

# Economic Vitality and Fiscal Health 6



*"Cabrillo College"*

# Economic Vitality and Fiscal Health

*A sustainable community has a vibrant local economy with good jobs and commercial services for area residents. A sustainable community also means that revenues of local governments, school districts, and public service providers are sufficient to ensure an adequate level of ongoing services to the public. This revenue is needed in order to protect the community's health, safety, and welfare.*

*This chapter describes the jobs held by Plan area residents and the industries located in the area. This chapter also presents estimates of future demand for additional housing and commercial revitalization within the Plan area. This information is a summary of a comprehensive demographic and economic report for the Transit Corridors Plan, prepared by BAE Urban Economics.<sup>1</sup>*

## Resident Employment and Unemployment

As in the Population and Housing Chapter, this chapter describes conditions within a larger Plan analysis area, defined by the six census-designated places as described in Chapter 4 of this report. Within this analysis area, a high proportion of residents hold management, healthcare, and service jobs compared to the county and state. Table E-1 shows residents' occupations, which tend to earn above-average wages, and may reflect the analysis area's high educational attainment.

<sup>1</sup> *Demographic, Economic and Real Estate Market Existing Conditions Analysis for the Santa Cruz County Transit Corridors Plan. BAE Urban Economics. October 2012. Available online at [www.transitcorridorsplan.org](http://www.transitcorridorsplan.org).*

As of March 2012, the analysis area unemployment rate was approximately four percent lower than in Santa Cruz County, and two percent lower than in California (See Table E-2). Lower unemployment rates in the analysis area reflect residents' relatively high educational attainment and corresponding industries of employment.

## Jobs and Employers in the Analysis Area

The current economic base within the analysis area is heavily concentrated in health care and education with smaller concentrations of professional/business service jobs and retail jobs. As shown in Table E-3, manufacturing and leisure and hospitality comprise a lower proportion of all jobs in the analysis area compared to the county. The analysis area's share of agriculture is very small unlike the County, which has a large presence in this sector. The largest employers in the Analysis Area include Dominican Hospital, Cabrillo College, Home Depot and Safeway.



*Home Depot shopping center on 41<sup>st</sup> Avenue.*

**Table E-1: Occupation of Employed Residents**

Occupation	Plan Analysis Area		Santa Cruz County		California	
	Number	Percent	Number	Percent	Number	Percent
Sales and office	5,027	21.9%	26,636	21.1%	4,221,411	25.4%
Management, business, and finance	3,894	16.9%	19,597	15.5%	2,489,987	15.0%
Service	3,757	16.3%	19,580	15.5%	2,590,172	15.6%
Education, law, art, and media	2,944	12.8%	16,789	13.3%	1,800,287	10.8%
Natural resources, construction, and maintenance	2,107	9.2%	16,058	12.7%	1,651,688	9.9%
Healthcare	2,004	8.7%	8,418	6.7%	1,041,757	6.3%
Production, transportation, and material moving	1,648	7.2%	10,015	7.9%	1,839,938	11.1%
Computer, engineering and science	1,614	7.0%	9,287	7.3%	997,226	6.0%
<b>Total</b>	<b>22,995</b>	<b>100%</b>	<b>126,380</b>	<b>100.0%</b>	<b>16,632,466</b>	<b>100.0%</b>

Sources: ACS, 2006-2010; BAE, 2012.

As shown in Figure LU-5 (Land Use Chapter), employment clusters within Mid-County are located in downtown Santa Cruz, at the University of California Santa Cruz, and in Capitola. Within the analysis area, jobs are clustered around Dominican Hospital, Cabrillo College, and along Soquel Drive between 41<sup>st</sup> Avenue and Porter Street. Additional employment is found stretched out along Soquel Drive into Aptos, and dispersed in Pleasure Point, and Twin Lakes.



*Cabrillo College.*

## Strategic Economic Clusters

Recent analysis prepared by the Santa Cruz County Workforce Investment Board (WIB) identified five major economic clusters that contribute significantly to the regional economy: technology, tourism, lifestyle enterprises, agriculture, and environmental technology.<sup>2</sup> Of these five major clusters, technology, tourism and lifestyle enterprise have potential for future growth in the analysis area based on current employment concentrations and long-term growth trends.

