accounts for sales that would occur due to population growth, equalizing different points in time and/or different geographic areas. As shown below in the combined graph and table, both the State and County per capita taxable retail sales started out at nearly the same level, but have diverged over time. While both the State and County rose during the boom and fell during the recession, the County did not grow as fast as the State, and also declined further, to a low of just \$7,500 per capita in 2009. Recent per capita sales have rebounded for both the State and County.

**Figure 2: Taxable Per-Capita Retail Sales Trends, 2000 – 2011**

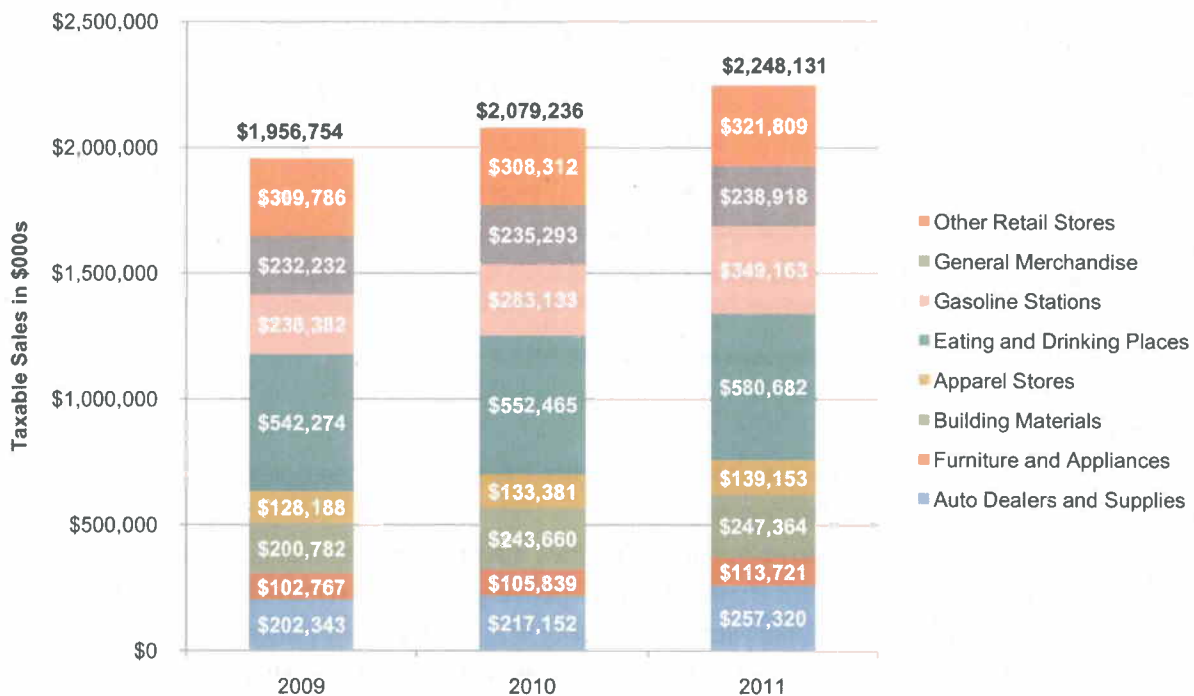


Sources: CA State Board of Equalization; CA Department of Finance Report E-2; BAE, 2013.

### Retail Sales Trends in Santa Cruz County

Taking a closer look at sales trends in Santa Cruz County, for the period between 2009 and 2011, taxable sales increased by 14.9 percent. This growth shows a strong rebound from the low point of the recession. The graph below (and data in the Appendix) also shows the change in the mix of types of stores in each of the past three years. As indicated, almost half of the sales growth was due to higher gasoline station sales, which likely partially reflect higher gas prices in this period. The two other categories that saw a large jump in sales were motor vehicles and parts and building materials. Sales in all other categories, including home furnishings, apparel, eating and drinking places, increased moderately between 2009 and 2011.

**Figure 3: Santa Cruz County Taxable Retail Sales by Major Category, 2009-2011**



Sources: State Board of Equalization; BAE, 2013.

