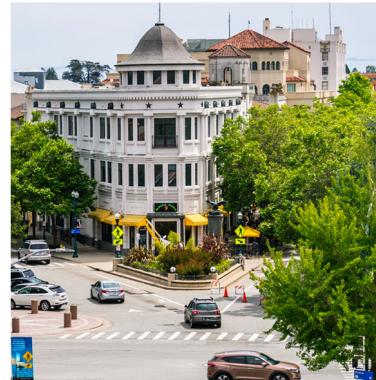


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SANTA CRUZ COUNTY WORKFORCE DEVELOPMENT BOARD

Comprehensive Economic Development Strategy



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Executive Summary

Introduction

This Comprehensive Economic Development Strategy (CEDS) was prepared by BW Research Partnership while being managed by the Santa Cruz County Workforce Development Board (WDB). Representatives from each of the four incorporated cities and the unincorporated areas within Santa Cruz County provided their invaluable input in the development of this CEDS. In addition to these jurisdictions, the CEDS Committee includes other business entities and institutional partners from around the County. The CEDS is reviewed by a sub-committee of the Workforce Development Board (WDB), and the WDB's Executive Committee prior to being presented to the full WDB. The CEDS will then be subject to a thirty-day public review period, and a public hearing, which will be conducted by the County Board of Supervisors prior to being submitted to the Economic Development Administration (EDA).

The purpose of the 2020 Santa Cruz County Comprehensive Economic Development Strategy is to provide relevant stakeholders, decision-makers, residents, and those interested in economic development with a deeper understanding of the social and economic trends, factors, and metrics within the County. The CEDS also serves as a roadmap for future data-driven policy and decision making while outlining explicit strategies for a more prosperous and resilient future for the County. Below are some of the key data and metrics that provide a picture of Santa Cruz County.

This WIOA Title I – financially assisted program or activity is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities.

People

Santa Cruz County has seen relatively slow population growth paired with a labor market that has lower unemployment than the statewide average. The County's population increased 1% between 2014 and 2019, compared to 3% statewide, and unemployment in Q3 of 2019 was 3.1% compared to 3.5% statewide.

One in six residents work outside the County. Silicon Valley remains a notable draw for talent; almost half (42%) of the residents working in STEM or innovation-related occupations work outside the County.

Santa Cruz County residents are, on average, better educated and earn higher household incomes than the statewide averages, however, nearly a third of Santa Cruz County households have incomes below living wages. Almost one-third (31%) of households earn less than the "living wage"¹ of approximately \$68,000 per year required for a family of four in Santa Cruz County.

Industry

Employment grew at a pace seven times faster than the population in Santa Cruz County between 2014-2019. Industry clusters such as building and design, healthcare, education, and tourism, hospitality, and recreation were among the greatest contributors to employment growth, accounting for 65% of the County's job growth between 2014 and 2019.

¹ MIT Living Wage Calculator. Living wages account for regionally specific costs such as housing, food, and insurance. This makes it a much more insightful metric than poverty.

Tier 3 jobs (those that are lower-skill and lower-paying) account for more than half of the County's jobs, though tier 1 jobs (higher-skill, higher-paying) have seen the strongest growth from 2014 to 2019. Tier 1 employment in Santa Cruz County increased by 12% during this time period, while tier 2 and tier 3 employment grew by 5% and 6%, respectively.

Mid-size and large firms accounted for the greatest number of new businesses in the County. Small businesses (those with fewer than 10 employees) only increased in number by 3% between 2011 and 2016 compared to 5%, which was the County average for businesses of all sizes.

Place

Rental rates for two-bedroom units increased by 44% between 2014 and 2019 in the Santa Cruz metropolitan area, increasing faster than California (39%) and the San Francisco metropolitan area (32%). Accordingly, 52% of renters spend 35% or more of their total income on housing. Additionally, home ownership is disparate across races; Hispanic or Latinx residents account for 34% of the population, but only 12% of homeowners.

Office space vacancy is low and rental rates are on the rise. Inventory increased by 3% between 2018-2019, while average rental rate per square foot increased by 13% during this time.

Average commute times increased by 7% between 2013-2018 but are still lower than the statewide average. During this time, working from home and alternative transportation (taxis and rideshares) have increased, while car transit—both alone and carpool—saw mild declines.

Resilience

The debt-to-income ratio among Santa Cruz County households is 75% higher than the statewide average. Household debt-to-income ratios provide a useful metric for assessing household-level economic resilience. While household level debt-to-income ratios have been declining since the end of the Great Recession, Santa Cruz County's ratio has declined at a slower rate than the statewide average.²

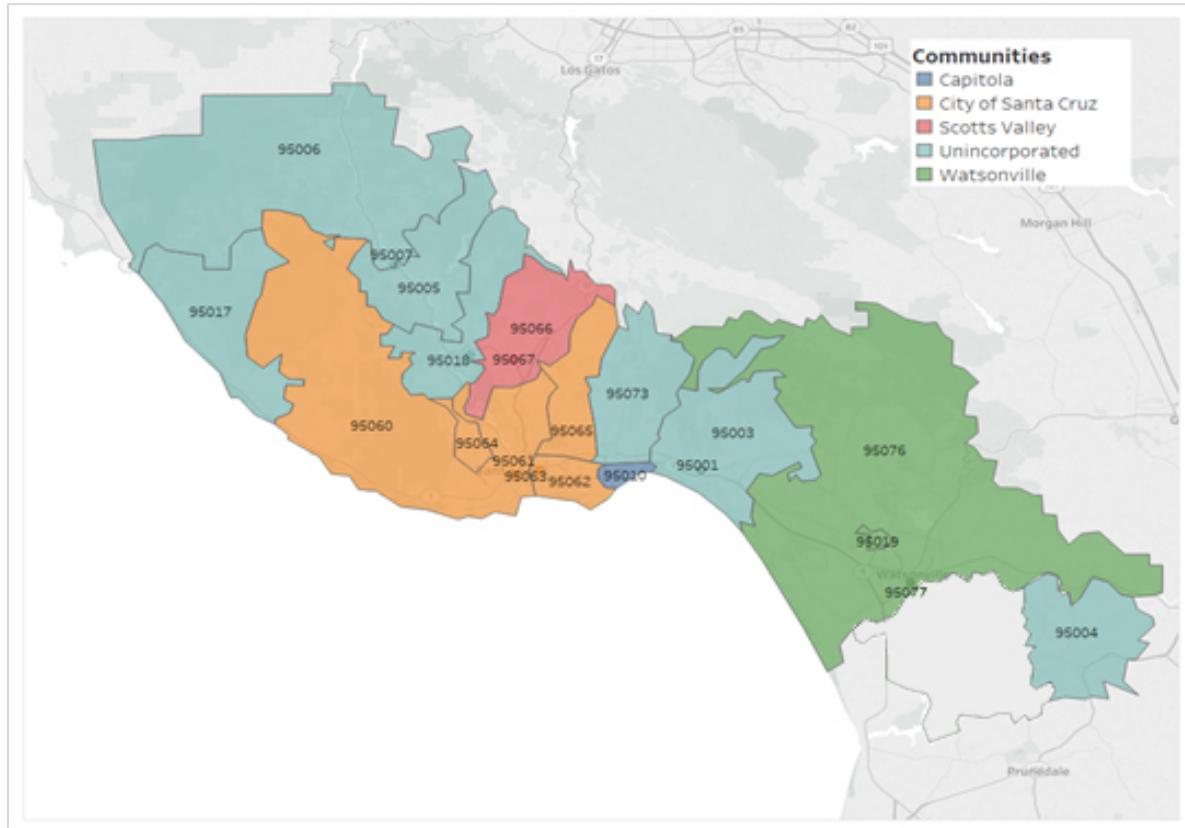
Nearly two-thirds of the County's jobs are in the five-largest industry clusters – these clusters are: education and knowledge creation; tourism, recreation, and hospitality; healthcare; retail; and agriculture and food. A diverse economy is more resilient to economic downturn. Many of these industry clusters—retail, agriculture and food, and tourism, recreation, and hospitality—have a relatively high proportion of lower-skill, lower-paying occupations.

Santa Cruz County's relatively high proportion of exports—about 49% of sales—highlights a strength of the County's economic resilience. The defense, aerospace, and transportation manufacturing industry cluster, as well as industries such as machine shops and conductor manufacturing, have seen relatively strong growth and are predominantly export oriented.

² Board of Governors of the Federal Reserve. EFA Household Data.

https://www.federalreserve.gov/releases/z1/dataviz/household_debt/county/map/#state:all;year:2018

Santa Cruz County 5-Year CEDS



Capitola	City of Santa Cruz	Scotts Valley	Unincorporated	Watsonville
95010	95060, 95061, 95062, 95063, 95064, 95065	95066, 95067	95004, 95001, 95003, 95005, 95006, 95007, 95017, 95018, 95041, 95073	95019, 95076, 95077 ³

³ The zip codes used to define the study area do not perfectly align with City or County boundaries.

Assessment of Current Economic Conditions

This section of the CEDS provides data and analysis on Santa Cruz County and its communities. There are three sections, each highlighting key aspects of the regional economy: people, industry, and place. Together, these sections provide a more complex understanding of key social and economic metrics in the County and serve as the foundational data for the strategic planning, found later in the CEDS.