### Technology

The technology cluster is a growing industry in Silicon Valley, and Santa Cruz County may have an opportunity to capture a portion of this growth. According to the 2012 Silicon Valley Index, employment in Silicon Valley expanded by 3.8 percent between December 2000 and 2011 in all major sectors except for manufacturing. Industries expected to grow include biotechnology, computer manufacturing and industrial design services, and medical devices and equipment. Given Santa Cruz's proximity to Silicon Valley, there may be an opportunity to capture a share of this emerging growth and boost employment in the technology sector. Technology related to the agricultural, healthy lifestyles, recreation, medical, and environmental industries may hold particular promise for Santa Cruz County.

### Tourism

Travel spending in Santa Cruz County is lower compared to other competitive tourist markets in northern Califor-



Retail on 41<sup>st</sup> Avenue (left) and Dominican Hospital (right).

## Strategic Economic Clusters

Strategic economic clusters are groups of related businesses that connect across industry sectors in terms of workforce needs, intermediate suppliers, and overall economic infrastructure. Economic clusters with the potential for future growth in the analysis area are:

- **Technology** - Knowledge and service-based sectors including industries such as biotechnology, industrial energy, and medical devices and equipment.
- **Tourism** - Leisure and hospitality industries including hotels, spas, and recreational uses.
- **Lifestyle Enterprises** - industries that support local commercial crafts, natural lifestyle, and the production of recreational products.

<sup>2</sup> Workforce and Economic Development Panel at June WIB Board Meeting. Applied Development Economics. June 2011.

**Table E-2: Unemployment Rate, March 2012**

	Number of Workers		Unemployment
	Employed	In Labor Force	Rate
Plan Analysis Area	23,800	26,400	9.8%
Santa Cruz County	131,100	151,900	13.7%
California	16,379,200	18,500,700	11.5%

Sources: CA EDD; BAE, 2012.

**Table E-3: Industry Employment by Place of Work**

Industry	Plan Analysis Area		Santa Cruz County		California	
	Number	% Total	Number	% Total	Number	% Total
Educational & Health Services	5,283	30.7%	25,036	22.8%	3,198,203	19.7%
Professional & Business Services	2,075	12.1%	12,123	11.0%	1,982,763	12.2%
Retail Trade	1,705	9.9%	12,640	11.5%	1,785,134	11.0%
Other Services	1,647	9.6%	6,622	6.0%	847,443	5.2%
Construction	1,511	8.8%	8,221	7.5%	1,121,486	6.9%
Leisure & Hospitality	1,286	7.5%	11,414	10.4%	1,490,363	9.2%
Financial Activities	1,029	6.0%	5,336	4.9%	1,135,814	7.0%
Manufacturing	839	4.9%	9,375	8.5%	1,681,672	10.3%
Transportation, Warehousing & Utilities	666	3.9%	2,707	2.5%	754,062	4.6%
Wholesale Trade	552	3.2%	3,345	3.0%	556,242	3.4%
Information	286	1.7%	2,033	1.8%	486,396	3.0%
Public administration	220	1.3%	3,833	3.5%	751,278	4.6%
Agriculture, forestry, fishing & hunting, and mining	65	0.4%	7,160	6.5%	339,857	2.1%
Armed forces	54	0.3%	82	0.1%	141,624	0.9%
<b>Total</b>	<b>17,218</b>	<b>100.0%</b>	<b>109,927</b>	<b>100.0%</b>	<b>16,272,337</b>	<b>100.0%</b>

nia. As shown in Figure E-1, total travel spending in 2010 amounted to \$652 million in Santa Cruz County, which was lower than travel spending in Napa (\$1 billion), Sonoma (\$1.3 billion), and Monterey (\$2 billion) counties. Data suggests that lower spending in Santa Cruz County may be attributable to a high proportion of daytime visitors compared to overnight visitors who tend to spend more on trips. Offering visitors a greater range of lodging options and amenities could increase overnight visitors and visitor spending in the county.

### Lifestyle Cluster

Natural lifestyle employment, which consists of food and health retail and related products, has maintained its employment base in Santa Cruz County in spite of the recession. In 2010, the number of natural lifestyle employment lifestyle jobs was 95 percent of 2007 level jobs. Relative strength within this sector could provide a foundation for future growth among related industries.