### Sales Leakage and Potential Additional Sales Capture

The table below shows taxable retail sales measured on a per capita basis, by type of store, for both Santa Cruz County and the State. Using the State as a rough benchmark, it appears that the County experiences some “leakage,” meaning sales go to other locations outside the County, with lower sales in-County than State patterns would suggest are possible. In 2011, total per capita sales in Santa Cruz County (\$8,465) were approximately \$1,000 less per person than for California (\$9,463), although individual store categories varied. It must be noted that for many residents, the lowered level of expenditures for retail goods may reflect a higher level of expenditure for housing costs. The County’s per capita retail sales showed strength in building materials, food and beverage stores (grocery stores), and “other” retail. However, per capita sales were substantially lower than the State’s in motor vehicles, home furnishings, clothing, general merchandise, food and drinking

(restaurants and bars), and gas stations. The low sales and high leakage out of the County for restaurants and bars is particularly surprising given the abundance of restaurants in the County and the presence of a large college-age population; this finding may be due in part to substantial daytime out-commuting “over the hill” and corresponding loss of local restaurant spending. It may also reflect a high degree of tourist-oriented restaurants that emphasize serving the needs of summer visitors as a priority over offering quality product to local residents.

**Table 10: Taxable Retail Sales Per Capita, Santa Cruz County and California, 2011**

<b>Sales per Capita in \$ (a) (b)</b>	<b>Santa Cruz County</b>	<b>California</b>	<b>Sales Capture (Leakage)</b>	<b>% Capture (Leakage)</b>
Motor Vehicles and Parts	\$969	\$1,419	(\$450)	-31.7%
Home Furnishings & Appliances	\$428	\$628	(\$199)	-31.8%
Bldg. Matrl. & Garden Supplies	\$931	\$694	\$238	34.3%
Food & Beverage Stores	\$852	\$628	\$224	35.6%
Gasoline Stations	\$1,315	\$1,470	(\$155)	-10.5%
Clothing & Accessories	\$524	\$788	(\$264)	-33.5%
General Merchandise	\$900	\$1,283	(\$384)	-29.9%
Food & Drinking Services	\$1,335	\$1,457	(\$123)	-8.4%
Other Retail	\$1,212	\$1,096	\$116	10.6%
<b>Retail Stores Total</b>	<b>\$8,465</b>	<b>\$9,463</b>	<b>(\$997)</b>	<b>-10.5%</b>

Notes:

(a) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(b) Per capita sales = sales divided by population. Population estimates from California Department of Finance Report E-2.

Sources: CA Board of Equalization; CA Department of Finance; BAE 2013.

### **Strengths**

Based on the above analysis and stakeholder input, the following outlines potential strengths to build upon for economic vitality strategies:

- The Retail Trade sector shows some competitive advantages, but has suffered from economic downturn. Recent trends indicate recovery, although overall there may be more opportunities to capture sales within the County that are currently leaking.
- 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.
- The restaurant and bar sector may also be able to increase the level of patronage by local residents by ensuring quality, appropriate pricing and adequate marketing.

### **Challenges**

Based on the above analysis and input from stakeholders, the following highlights issues to address by targeted strategies:

- 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. These aspects of retail trade in Santa Cruz County can be the focus of expanded economic vitality strategies to encourage private sector investment and increase sales.

## Leisure & Hospitality

This sector (which includes Arts, Recreation, and Entertainment within it), had a strong competitive advantage compared to the State in 2001, but has lost some ground based on employment concentrations in 2011.

Although Leisure & Hospitality is the 4<sup>th</sup> largest industry sector in the County, with 11,000 jobs in 2011, the sector has lost 9.2 percent of its employment since 2001. In contrast, the State employment in this sector grew by 12.0 percent during the same time period. Clearly, a strong emphasis needs to be given to this sector in the Economic Vitality Strategy, building on the County's overall tourism and creative sector assets.

This section profiles Leisure & Hospitality trends based on multiple data sources and published reports. Data is presented on hotel performance, showing changes in occupancy and average daily rates between 2009 and 2012<sup>6</sup>. Survey results were reviewed based on intercept and phone surveys conducted by the Santa Cruz County Conference & Visitor's Council in 2009. Additional information is presented based on input from the participants in the leisure and hospitality stakeholder focus group that was conducted as part of this study.