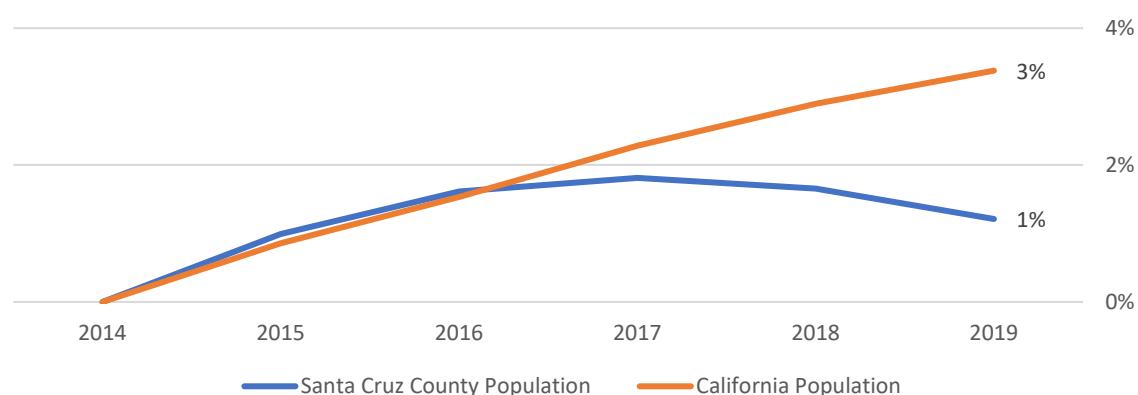
People

The residents of Santa Cruz County are the region's most valuable economic asset. Whether looking at employment, education, or income, understanding who lives in Santa Cruz County is essential in developing a comprehensive economic development plan. In this section, the following key trends are discussed:

- Population growth;
- Unemployment levels;
- Educational attainment of residents;
- Where residents work;
- Income distributions and disparities; and
- Homelessness.

Santa Cruz County has seen relatively slow population growth. After reaching a peak population of nearly 276,500 in 2017, the population in Santa Cruz County has seen a slight decline to about 274,900 residents in 2019 (Figure 1). Association of Monterey Bay Area Governments' (AMBAG) 2018 population forecast suggest that Santa Cruz County will experience relatively slower growth, increasing 12% between 2015 and 2040, compared to 16% in neighboring Monterey County and 32% in San Benito County.

Figure 1. Population Growth 2014-2019

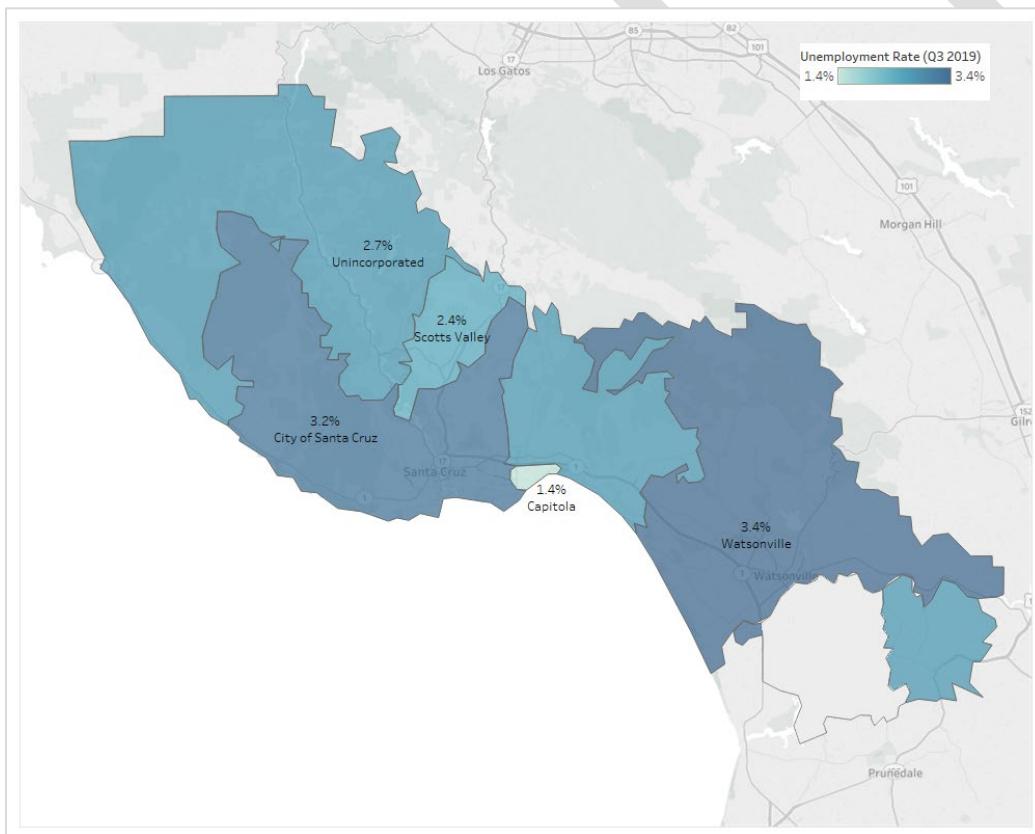


Santa Cruz County faces a tight labor market. Santa Cruz County had about 115,400 workers in the labor force in late Q3 2019. Only about 3.1% of these workers were unemployed, which is

lower than the statewide average of 3.5%, the national rate of 3.6%, and lower than the range of the “natural rate of unemployment” of 4.5 - 5.5%, as defined by the San Francisco Federal Reserve. This suggests that Santa Cruz County is experiencing a very tight labor market where employers are struggling to find qualified employees.

Capitola, Scotts Valley, and Unincorporated Areas have the lowest unemployment rates, at 1.4%, 2.4%, and 2.7%, respectively. Watsonville and the City of Santa Cruz—which also have the largest populations—still have relatively low unemployment rates at 3.4% and 3.2%, respectively (Figure 2). This reflects that employment markets in all communities within Santa Cruz County are relatively tight and are already likely to have had an adverse impact on employers as they are unable to find qualified job applicants.

Figure 2. Unemployment by Community in Santa Cruz County (Q3 2019)⁴



⁴ The zip codes used to make this map do not perfectly align with City or County boundaries.

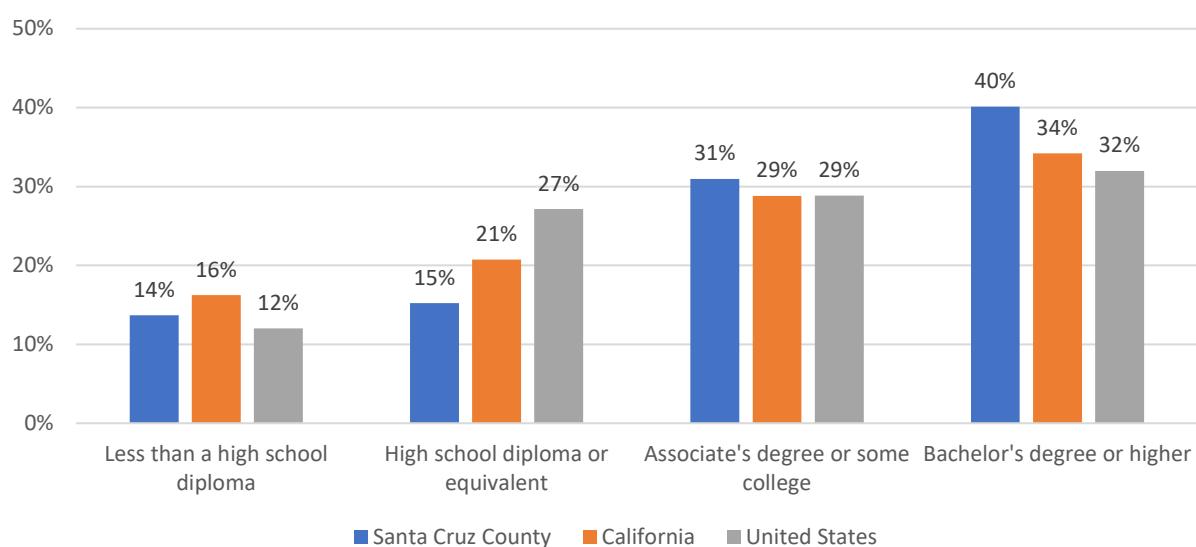
Table 1. Unemployment by Region (Q3 2019)

Region	Unemployment Rate
Santa Cruz County	3.1%
California	3.5%
United States	3.6%

Education

Santa Cruz County residents generally have higher rates of education than the state and national averages. Only 29% of Santa Cruz County residents 25 years of age or older have, at most, attained a high school diploma or less, compared to 37% of California residents and 39% across the United States. Santa Cruz County residents are also more likely to hold at least Bachelor's degree; 40% hold a Bachelor's degree or more compared to 34% in California and 32% in the United States (Figure 3). This means that Santa Cruz County's workforce is generally better suited for higher-skilled positions and industries.

Figure 3. Educational Attainment, 25 Years and Older (2018)



About one in six Santa Cruz County residents work outside the County, and many of these exported occupations are among the highest paying. Silicon Valley and the surrounding areas are a notable draw of talent from Santa Cruz County. Innovative and STEM⁵ occupations have the highest rates of workers leaving the County, with a net 42% of residents in these occupations leaving the County to go to work. Population Serving, Production and

⁵ For occupational cluster definitions, please see Appendix A

Maintenance, as well as Healthcare, Law Clerical, Logistical or Administrative Occupations export about 12% of their resident workforce (Table 2).