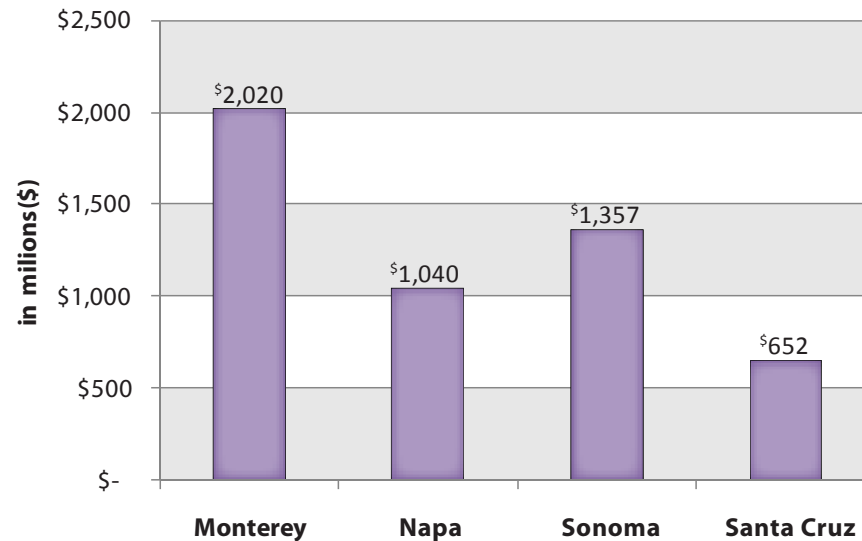
### POTENTIAL MARKET SUPPORT FOR NEW DEVELOPMENT

Development in the Plan area will occur when developers respond to market demand for new housing and additional commercial space. This section presents future demand estimates for residential, office, industrial, and retail uses in the analysis area through 2035. These estimates present a range of new development that the market could support over the next 20 years. The middle and high projections show the growth the study area is poised to capture should targeted policies which support that



Capitola Village and other tourist destinations attract visitors to the Plan area.

Figure E-1: Travel Spending by County, 2011





Commercial and auto service uses in Live Oak.

growth be put into place. The middle and high projections show the opportunity the County has to change the current trend. Demand estimates are a starting point for developing a vision for the future of the Plan area that is grounded in economic reality and reflects the values and desires of the community.

### Population, Household, and Employment Projections

Market demand estimates are based on a range of projections for population, household, and employment growth in the Plan area. These projections are dependent on a variety of socio-economic variables, as well as County policies and regulations relating to growth and development. For this analysis, three projections are utilized:

- **Low Projection.** This projection assumes the rate of population growth for the analysis area from 2000 through 2010 continues forward through 2035. The ratio of households to population and jobs to population remains constant.

- **Middle Projection.** This projection assumes that the analysis area's share of the county's population, households, and employment in 2010 remains constant through 2035. For example, in 2010 the analysis area accounted for approximately 17.9 percent of the county's total population. This projection assumes that in future years population in the analysis area will also be 17.9 percent of the total county population.
- **High Projection.** This projection assumes the share of county population in the analysis area increases slightly through 2035. More specifically, the projection assumes a modest increase in the analysis area's share of the county's population over time, increasing from just below 18 percent in 2010 to 18.75 percent in 2035. This might occur with the addition of improved transit access and an increased emphasis on denser infill development, which, in turn, could lead to a higher capture of population and household growth. Given the relatively slow growth of the County overall, a higher rate than this would appear overly aggressive, since at a higher rate, the analysis area grows faster than the County overall between 2030 and 2035.<sup>3</sup> This projection assumes that the ratio of households to population, and jobs to population remains constant.

All three sets of projections, presented in Table E-4, are based on county population projections recently released by the California Department of Finance (DOF) which reflect 2010 U.S. Census data. For further detail on growth projection methodology, see the *Demographic, Economic and Real Estate Market Existing Conditions Analysis for the*

<sup>3</sup> However, if the overall population of the County increased more rapidly than DOF estimates, this would not be the case.