### *Trends in the Hospitality Sector*

Signs indicate that the hospitality sector has been gradually strengthening, driven by moderate economic growth that has improved occupancy rates nationally. According to PricewaterhouseCoopers' (PWC's) January 2013 report *Hospitality Directions US*, business travel has been improving from recession-related lows, particularly in strengthening sectors like technology, healthcare, and biotechnology. Consumer spending is also expected to improve somewhat in 2013, especially compared to recent prior years. However, investors remain cautiously optimistic because the pace of the recovery has remained subdued. While the above indicators point to some incremental growth in leisure travel demand, PWC forecasts that travel demand will increase only gradually in the near future. On the supply side, lenders have been reluctant to finance new projects, except for very select deals in prime locations. The City of Santa Cruz has several

---

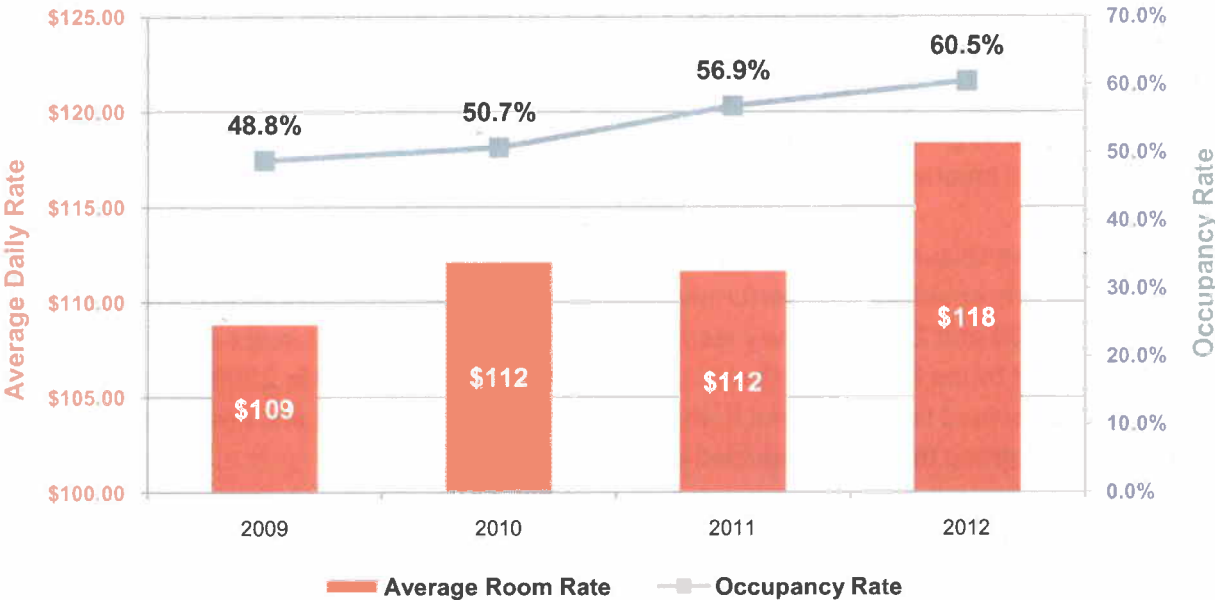
<sup>6</sup> The primary source of information on hotel performance is Smith Travel Research (STR), a private data vendor. This independent research company collects data on lodging facilities from a subset of all hotels, providing a useful data set for participating hotels. However, since not all hotels contribute in the data collection, the picture provided by STR data is not complete. In Santa Cruz County, STR tracks 34 hotel properties, totaling 2,516 rooms. This accounts for 46.6 percent of all hotel facilities in the County, and 69.0 percent of the total hotel room inventory. Most of the facilities tracked by STR are in the midscale to upper scale categories. Many smaller motels and inns, mostly in Santa Cruz City, are excluded from STR's research.

developments in the pipeline, but it is likely that implementation will be selective and measured. This can provide an opportunity for existing hotels to recover. Underserved areas, or replacement of outdated facilities with new upgraded product, may provide opportunities.

**Hotel Performance**

Santa Cruz County hotels have experienced increasing occupancy levels and rising average daily rates, similar to the trends in the national market. Annual occupancy rates climbed every year since 2009, from 48.8 percent in 2009 to 60.5 percent in 2012. Average daily rents also rose from \$109 in 2009 to \$118 in 2012.