Table 2. Net Percentage of Resident Workforce Working Outside the County

Innovative and STEM Occupations	42%
Management, Sales, and Communication Occupations	19%
Population Serving and Tourism Occupations	12%
Production and Maintenance Occupations	12%
Healthcare, Law, Clerical, Logistical, or Administrative Occupations	12%
Overall	16%

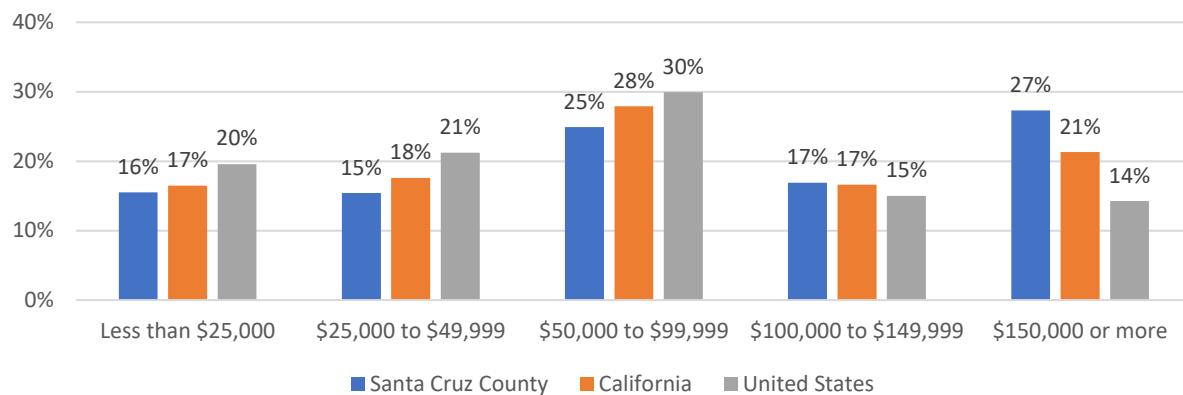
Between 2014 and 2019, the share of residents leaving the County for work increased by 8%. Management, Sales, and Communications Occupations saw the greatest increase in share of residents working outside the County. The share of residents with these occupations who work outside the County increased by 10% between 2014-2019. The share of residents with Population Serving Occupations working outside the County increased by 9% during this time (Table 3).

Table 3. Change in Resident Workforce Working Outside the County

Management, Sales, and Communication Occupations	10%
Population Serving and Tourism Occupations	9%
Innovative and STEM Occupations	7%
Healthcare, Law, Clerical, Logistical, or Administrative Occupations	6%
Production and Maintenance Occupations	5%
Grand Total	8%

Santa Cruz County households are wealthier than the state and nation on average. Median annual household income and income distribution are other factors worth considering when evaluating quality of life. The median annual household income in Santa Cruz County (\$86,941) is higher than state (\$75,277) and national (\$61,937) levels. Santa Cruz County also has a greater proportion of households in higher-income brackets: 44% of households in the County earn more than \$100,000 per year, which is a considerably higher proportion than that in California (38%) and the United States (29%) (Figure 4). When considered in the context of the County's proportion of lower-paying jobs, it is evident that a notable portion of the resident population with higher paying jobs work outside the County and bring their earned incomes back to Santa Cruz County.

Figure 4. Annual Household Income Distribution by Region (2018)



While many Santa Cruz County residents fall under higher-household income brackets, a notable share of households and individuals are struggling. In 2018, about 7% of families in Santa Cruz County had lived below the poverty line within the 12 months prior. This rate is slightly lower than the rate statewide (10%) and nationally (10%).

Table 4. Poverty Among Families (2018)

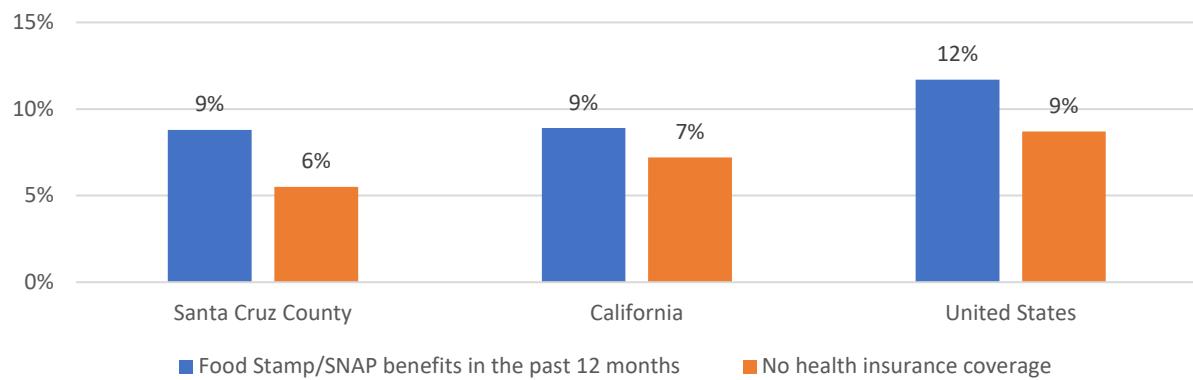
Region	Families Below the Poverty Line
Santa Cruz County	7%
California	10%
United States	10%

About a third of Santa Cruz County households are likely below the living wage. The poverty rate is a federal benchmark that does not account for regional differences in costs of living, such as housing, food, or insurance. According to the MIT Living Wage Calculator, a family of four (two adults, one working) in Santa Cruz County, the living wage is \$32.71 an hour, or about \$68,000 per year. Under the income distributions highlighted in Figure 4, at least 31% of households fall below this living wage.

Santa Cruz County has lower rates of food stamp benefits and those without health insurance than national standards. The need for support services and health insurance coverage rates are also good indicators of a community's quality of life. The rate of SNAP (food stamps) benefits is equivalent to the statewide rate and slightly lower than the national rate, and lower rates of

Santa Cruz County residents are without health insurance compared to state and national averages.

Figure 5. Support Services and Absence of Health Insurance Coverage



Homelessness in Santa Cruz County is more than double the statewide rate. In 2017, there were 2,249 homeless individuals in the County, accounting for 0.8% of the population, while California's homelessness rate is 0.3% of the population. 78% of Santa Cruz County's homeless population is unsheltered, and 31% are employed. At the time of the estimate, 64% had been homeless for one year or more.

Industry

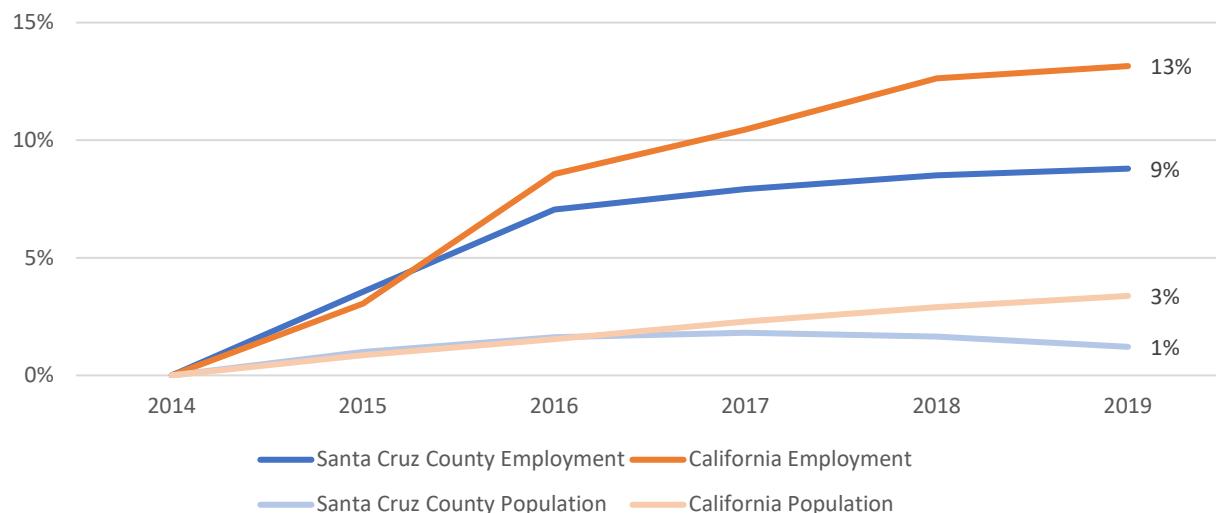
Evaluation of overall employment, industry clusters, job quality, and business growth are crucial to understanding the composition and key drivers of the County's economy. These selected metrics offer a prospective of what the composition of economy used to be, what is it now, and what could be the key drivers for economic vitality in the future. The key metrics include:

- Employment growth;
- Employment growth, wages, and size of:
 - o Population serving and tourism industry clusters;
 - o Healthcare and municipal industry clusters;
 - o Export-oriented and innovative industry clusters;
- Job quality; and
- Business growth.

Understanding the current Santa Cruz County economy is the first step in framing the strengths, challenges, and opportunities for the economy. Strong growth in some industry clusters suggests that the County has a competitive edge for talent and other resources in some of these industries. Identifying and leveraging these competitive advantages is a crucial component of a prudent regional economic development strategy.

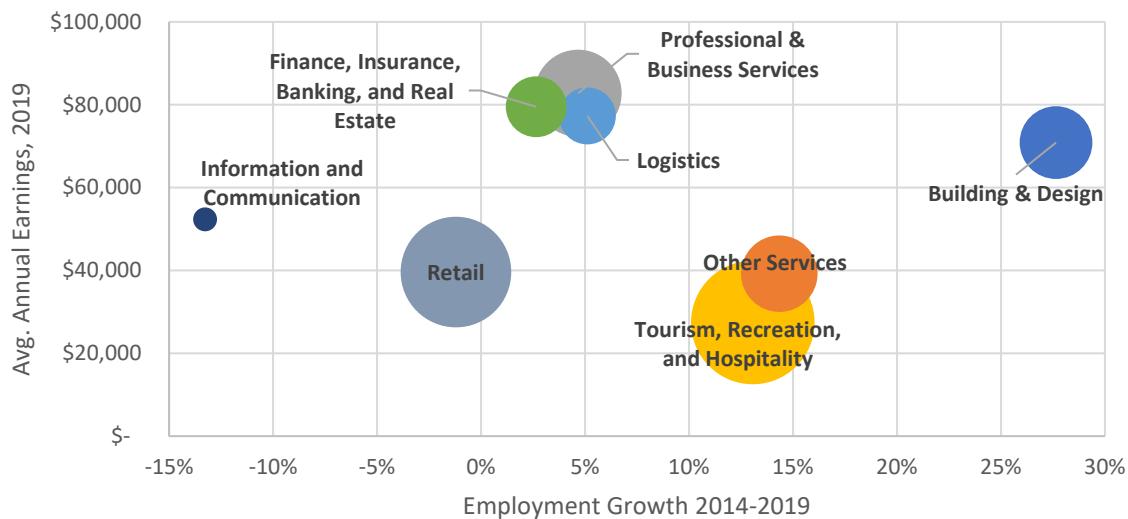
Employment grew seven times faster than the population in Santa Cruz County between 2014 and 2019. In comparison, employment growth in California increased at four times the rate of the population growth (Figure 6). This suggests that, while some of the job growth trend may be attributable to the statewide trend, Santa Cruz County's economy has unique factors that are driving particularly strong employment growth.