**Table E-4: Projected Population, Housing Unit and Employment Growth**

	2010	2015	2020	2025	2030	2035	Total Change 2010-2035	% Change 2010-2035
<b>Low Projection</b>								
<b>Population</b>								
Analysis Area	47,190	47,320	47,460	47,590	47,720	47,860	670	1.4%
Santa Cruz County	263,132	266,526	270,776	274,864	278,008	279,711	16,579	6.3%
<b>Households</b>								
Analysis Area	19,311	19,360	19,420	19,470	19,530	19,590	279	1.4%
Santa Cruz County	94,355	95,570	97,100	98,560	99,690	100,300	5,945	6.3%
<b>Employment</b>								
Analysis Area	16,042	16,130	16,180	16,230	16,270	16,320	278	1.7%
Santa Cruz County	105,900	107,270	108,980	110,620	111,890	112,570	6,670	6.3%
<b>Middle Projection</b>								
<b>Population</b>								
Analysis Area	47,190	47,800	48,560	49,290	49,850	50,160	2,970	6.3%
Santa Cruz County	263,132	266,526	270,776	274,864	278,008	279,711	16,579	6.3%
<b>Households</b>								
Analysis Area	19,311	19,560	19,870	20,170	20,400	20,530	1,219	6.3%
Santa Cruz County	94,355	95,570	97,100	98,560	99,690	100,300	5,945	6.3%
<b>Employment</b>								
Analysis Area	16,042	16,250	16,510	16,760	16,950	17,050	1,008	6.3%
Santa Cruz County	105,900	107,270	108,980	110,620	111,890	112,570	6,670	6.3%
<b>High Projection</b>								
<b>Population</b>								
Analysis Area	47,190	47,800	48,740	50,160	51,430	52,450	5,260	11.1%
Santa Cruz County	263,132	266,526	270,776	274,864	278,008	279,711	16,579	6.3%
<b>Households</b>								
Analysis Area	19,311	19,560	19,950	20,530	21,050	21,460	2,149	11.1%
Santa Cruz County	94,355	95,600	97,100	98,600	99,700	100,300	5,945	6.3%
<b>Employment</b>								
Analysis Area	16,042	16,300	16,620	17,100	17,530	17,880	1,838	11.5%
Santa Cruz County	105,900	107,300	109,000	110,600	111,900	112,600	6,700	6.3%

Source: BAE, based on 2010 U.S. Census, 2010 American Community Survey, and CA State Department of Finance, Interim Population Projections for California and Its Counties 2010-2050, Sacramento, California, May 2012.



**Table E-5: Residential Market Demand, 2010-2035**

	Low	Middle	High
Additional Households in Study Area	280	1,220	2,150
New Housing Units, 2010-2035	290	1,280	2,260

Source: BAE, 2012.

**Table E-6: Office and Industrial Market Demand, 2010-2035**

Low Projections	Office	PDR
<b>Total New Jobs, 2010-2035</b>	<b>90</b>	<b>22</b>
Sq. Ft. per Employee	250	850
Projected Demand	<b>22,500 sq. ft.</b>	<b>18,700 sq. ft.</b>
Middle Projection		
<b>Total New Jobs, 2010-2035</b>	<b>323</b>	<b>83</b>
Sq. Ft. per Employee	250	850
Projected Demand	<b>80,750 sq. ft.</b>	<b>70,550 sq. ft.</b>
High Projection		
<b>Total New Jobs, 2010-2035</b>	<b>590</b>	<b>142</b>
Sq. Ft. per Employee	250	850
Projected Demand	<b>147,500 sq. ft.</b>	<b>120,700 sq. ft.</b>

Sources: U.S. Bureau of Labor Statistics, National Employment Matrix, 2012; Southern California Association of Governments, Employment Density Study, 2001.

*Santa Cruz County Transit Corridors Plan* prepared by BAE Urban Economics.

### Housing Demand

As shown in Table E-5 the analysis area is estimated to have the potential for an additional 290 to 2,260 housing units between 2010 and 2035. Examples of PDR uses in the Plan area include Doerksen Precision Products (custom small-scale manufacturing), ProBuild (lumber and building supplies), and Performance Food Services (food distribution). This translates to approximately 11 to 90 additional units per year within the analysis area. The actual development that will occur during this period will be determined by the goals and policies established by the Transit Corridors Plan, as well as economic, social, and political factors that are difficult to predict.

### Office and Industrial Space Demand in Study Area

Table E-6 presents demand estimates for office and production, distribution, and repair (PDR) uses for the analysis from 2010 to 2035. To calculate these estimates, overall employment is first allocated by industry, based on current patterns. Space demanded by land use type is then estimated on the assumption that certain occupations are more likely to occupy certain types of space (e.g., clerical workers would occupy office space). See the Potential Market Support for New Development section in the BAE Urban Economics Existing Conditions Report for more detail on this analysis.