**Figure 4: Hotel Performance, Santa Cruz County Hotels, 2009-2012**



Notes: Data above includes hotels tracked by Smith Travel Research in Santa Cruz County. In Santa Cruz County, STR collects data for 34 hotel properties, totaling 2,516 rooms. This accounts for 46.6 percent of all hotels in the County, and 69.0 percent of the total room inventory.

Sources: Smith Travel Research; BAE, 2013.

It should be noted that market analysts consider occupancy rates of roughly 70 percent an indicator of successful performance (about the level where the hotel can achieve profit). Some Santa Cruz County hotels are impacted by seasonality, lowering the annual overall rate. For example, hotels in Santa Cruz County experience fluctuations in occupancy rates with higher levels during the summer months, declining rates in the shoulder season, and low occupancy in the winter. In 2012, occupancy rates were very high between June and August, reaching 82.7 percent in August 2012. Occupancy typically declines in September and October to between 60 to 65 percent, and averages around 50 percent in the winter months between November and March. Occupancy picks up again in April and May in the spring.

Average daily rates followed a similar trend, with rates higher during the peak summer months and falling substantially in the off-peak season. In 2012, average rates reached \$152 per room per night in August during the peak season, but were as low as \$93 in the winter. This extreme fluctuation reinforces the seasonality in this market, with upward pressure on room rates when demand rises sharply in the summer, and room rates falling significantly during the off-peak season. Increases in the business and meetings travel market have the potential to change this under-performance aspect.

**Table 11: Hotel Overview, Santa Cruz County Hotels, 2009-2012**

**Market Overview by Month (2011-2012)**

Month	Occupancy Rate	
	2011	2012
January	36.7%	41.1%
February	45.4%	53.2%
March	47.9%	52.9%
April	58.1%	59.0%
May	55.3%	59.6%
June	64.1%	74.7%
July	78.2%	82.7%
August	75.3%	80.1%
September	64.5%	64.7%
October	61.7%	61.1%
November	49.7%	52.8%
December	45.5%	44.1%

Notes:

(a) Smith Travel Research (STR) tracks 34 lodging facilities totaling 2,516 rooms in Santa Cruz County. This accounts for 46.6 percent of all hotels in the County, and 69.0 percent of total room inventory. Sources: Smith Travel Research; BAE, 2013.

**Visitor Profile**

In 2009, the Santa Cruz County Conference & Visitor’s Council (CVC) commissioned a visitor profile study to assist the CVC in its marketing and communication efforts. Two surveys were completed; one was an intercept survey conducted at eight different tourist locations in the county. The other was a phone survey with the same questions targeting people who had contacted the CVC for information. The analysis below profiles these visitors.

Survey respondents were mostly from California, and many had visited Santa Cruz before. Seventy-six percent of people surveyed were from California, 16 percent were from other states, and 8 percent were from other countries. Of the California visitors, an overwhelming majority (89.1 percent) was from Northern California, 3.6 percent were from Central California, and another 6.9 percent were from Southern California. Seventy-six percent of those surveyed had visited Santa Cruz County previously.

Vacation and leisure were the primary reasons cited for visiting Santa Cruz. Only 2.1 percent of survey respondents replied that business was the main reason for their visit. Going to the beach,

visiting attractions, and eating in restaurants were the top three activities among survey respondents (all activities reported over 70 percent participation rates). Over 30 percent of visitors' top activity was visiting the state parks or outdoor recreation. The actual percentage of visitors for outdoor recreation may be even higher, since the survey sample was skewed more towards results captured in Downtown Santa Cruz and the Boardwalk (59 percent) than in areas outside of Santa Cruz City (41 percent).

The majority of visitors were day trippers that did not stay overnight. Only 36.9 percent of survey respondents reported staying overnight in Santa Cruz, while the majority of survey respondents (63.1 percent) were day visitors. This may be due in part to the high percentage of visitors from Northern California, which accounted for 67.7 percent of all visitors. In fact, the survey data corroborates that California residents, in general, exhibited a lower propensity to stay in Santa Cruz County hotels (32.8), compared to out-of-state travelers (48.3 percent), and international travelers (52.5 percent). Still, even among out-of-state travelers, only half reported staying overnight in Santa Cruz, which suggests that many are either passing en route to another place, or did not consider Santa Cruz to be an overnight destination on their trip. However, among those surveyed, almost 90 percent were extremely or very satisfied with Santa Cruz as a destination.