Figure 6. Population and Job Growth



Population serving and tourism industry clusters account for nearly half of all employment in Santa Cruz County. The eight industry clusters that are primarily population serving and tourism account for 48% of the County's employment. The largest industry clusters—retail and tourism, recreation, & hospitality—are also among the lowest-paying on average, with workers earning an average \$39,614 and \$27,438 per year (Figure 7).

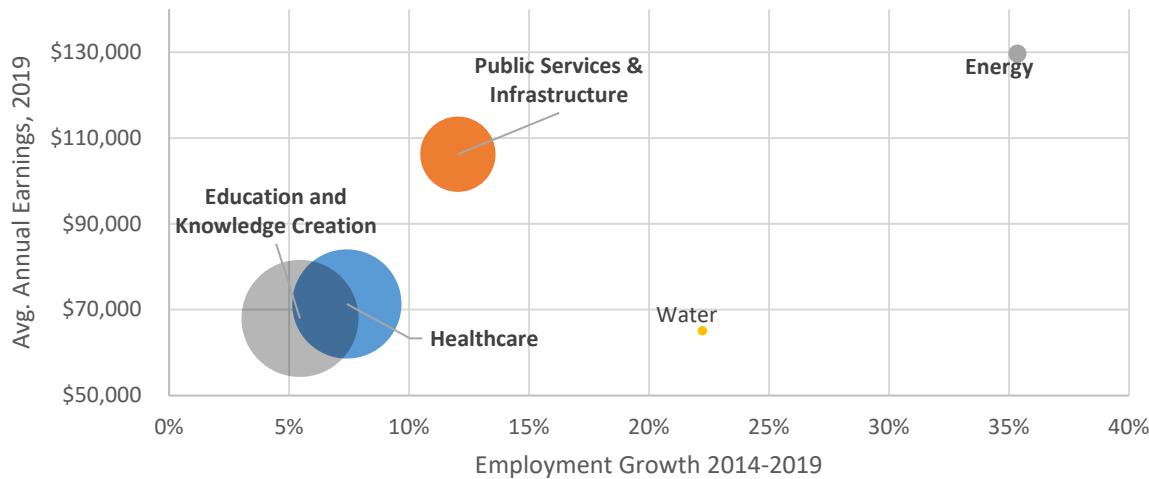
Figure 7. Population-Serving Industry Clusters⁶



Healthcare and municipal industry clusters account for about a third of all jobs in Santa Cruz County. Healthcare and education & knowledge creation are the two largest industry clusters, accounting for more than 31,000 jobs. These industries also saw relatively consistent growth, increasing by 7% and 5%, respectively, between 2014 and 2019 (Figure 8).

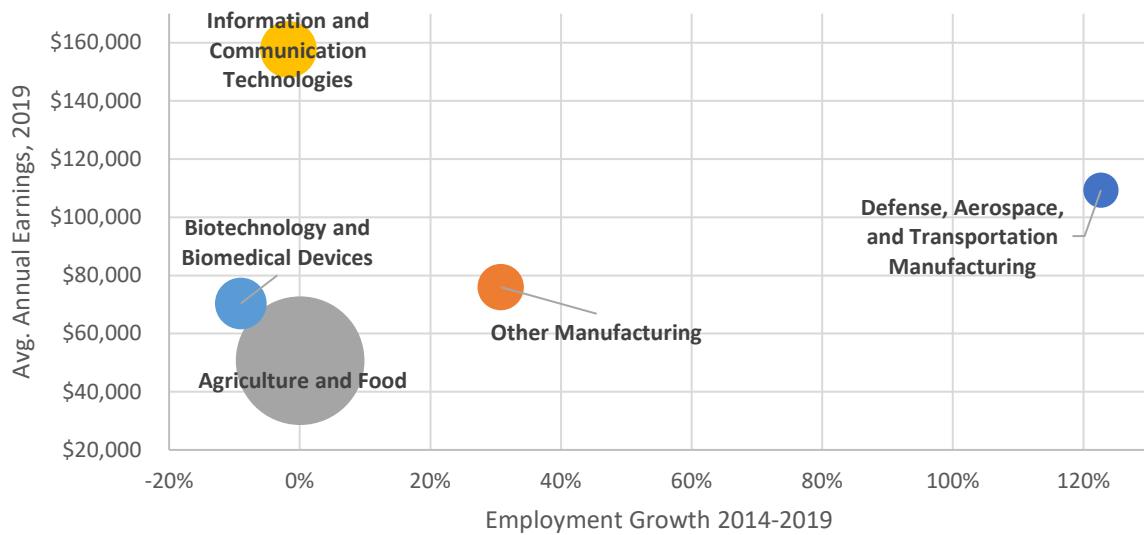
⁶ Size of bubble is proportional to number of jobs in Santa Cruz County in 2019.

Figure 8. Healthcare and Municipal Industry Clusters



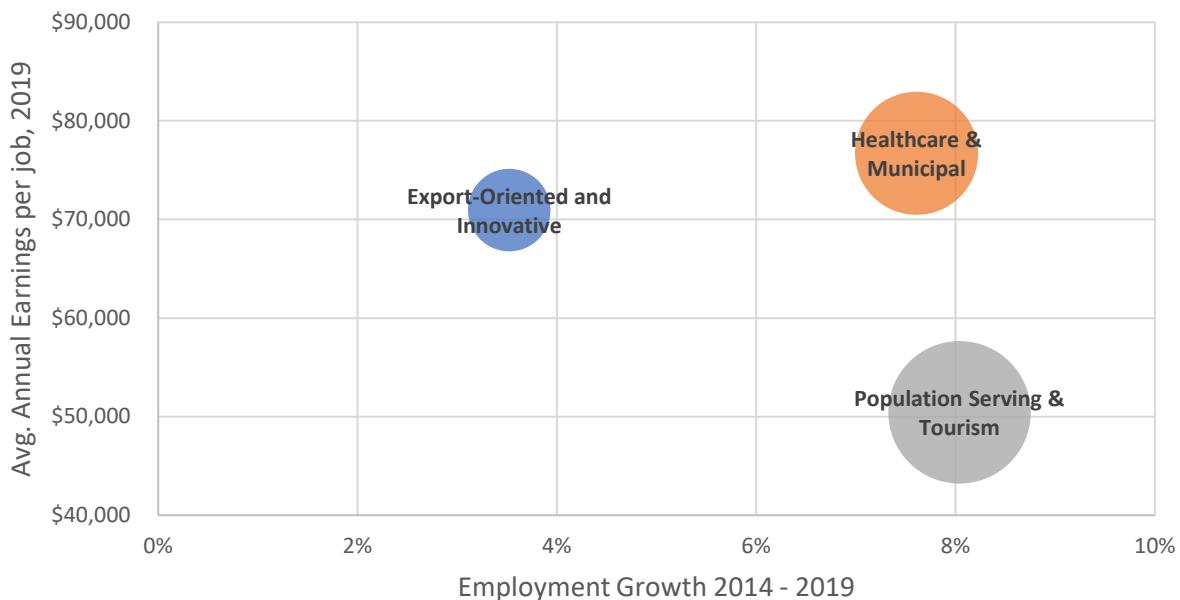
Export-oriented and innovative industry clusters only account for 16% of employment in Santa Cruz County, and agriculture and food account for nearly two-thirds of this. Still, the industries of defense, aerospace, and transportation manufacturing and other manufacturing have seen strong growth recently, adding more than 2,200 jobs between 2014-2019 (Figure 9). Guided missile and space vehicle manufacturing, aircraft parts and auxiliary equipment manufacturing, and sporting and athletic goods manufacturing account for much of this growth.

Figure 9. Export-Oriented and Innovative Industry Clusters



Population serving and tourism occupations are the largest source of jobs in Santa Cruz County, but they also offer the lowest earnings on average. Healthcare and municipal occupations offer the highest average wages, and also saw robust growth between 2014 and 2019 (Figure 10).