Estimated new employment growth in the analysis area would generate demand for between 22,500 and 147,500 square feet of office space, and between 18,700 and 120,700 square feet of PDR space. These estimates are driven in part

by countywide population growth and the current jobs-housing balance, which is based on a 20 percent outflow of commuters to Silicon Valley and beyond. In the long-term, factors such as rising transportation costs, increased telecommuting, or policies encouraging employers to move to Santa Cruz County might lead to a different balance between jobs and employed residents in the Plan area.

## RETAIL DEMAND

Retail conditions in the Plan analysis area are closely connected to the regional retail market area. Because the analysis area cannot be treated as a distinct retail market from Capitola and the City of Santa Cruz, projected future demand for retail space is described qualitatively, not quantitatively.

Santa Cruz County provides a broad array of retail offerings to meet the needs of local residents and visitors. However, per capita sales overall and in some retail store categories are below statewide levels; these categories of stores with lower per capita sales tend to be for outlets selling “comparison” goods, such as cars, furniture, and apparel that are not bought on a regular daily or weekly basis. This indicates that the larger range of retail offerings in Santa Clara County and the San Francisco Bay Area are attracting Santa Cruz shoppers. While there may be some potential for capturing within Santa Cruz County some of the retail outflows to destinations such as the Valley Fair Mall, Stanford Mall, and Santana Row, the smaller population base and limited growth within the County



*Retail center located in the Plan area.*

make unlikely the development of substantial quantities of additional higher-end retail.

Currently, the analysis area has two region-serving shopping centers: the Toys “R” Us/Marshall’s center on Commercial Way, and the Home Depot/Best Buy/Safeway center on 41<sup>st</sup> Avenue between Highway 1 and Soquel Drive. These centers fill market niches, providing chain retail stores (e.g., home improvement center, electronics/appliance store, toy store) not found elsewhere in this part of the county. These two centers also demonstrate that



*East Cliff Shopping Center.*

given sites of sufficient size, visibility, and access, the Plan area can attract region-serving retail stores. For example, the Marshall’s re-tenanting of the closed Circuit City in relatively short order demonstrates demand for larger retail spaces when they become available.

Nevertheless, further opportunities for additional regional retail development are constrained, given the relatively limited growth projected for the area in the foreseeable future and the few gaps remaining in the area’s retail mix. As new retail moves in, older retailer in functionally obsolete and deteriorated centers might close, creating opportunities for rehabilitation or redevelopment to other uses and at more transit-friendly densities. Because the county’s primary tourism destinations, such as the Boardwalk and Big Basin Redwoods State Park, are elsewhere, visitor-serving retail is unlikely to be a significant factor driving additional retail development in the analysis area.

For more local-serving retail and services, the analysis area may have some potential for additional development, in order to provide residents with more localized access. In particular, Twin Lakes and Live Oak south of Highway 1 have few nearby places for residents to buy everyday items, and the existing retail is often found in aging structures and centers. However, the potential for development in this part of the Plan area is limited due to the lack of regional access, so any new retail would have to be supported largely by the local population (and any visitors to the area). Potential retailers include a small supermarket, drug stores, hair salons, small restaurants, dry cleaners, medical/dental/veterinary offices, health and fitness centers, and other similar neighborhood serving establishments.

Throughout the Plan area, the best opportunities for new retail might be through redevelopment or replacement of aging or functionally obsolete existing properties, including both retail and other land uses. The recent proposal by Safeway to redevelop the Rancho del Mar demonstrates that retailers do have an interest in this kind of development in the Plan area.

### Key Issues and Questions

The Transit Corridors Plan will address the following key issues and questions relating to economic vitality and fiscal health:

- **Economic Base.** The current economic base within the Plan area is heavily concentrated in the health care and education industry sectors. How can the Transit Corridors Plan build from this base to expand economic opportunity in the county?
- **Economic Clusters.** The technology, tourism and lifestyle enterprise economic clusters have potential for long-term growth. How can land use and transportation policies within the Plan area support job growth in these clusters?
- **Future Growth.** Future population and job growth in the Plan area has the potential to be greater than it has been in the past. Actual growth is dependent upon County policies and regulations relating to growth. What type of growth and/or conservation in the Plan area would best support the County's sustainability objectives?