### **Strengths**

Based on the above data as well as the stakeholder group convened for this report, the following highlights Santa Cruz County's strengths in leisure & hospitality including arts, recreation, and entertainment:

- This sector has competitive advantages, but employment has been losing ground in recent years. Although the Boardwalk reports record attendance and hotel occupancy trends show rising performance, average occupancy in the County do not achieve levels indicating optimum success.
- Santa Cruz County has numerous natural and built attractions, including scenery, good weather, numerous parks and beaches, quality golf courses, extensive active recreation opportunities, and a thriving arts culture. The Boardwalk attracts both day visitors from the Bay Area, and overnight visitors, with visitation at a record high of three million per year.
- A cornerstone of Santa Cruz tourism is its many festivals and sports events, including music, artist tours, mountain biking, road cycling, and road races and marathons. These are the focus of local promotional activities to increase tourism in off-peak periods.
- The rising farm-to-table movement, along with organic food production and local wine production, are all contributing to growing agro-tourism strength. This combines two of the County's key industry sectors, and should be encouraged.

### **Challenges**

Stakeholders identified several important challenges to economic vitality in the Leisure & Hospitality sector including:

- The off-peak and shoulder season decline in tourism impacts overall vitality and businesses, indicating the need for more strategies to offset it.

- The quality of the hotel stock in Santa Cruz has not kept pace with improvements in other markets. Despite recent advances, this interplay between long-time owners accepting low annual occupancy rates due to off-season declines, while reaping the benefits of strong demand in peak season, results in lost opportunities to create a lodging destination image.
  - Survey results from the CVC study conducted in 2009 show that hotel patrons cited value/pricing of hotels as the most important consideration when choosing a hotel, but this was ranked lowest in describing their lodging experience.
  - Focus group participants corroborated this finding, and claimed that particularly in the summer months, prices are very high compared to the quality and amenities offered, and the nicer hotels sell out fast.
  - The City of Santa Cruz is considering a measure that will rebate transient occupancy taxes to hotels that improve their properties.
- Promotion of all tourism opportunities lacks a unified countywide marketing message. Although the Convention and Visitor Council recently revamped their branding message to “Santa Cruz – Let’s Cruz”, this organization’s focus is primarily on overnight lodging facilities, and does not capture all of the needs of the Leisure & Hospitality sector in the County. Additional “branding” discussions involving a broader group of stakeholders may be beneficial.
- Some sector stakeholders reported that visitors come to Santa Cruz for one type of activity, and afterwards, don’t know what else to do or where else to go. Many often asked for dining recommendations and other attractions. This suggests a need for coordinated efforts across all visitor-oriented sectors and organizations to leverage visitor interest in Santa Cruz.

# REAL ESTATE MARKET CONDITIONS

This chapter provides an overview of real estate market conditions that reflect the economic conditions of Santa Cruz County. The primary source for commercial real estate data is Cassidy Turley, a commercial real estate brokerage firm active in the area. Data is presented for 2011 and 2012 for four submarkets, which include Santa Cruz City, Scotts Valley, Mid-County, and Watsonville.<sup>7</sup> It should be noted that this data tracks market activity mostly in incorporated cities and some unincorporated areas in the Urban Core, but does not track activity for unincorporated areas in the North Coast, Summit, and South County.<sup>8</sup>

The following highlights current market conditions for office, industrial, retail, and residential markets. Additional trend data is provided in the Appendices.

## Office

The Santa Cruz County office market contains 7.5 million square feet of office space.<sup>9</sup> Scotts Valley had the most office space, accounting for 30.4 percent of the County's total inventory with 2.3 million square feet. Santa Cruz City was the second largest office market, with 2.1 million square feet, followed by Watsonville (1.9 million square feet), and Mid-County (1.2 million square feet).

The Santa Cruz County office market closed 2012 with higher vacancy rates than in 2011. The County vacancy rate was 16.9 percent in Q4 2012, higher than 12.8 percent from a year ago. The majority of this increase was attributable to Scotts Valley, which ended 2012 with a 32.7 percent vacancy rate, the highest in the County. This was due to a series of large corporate campus vacancies, including Seagate's consolidation/relocation to Silicon Valley and Aviza's closing of its campus. Excluding the former Seagate campus<sup>10</sup>, the vacancy rate in Scotts Valley and the County would have been much lower, at 12.2 percent and 10.6 percent, respectively.