Figure 10. Industry Cluster Groups based on Customer Base



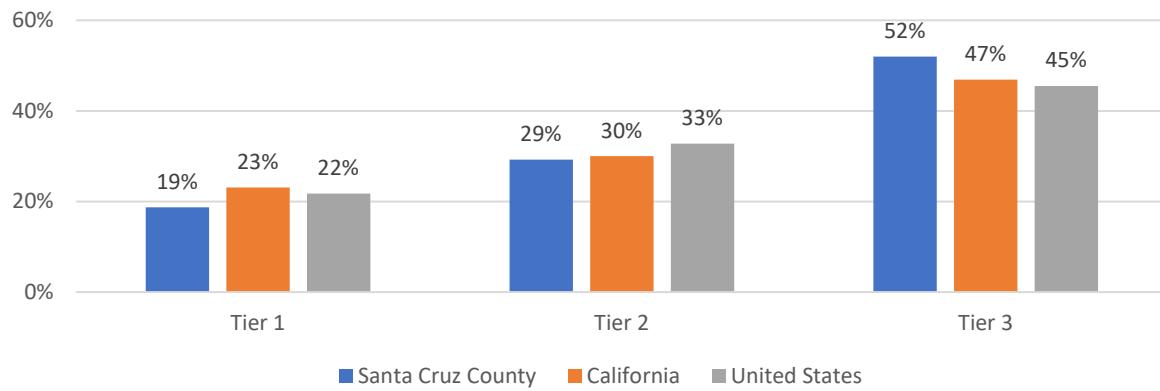
Job quality is a crucial aspect of quality of life that has far-reaching effects. Job quality—defined by a job’s required skillsets and average pay —can have a notable impact on a community’s characteristics, economy, culture, and everyday life. This report categorizes jobs into three different quality categories (Table 5). ***This analysis is based on the occupations that are in Santa Cruz County, not the jobs of Santa Cruz County residents who work outside the County.***

Table 5. Job Quality Definitions

Tier 1 Occupations	Tier 2 Occupations	Tier 3 Occupations
<p>Tier 1 occupations are typically the highest-paying, highest-skilled occupations in the economy. This occupational category includes positions such as managers (e.g., Chief Executives and Sales Managers), professional positions (e.g., Lawyers and Physicians) and highly skilled technology occupations, such as scientists, engineers, computer programmers, and software developers.</p>	<p>Tier 2 occupations are typically the middle-skill, middle-wage occupations. This occupational category includes positions such as technicians, teachers, office and administrative positions (e.g., Accounting Clerks and Secretaries), and manufacturing, operations, and production positions (e.g., Assemblers, Electricians, and Machinists).</p>	<p>Tier 3 occupations are typically the lowest-paying, lowest-skilled occupations that have historically provided the largest portion of employment in the region. These occupations include positions such as security guards, food service and retail positions, building and grounds cleaning positions (e.g., Janitors), and personal care positions (e.g., Home Health Aides and Child Care Workers).</p>

About 19% of jobs in Santa Cruz County are tier 1 (highest paying and highest skilled). Twenty-nine percent of occupations fall under tier 2, and more than half (52%) of occupations in Santa Cruz County are tier 3 occupations. Compared to statewide and national averages, Santa Cruz County has higher rates of tier 3 jobs and lower rates of higher-paying tier 1 and tier 2 jobs (Figure 11).

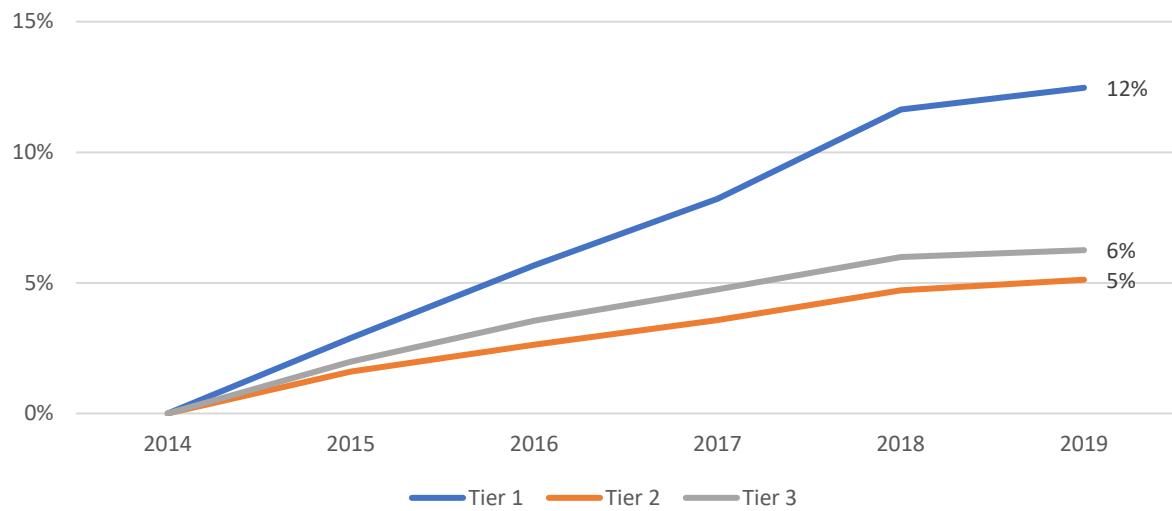
Figure 11. Job Quality by Region (2019)



Job quality in Santa Cruz County is improving, though lower-paying jobs are still dominant.

Though Santa Cruz County has a relatively high proportion of tier 3 jobs, tier 1 jobs in the County are increasing at a faster rate. Tier 2 jobs saw moderate growth between 2014 and 2019, increasing as fast as the statewide rate, though ultimately seeing the slowest growth. These trends suggest that overall job quality in the County is increasing and more individuals are securing employment with livable wages.

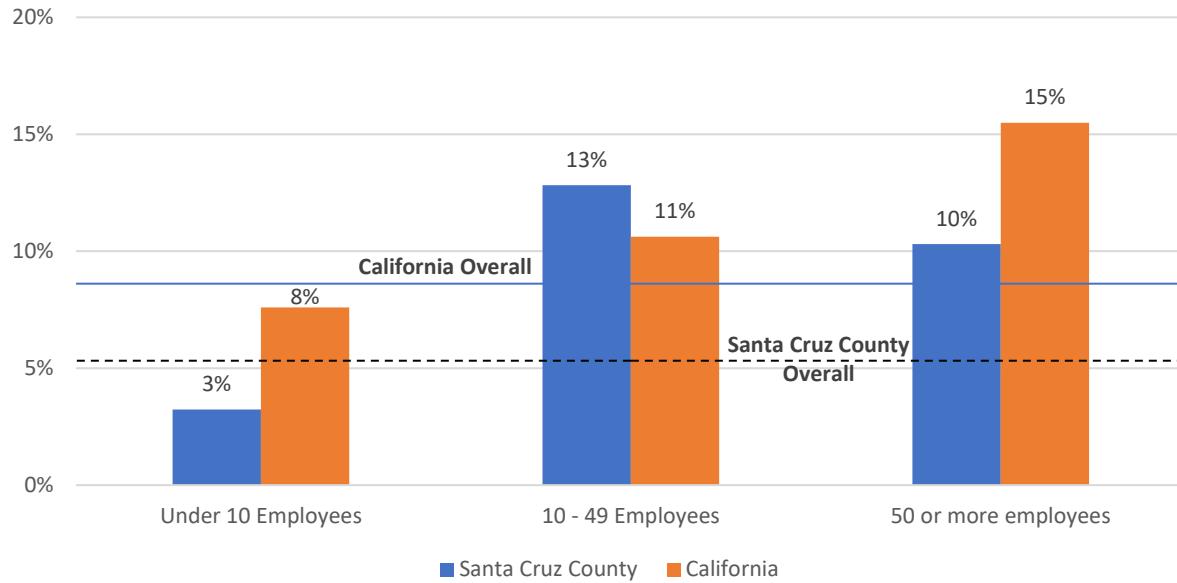
Figure 12. Job Quality Growth



The growth in number of small businesses in Santa Cruz County is relatively low compared to larger businesses as well as statewide growth rates. Small business growth and support is an important aspect of any economy and is an important metric to consider when examining a region's entrepreneurialism and economic agility. The number of mid-sized firms have seen the

strongest growth in Santa Cruz County. Countywide, the number of small businesses (those with fewer than ten employees) increased by 3% between 2011 and 2016. This rate was lower than the growth of the overall number of businesses, which increased by 5% during this same time frame. The number of businesses with 50 or more employees increased by 10% during this same time, and the number of businesses with between 10 and 49 employees increased by 13%, suggesting that mid- to large- businesses accounted for much of the County's new businesses. This trend is similar to what was seen statewide, though large businesses were the largest source of growth in the state (Figure 13).

Figure 13. Growth in Number of Establishments, 2011-2016



Place

A clear picture of residents' ability to live, work, play, and move about the County can illuminate the struggles of the resident population and opportunities for economic development strategies. The metrics to evaluate place include:

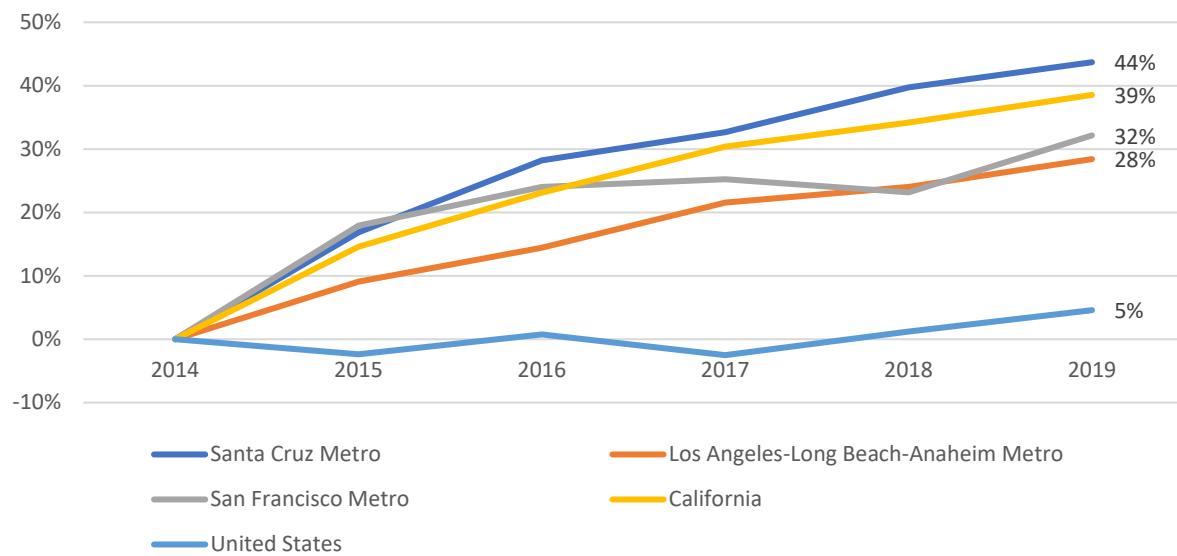
- Rental rates and relative cost of living;
- Homeownership and homeownership equity;
- Housing unit construction;
- Commercial real estate market;
- Internet access; and
- Commuting patterns.

Many aspects of place can have ripple effects throughout the region. For example, high housing costs can lead to increases in homelessness or declines in workers willing or able to live in the community which can then exacerbate commute times. Understanding these regional characteristics and their outcomes and integrating these into the CEDS will result in strategies that are ultimately more effective and efficient in achieving their goals.

Housing is often a household's largest expense and can compound existing disparities and inequalities. Santa Cruz County exemplifies this. In 2018, 60% of occupied units were owned by the occupants in Santa Cruz County, compared to 55% statewide and 64% nationally. Of the 40% of Santa Cruz County residents that rent their domiciles, 52% spend 35% or more of their income on rent. This is higher than the statewide rate of 45% and 40% of renters nationally who spend 35% or more of their income on rent, and nearly twice the rate (27%) of Santa Cruz County homeowners with a mortgage who spend 35% or more of their income on housing.

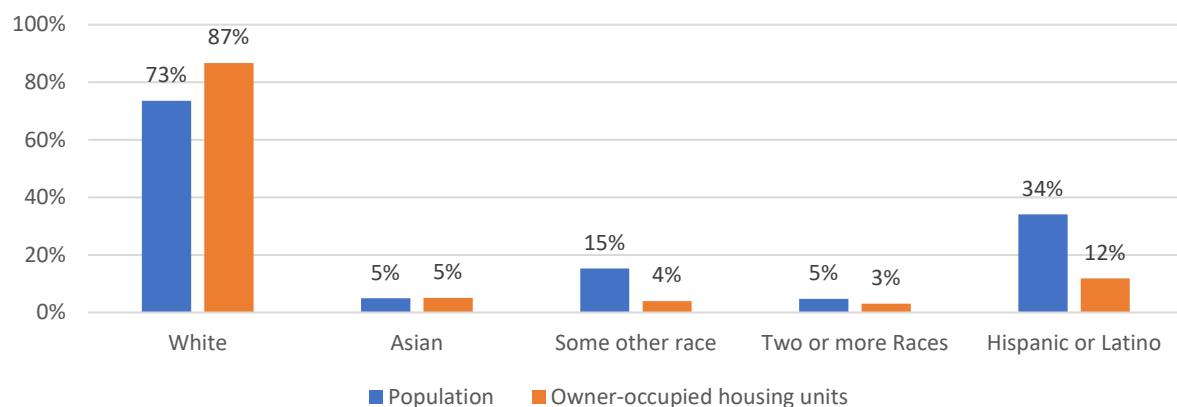
It is not surprising that more than half of renters in the County spend a relatively high proportion of their income on rent; between 2014 and 2019, the median rental rate for a two-bedroom in the Santa Cruz Metro area increased by 44%. This increase is higher than the statewide increase of 39% and even exceeds the increases seen in San Francisco Metro (32%) and the Los Angeles-Long Beach-Anaheim Metro (28%) (Figure 14). In 2018, the median monthly rent in Santa Cruz County was \$1,685 per month. This is higher than the statewide median rent of \$1,520 and considerably higher than the national median rent of \$1,058 per month.

Figure 14. Increase in Median Rental Rate for Two-Bedroom



Of additional concern, especially in the context of the high proportion of home ownership in Santa Cruz County and high rental rates, is the proportion of homeownership across race and ethnicity and age relative to the population in Santa Cruz County. White residents make up 74% of the County's population, but account for 87% of all homeowners. In comparison, Hispanic or Latino residents make up 34% of the population, but account for only 12% of homeowners (Figure 15).

Figure 15. Population and Home Ownership by Demographics (2018)^{7 8}



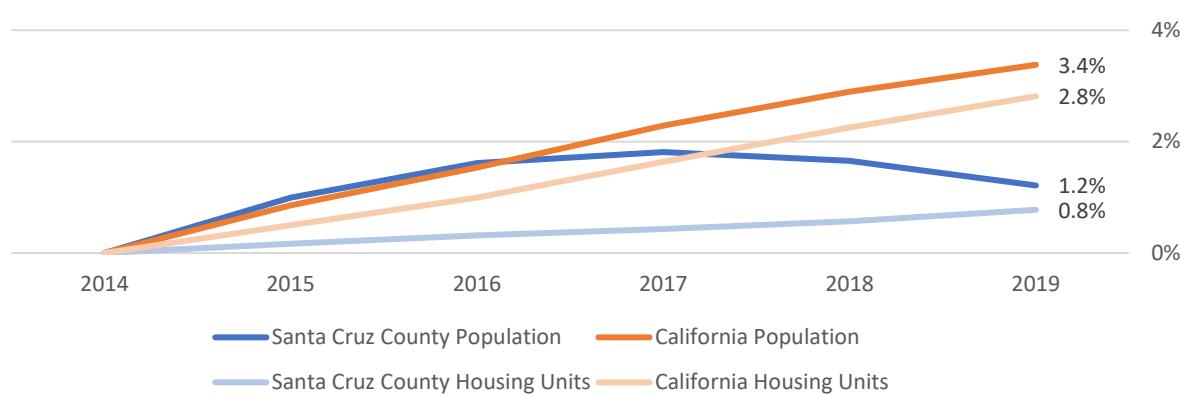
⁷ It should be noted that the U.S. Census Bureau counts "Hispanic or Latino" as an ethnicity rather than a race, thus, values will sum to excess of 100%.

⁸ Race categories comprising < 5% of the population were omitted from this chart.

While age is strongly linked with savings and subsequently accessibility to homeownership, the region has a relatively low proportion of younger homeowners. Forty-six percent of Santa Cruz County's population is under the age of 35, yet this population only accounts for 5% of homeowners. While California has the same proportion of individuals under the age of 35, the demographic accounts for 8% of statewide homeowners and 10% of homeowners nationally.

Meanwhile, the number of housing units in the County is growing at a slower pace than the population (Figure 16). In the absence of additional housing, it is unlikely that rental rates will decline or that homeownership, especially among minority populations, will increase.

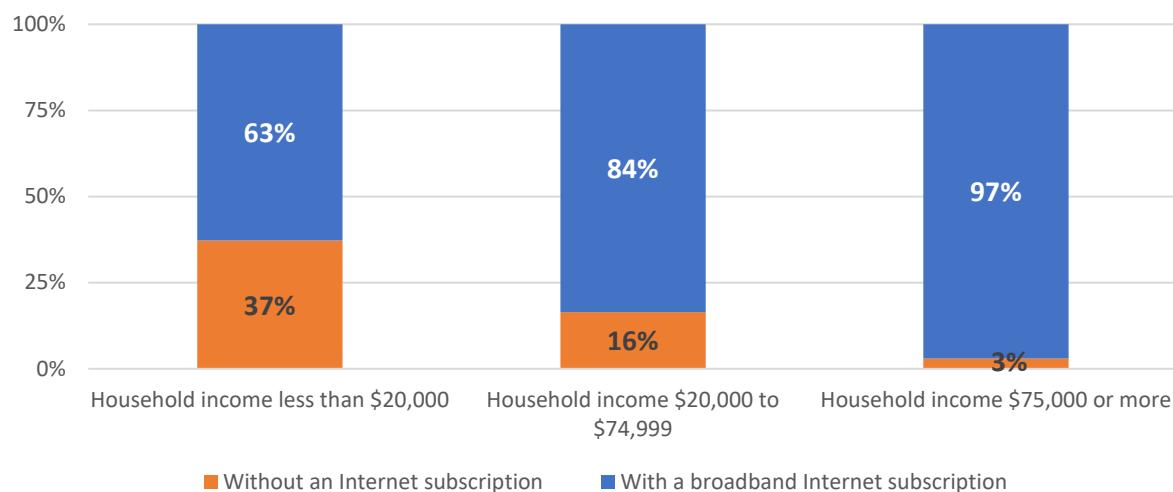
Figure 16. Population and Housing Unit Growth



Commercial real estate vacancy rates are relatively low while asking prices have recently increased. In the first quarter of 2019, an average of 5% of office spaces were vacant, which is a slight decline from the 6% vacancy rate in the first quarter of 2018. Vacancy rates in Watsonville, and the City of Santa Cruz were less than 4% in 2019, while office space vacancy reached 11% in Scotts Valley in early 2019. Between 2018 and 2019, inventory increased 3%, while average asking rental rate per square foot increased by 13%. These factors suggest that office space is relatively limited and in high demand across Santa Cruz County, though particularly in the City of Santa Cruz and Watsonville.

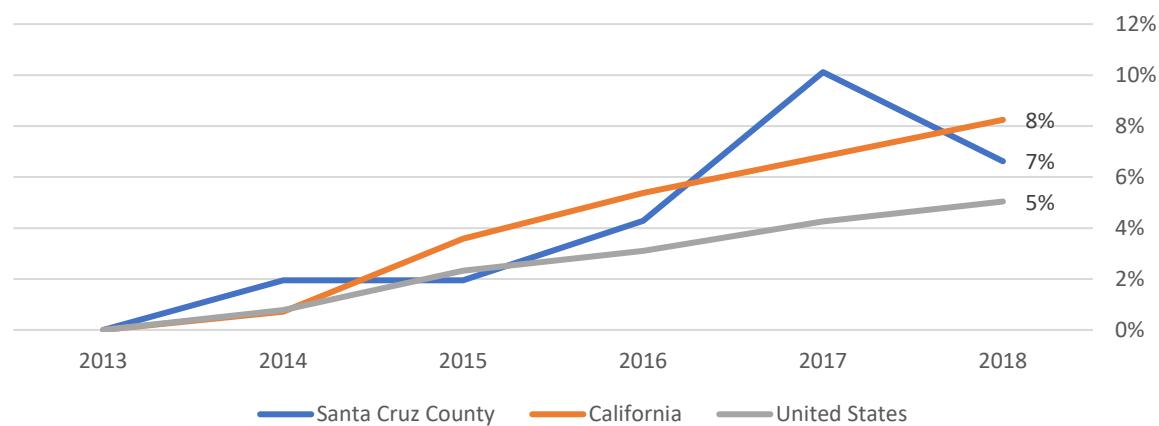
The internet can help provide more equal opportunities and increase upward mobility. While more than 88% of Santa Cruz County residents have internet access, access is not equal across all residents. In fact, 37% of households with annual incomes of less than \$20,000 do not have internet access. The percentage of households without internet drops to 16% for residences with between \$20,000-\$75,000 annual income, and 3% for households with annual incomes greater than \$75,000 (Figure 17). A lack of internet access in some areas—particularly in areas that may already be disadvantaged—may mean that some of the County's potential top talent and entrepreneurs remain disadvantaged and underserved.