Most real estate analysts look for a 10 percent office vacancy rate as a measure of a healthy office market. Mid-County and Watsonville are healthy markets, with vacancy rates of 6.1 percent and 4.6 percent, respectively, at the end of 2012, indicating market potential for additional office space in these areas. In contrast, the vacancy rate in Santa Cruz City was relatively high, at 16.7 percent.

Interestingly, despite the high vacancy rate, Santa Cruz City experienced an increase in average asking rents between 2011 and 2012, rising by 5.1 percent between 2011 and 2012. A similar upward trend in asking rents was observed in Mid-County, while average asking rents fell in Scotts Valley and South County.

---

<sup>7</sup> The Mid-County submarket includes Capitola, Aptos, Live Oak, and Soquel.

<sup>8</sup> Cassidy Turley's submarkets do not align precisely with the subregions identified earlier in this report. Santa Cruz City, Scotts Valley, and Mid-County are all within the Urban Core. Watsonville is in the South County subregion.

<sup>9</sup> This likely does not include university and other owner-occupied office space.

<sup>10</sup> The Seagate campus totals 472,363 square feet.

A majority of the office space available for rent in the County was in offices of less than 5,000 square feet. County-wide, there were 173 office spaces available for lease in Q4 2012. Seventy-one percent, or 122 listings, were for spaces of less than 5,000 square feet, and only 12 percent were for offices of over 20,000 square feet. All of the County's office listings of over 20,000 square feet were in Scotts Valley and Santa Cruz City.

**Table 12: Office Market Overview, Santa Cruz County, 2011-2012**

<b>Office Market Overview</b>					
	<u>Santa Cruz City</u>	<u>Scotts Valley</u>	<u>Mid County (a)</u>	<u>Watsonville</u>	<u>Santa Cruz County</u>
<b>Summary, 4Q 2012</b>					
Inventory	2,173,871	2,307,369	1,191,157	1,907,642	7,580,039
Occupied Stock	1,810,213	1,552,866	1,118,152	1,820,390	6,301,621
Vacant Stock	363,658	754,503	73,005	87,252	1,278,418
Vacancy Rate	16.7%	32.7%	6.1%	4.6%	16.9%
Inventory (% County)	28.7%	30.4%	15.7%	25.2%	100.0%
<b>Asking Rents, 2011-2012 (b)</b>					
Average Asking Rent (psf), 2011	\$1.87	\$1.74	\$2.00	\$1.67	\$1.80
Average Asking Rent (psf), 2012	\$1.96	\$1.62	\$2.03	\$1.65	\$1.74
% Change 2011-2012	5.1%	-6.9%	1.7%	-1.4%	-3.3%

Notes:

(a) The Mid-County office submarket includes Capitola, Aptos, Live Oak, and Soquel.

(b) Average asking rents reflect full service leases.

Sources: Cassidy Turley; BAE, 2013.

## Industrial

In Q4 2012, there were 11.2 million square feet of industrial space in Santa Cruz County. Watsonville accounted for a majority of the County's inventory, with nearly 5.7 million square feet, or 50.8 percent market share. The next largest industrial markets were Santa Cruz City (3.1 million square feet), Mid-County (1.4 million square feet), and Scotts Valley (982,000 square feet).

Santa Cruz County's industrial market showed resiliency during the economic downturn, closing 2012 with positive net absorption, which means more industrial space was leased in 2012 than vacated. Vacancy rates were down from the prior year, falling to 4.8 percent, a decline from 5.8 percent a year earlier. Real estate market analysts consider an industrial market strong when the vacancy rate is less than 10 percent. Watsonville, Mid-County, and Scotts Valley all closed 2012 with industrial vacancy rates below 5 percent, and Santa Cruz City at 10.3 percent. The vacancy rate was extremely low in Watsonville, only 2.2 percent, indicating a very strong market.

Average asking rents have remained firm throughout the County, and some indicators suggest the need for more industrial supply, particularly in Watsonville. In addition to low vacancy rates, Watsonville was the only submarket that saw a substantial increase in average asking rents, rising by \$0.10 between 2011 and 2012, to an average of \$0.63 per square foot per month for triple-net