Figure 17. Internet Access by Household Income (2018)



Across the County, average commute times increased by 7% between 2013-2018, with substantial increases in Scotts Valley (13%) and Watsonville (9%). Even though average commute times are lower than the statewide average (27.4 minutes vs. 30.2 in California), transportation and commuting within Santa Cruz County is increasingly a challenge and point of concern among residents and visitors. Working from home and alternative transportation (taxi, rideshare, etc.) saw minor increases in usage during this time, while commuting by car, both alone and through carpool, saw modest declines. Public transportation remains lightly utilized: less than 5% of residents in the City of Santa Cruz commute via public transportation, and these rates are lower in the other communities in the County.

Figure 18. Change in Average Length of Commute



Resilience

Regional economic resilience is a way of thinking about a region's ability to both a) resist a "shock event" (such as an economic recession, pandemic, or natural disaster) and to b) recover from such an event. Given the lasting impacts of the Great Recession and the potential for future economic shocks or downturns, resilience is an important component of any CEDS. This section breaks down regional resilience into four categories:

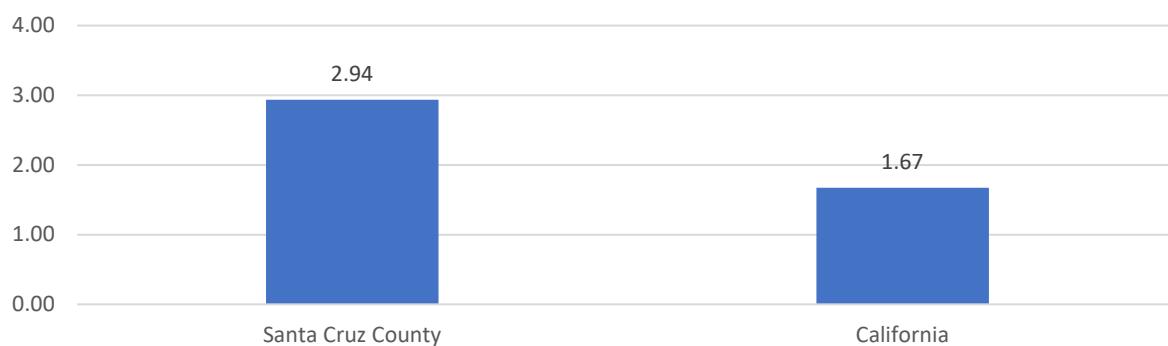
- 1) Household-level financial stability and resilience;
- 2) Industry diversification and connection to larger markets;
- 3) Economic agility and innovation; and
- 4) Preparedness and recovery from natural disasters and climate change.

Each of these categories plays a role in a region's resiliency, and the failure in one category will have a considerable impact on other categories. Thus, resiliency planning must be comprehensive and multi-faceted.

Household Financial Stability and Recovery

Santa Cruz County households have a debt-to-income ratio 75% higher than the statewide average, meaning Santa Cruz County households are more susceptible to economic shocks. Research shows that regions with lower debt-to-income ratios may recover more quickly from economic downturns.⁹ Santa Cruz County households have a relatively high ratio of debt to income; in 2018, households in the County averaged \$2.94 of debt for every dollar of income. This ratio is considerably higher than the statewide ratio of \$1.67 of debt for every dollar of income (Figure 19). The County's ratio of household debt to income decreased 10% between 2013-2018 as part of a larger national trend in the post-2008 recession-era, though this rate is slower than the statewide decline of 12%.

Figure 19. Debt-to-Income Ratio



⁹ <https://www.oecd.org/economy/outlook/Resilience-in-a-time-of-high-debt-november-2017-OECD-economic-outlook-chapter.pdf>

Industry Diversification and Connection to Larger Markets

Santa Cruz County's five largest industry clusters account for nearly two-thirds of all jobs. A region's diversity in industry clusters and economic activity can help the region better resist macroeconomic downturns and can allow the regional economy to recover quicker in the event of one. Santa Cruz County's five largest industry clusters--education and knowledge creation, tourism, recreation, and hospitality, healthcare, retail, and agriculture and food—account for 63% of the region's workforce. Statewide, these five industries only account for 49% of employment.

This suggests that, while the County has some diversity of industries, building out smaller industry clusters that offer higher wages and greater employment multipliers may provide greater resilience to macroeconomic downturns. Industries such as information and communications technologies (ICT), biotechnology and biomedical devices (B&BD), defense, aerospace, and transportation manufacturing (DATM) and building and design, are industries with modest employment in Santa Cruz County and offer strong multiplier effects. This means the presence of these types of industries (and their workers' subsequent spending in the region) create higher rates of new jobs and economic activity.

Santa Cruz County's export-heavy economy provides both resiliency in the event of economic downturn and exposure in the event of a pandemic or natural disaster. Research suggests that an economy that has robust export-oriented industries or markets can serve as a hedge against local or even national economic downturn. Santa Cruz County has a relatively strong export economy—about 49% of the County's sales are exports to outside the County. In contrast, exports account for 39% of California's overall sales and 22% of the United States' sales. Other manufacturing—which includes industries like machine shops and conductor manufacturing-- and defense, aerospace, and transportation manufacturing (DATM) are budding industries that grew 123% and 31% respectively between 2014-2019 and have a high percentage of export sales. However, a pandemic or natural disaster that slows or limits exports could have the opposite impact on the County's economy and one that should be considered as planning for economic resilience is developed.

Economic Agility and Innovation

Innovation is a crucial aspect of growing and maintaining a healthy and resilient economy. Incubators can play an essential role in helping entrepreneurs and startups navigate and network the challenging environment of starting a new business. Santa Cruz County is home to at least six incubators, which support industries ranging from tech and biosciences to retail businesses and creative arts. The range and number of incubators highlights the entrepreneurial spirit within the County, and the variety of forms it may take.

Patents are often one of the first steps an inventor takes on their road to innovation. This makes patent counts a key indicator of a region's innovation economy. The number of approved patents rose steadily between 2012 and 2017, amounting to a 34% increase during this time.

University Research and Development (R&D) funding is also a key metric for regional innovation. Researchers at universities often develop cutting-edge and experimental technologies that are later commercialized. However, this process often requires R&D funding to originate. R&D funding, tracked through the University of California Santa Cruz, declined 20% between 2012 and 2017. The greatest decline occurred between 2016 and 2017, potentially a consequence of a national trend in declining federal R&D grants and funding.

Preparedness and Recovery from Natural Disasters and Climate Change

As the climate changes, Santa Cruz County will have to plan for a wide range of environmental disasters in the form of rising sea levels, earthquakes, fires, and flooding. Comprehensive planning and preparation can help mitigate the effects of such disasters and increase the County's ability to recover.

Both the County¹⁰ and the City¹¹ of Santa Cruz have Emergency Operations Plans that provide a thorough plan for natural disaster responses and recovery, emergency management, and mobilization of resources. Additionally, the County¹² and City¹³ of Santa Cruz each have Local Hazard Mitigation Plans that provide a five-year outline of potential natural disaster risks, areas most likely to be affected, and mitigation protocols and goals.

The County of Santa Cruz's Climate Action Strategy¹⁴ provides useful planning limiting greenhouse gas emissions and for natural disaster resilience and recovery through the lens of climate change. Annual updates provide insight into the County's progress in achieving the goals outlined in the Climate Action Strategy.

¹⁰ Found here: <http://www.co.santa-cruz.ca.us/Portals/0/County/OES/pdfs/DRAFTOPERATIONAL%20AREA%20EMERGENCY%20MANAGEMENT%20PLAN%20%28EMP%29%202015.pdf.pdf>

¹¹ Found here: <http://www.cityofsantacruz.com/home/showdocument?id=76144>

¹² <http://www.co.santa-cruz.ca.us/Portals/0/Local%20Hazard%20Mitigation%20Plan%202015-2020.pdf>

¹³ Found here: <http://www.cityofsantacruz.com/government/city-departments/planning-and-community-development/area-plans-planning-documents-projects/local-hazard-mitigation-plan>

¹⁴ Found here: <https://www.sccoplanning.com/PlanningHome/SustainabilityPlanning/ClimateActionStrategy.aspx>

SWOT Analysis

The following SWOT analysis is based on a comprehensive analysis of Santa Cruz County's economy and detailed feedback from participants in the CEDS planning process.

Strengths

- Santa Cruz County's natural beauty and proximity to Silicon Valley.
- The outdoor-oriented and modern culture make it a desirable place for many.
- Tourism and hospitality industry, which brings money from outside the County.
- The high quality of life for residents.
- Local education institutions with renowned programs, faculty, and researchers.
- Relatively well-educated resident workforce.
- A multitude of budding industries such as finance, insurance, banking, and real estate; defense, aerospace, and transportation manufacturing; and sporting goods manufacturing.

Weaknesses

- High costs of living and transportation chokepoints that make commuting arduous.
- An increasing exportation of jobs, particularly those that are among the highest paying, to Silicon Valley.
- A relatively high proportion of lower-paying industries such as tourism and agriculture.
- Silicon Valley remains a persistent draw of talent and enterprises.
- Rising inequality and homelessness.

Opportunities

- Continue to capitalize on the outdoor lifestyle and experience, including bolstering the sporting goods manufacturing industry.
- An atmosphere that inspires small business and entrepreneurship.
- The potential to pivot a strong agricultural sector towards agriculture technology development.
- Retain UCSC students in areas like engineering, physics, and earth sciences. Work with employers to attract and retain students.
- Broad infrastructure funding to make Santa Cruz County more business friendly.
- Increase affordability and accessibility of the region through improvements in housing and transit.

Threats

- The County's proximity to ocean and exposure to drought and forest fires presents noteworthy risk.
- Excessive growth could lead to losses in quality of life and culture.
- A lack of political will to foster a business and workforce friendly environment.
- Relatively high exposure to economic downturn, gauged by the County's mix of industries and household debt-to-income ratio.
- Rising inequality and costs of living paired with stagnant wages at many jobs.

Strategic Action Plan

This strategic plan outlines the primary goals that came out of the 2020 - 2024 CEDS planning process in Santa Cruz County. Developing regional talent pipelines, supporting economic health and resiliency, fostering innovation and entrepreneurialism, as well as investing in infrastructure and programs that support holistic regional economic development are all critical ingredients in Santa Cruz County's economic development planning.

Goal 1: Strengthen Regional Talent Pipelines and Talent Retention

Santa Cruz County has several esteemed educational institutions that graduate thousands of high-quality students every year. These institutions produce a substantial talent pool in Santa Cruz County, and the objectives outlined below seek to better retain these new entrants within the County to enhance and bolster the local economy. For example, new partnerships between colleges and employers could help meet some of the hiring challenges employers face, while allowing newly graduated or current students to better understand the potential career pathways available in Santa Cruz County while they valuable work experience and developing industry-specific skills.

- **Objective 1a:** Develop and strengthen partnerships between educational institutions and regional employers.
- **Objective 1b:** Retain UCSC and Cabrillo College graduates within the County workforce.
- **Objective 1c:** Initiate high school curriculum and experiential learning opportunities with regional programs to promote career navigation and introduce career pathways.
- **Objective 1d:** Support internships and course co-development with regional employers.
- **Objective 1e:** Leverage existing workforce to attract relevant and high-wage employers.

Goal 2: Strengthen Industry Clusters to Enhance Economic Diversity and Resilience

Diversity of industry clusters and their customer bases are a key component in economic resilience. An economy that is built around many industries has less exposure to the slowing of a few industries. Additionally, enhancing economic diversity through those industry clusters with predominantly higher-skill and higher-paying jobs will increase economic resilience at the household level, as workers with higher wages tend to have greater savings, lower levels of household debt, and higher levels of spending within the local economy. A program that helps workers upskill from traditional agriculture towards agricultural technology exemplifies this kind of economic development strategy that Santa Cruz County could implement to strengthen economic resilience and vitality.

- **Objective 2a:** Identify key employers in budding industry clusters such information and communication technology, finance, insurance, banking, and real estate, and sporting goods manufacturing.
- **Objective 2b:** Develop and support programs that upskill the existing workforce.
- **Objective 2c:** Support programs that help companies find customers and markets outside the County.
- **Objective 2d:** Prioritize industry clusters with higher-skill and higher-paying jobs and realistic career pathways for the existing workforce.

- **Objective 2e:** Support and encourage technology development programs with UCSC and other research institutions to support the expansion of agricultural technology industries.

Goal 3: Support and Foster Entrepreneurialism and Small Businesses

Santa Cruz County has a robust and diverse entrepreneurial and innovative ecosystem. The County continues to be the home of a number of startups, and the current number and growth of new startups is a valuable component to Santa Cruz's economy. This makes Santa Cruz County a strong candidate to market itself as an alternative to Silicon Valley. Hosting innovation competitions or hackathons, bolstering incubators, and increasing internship opportunities with local Santa Cruz County students could promote the County's status as a hub of innovation and spur the creation of additional entrepreneurs and small businesses. This goal is focused on those strategies that support and develop Santa Cruz County as a stronger ecosystem for innovation and entrepreneurship.

- **Objective 3a:** Support incubators and coworking space in the County.
- **Objective 3b:** Host innovation competitions in key industry clusters.
- **Objective 3c:** Unify and strengthen coalitions to effectively support developing businesses and their workforces.
- **Objective 3d:** Market Santa Cruz County as an alternative to Silicon Valley.
- **Objective 3e:** Identify and assess opportunities to partner with other regions to increase awareness and connectivity to Santa Cruz County's innovation and entrepreneurs.
- **Objective 3f:** Explore potential program to match and partially fund entrepreneurs and small businesses with local students interested in internships or part-time work.

Goal 4: Invest in Infrastructure & Programs that Promote Regional Economic Vitality & Enhance Quality of Life

Regional economic development is often built upon the desire of entrepreneurs, business-owners, and potential workers who want to live in a certain community and look for the best employment options within a reasonable distance of that community. This CEDS goal is focused on investments that support and grow businesses in the County and infrastructure programs that support and improve the County's high quality of life for residents, workers, and current and potential business decision-makers. For example, strategies in this area would identify and invest in relevant infrastructure, such as high-speed internet, reliable water and sewage, and improved transit options that support and attract current and potential businesses, entrepreneurs, and talent.

- **Objective 4a:** Ensure adequate infrastructure is in place for new and existing businesses. This includes improving transit, as well as providing fast internet and reliable water and sewage.
- **Objective 4b:** Ensure that Santa Cruz County remains a place of natural beauty with pockets of undisturbed wilderness.
- **Objective 4c:** Maintain public services and recreation centers, such as parks, libraries, and beaches.
- **Objective 4d:** Consider a transportation measure to fund additional transportation infrastructure such as public transit (similar to Santa Barbara County's Measure A).

Evaluation Framework Indicators and Performance Measures

Objectives	Regional Partners	Metrics
1a: Develop and strengthen partnerships between educational institutions and regional employers.	UCSC, Community Colleges, Vocational Schools, Cities, County	Graduate retention rates
1b: Retain UCSC and Cabrillo College graduates within the County workforce.	Cities, County, School Districts	Number of college and high school internships with Santa Cruz County employers
1c: Initiate high school curriculum and experiential learning opportunities with regional programs to promote career navigation and introduce career pathways.	Cities, County, School Districts	Internship placement rates
1d: Support internships and course co-development with regional employers.	UCSC, Community Colleges, Vocational Schools, Cities, County, School Districts	
1e: Leverage existing workforce to attract relevant and high-wage employers.	UCSC, Community Colleges, Vocational Schools, business organizations, incubators	New employers to the County

Objectives	Regional Partners	Metrics
2a: Identify key employers in budding industry clusters such information and communication technology, finance, insurance, banking, and real estate, and sporting goods manufacturing.	Economic development boards, Cities, County	
2b: Develop and support programs that upskill the existing workforce.	Workforce development boards, UCSC, community colleges	Number of new and existing businesses in key industry clusters
2c: Support programs that help companies find customers and markets outside the County.	Business associations, economic development boards, incubators, Cities, County	Number of graduates from upskilling training providers
2d: Prioritize industry clusters with higher-skill and higher-paying jobs and realistic career pathways for the existing workforce.	Workforce development boards, Cities, County	
2e: Support and encourage technology development programs with UCSC and other research institutions to support the expansion of agricultural technology industries.	UCSC, agriculture commissioner, Cities, County	Number of patents related to agricultural technology Grants for agricultural technology development

Objectives	Regional Partners	Metrics
3a: Support incubators and coworking space in the County.		Number of Incubators and coworking spaces
3b: Host innovation competitions in key industry clusters.		Utilization of incubators and coworking spaces
3c: Unify and strengthen coalitions to effectively support developing businesses and their workforces.	Economic development boards, Cities, County	Number of new businesses and previous locations
3d: Market Santa Cruz County as an alternative to Silicon Valley.		Number of inter-regional events and collaborations
3e: Identify and assess opportunities to partner with other regions to increase awareness and connectivity to Santa Cruz County's innovation and entrepreneurs.		
3f: Explore potential program to match and partially fund entrepreneurs and small businesses with local students interested in internships or part-time work.	UCSC, Community Colleges, Workforce development board, economic development board, Cities, County	Number of students interning or working part-time at local businesses relevant to their course of study

Objectives	Regional Partners	Metrics
4a: Ensure adequate infrastructure is in place for new and existing businesses. This includes improving transit, as well as providing fast internet and reliable water and sewage.	Parks and Recreation Departments, Cities, County	Average Internet speeds Internet Accessibility Commute Times Water and Sewer Complaints
4b: Ensure that Santa Cruz County remains a place of natural beauty with pockets of undisturbed wildness.		
4c: Maintain public services and recreation centers, such as parks, libraries, and beaches.	Parks and Recreation Departments, Cities, County	Number of visitors to public recreational attractions
4d: Consider a transportation measure to fund additional transportation infrastructure such as public transit (similar to Santa Barbara County's Measure A).	Residents, Department of Public Works, Cities and County	Public Opinion

Appendix A: Occupational Cluster Definitions

The table below provides the definitions for the occupational clusters used in the analysis of residents who work outside of the County. Each group represents a two-digit Standard Occupational Classification SOC code.

Occupational Cluster Definitions

Innovative and STEM	Healthcare, Law, Clerical, Logistical, or Administrative	Population Serving	Management, Sales, and Communication	Production and Maintenance
Computer, Math, and Quantitative Analysts	Legal positions	Community & Social Service positions	Management positions	Construction & Extraction positions
Architecture & Engineering	Office & Administrative positions	Educators & Library positions	Sales positions	Installation, Maintenance, and Repair
Scientists	Transportation & Material Movement positions	Artists and Designers	Entertainment & Communications positions	Production positions
	Healthcare Positions	Protective Service positions	Business & Finance positions	Building, Grounds, and Maintenance
	Personal Care and Services	Food Preparation & Service positions		Farming, Fishing, and Forestry