

**June 17, 2014**

**To: Santa Cruz County Board of Supervisors**

**From: Bud Colligan, Founder and CEO, South Swell Ventures**

**Re: Comments on the Santa Cruz County Economic Vitality Report**

I have read the Economic Vitality Strategy (EVS) for the County of Santa Cruz prepared by BAE Urban Economics. First, I would like to commend the Board of Supervisors and staff for undertaking this study and spending the time and money to produce a draft economic vitality strategy for the county. Below I have provided my feedback and ideas about the report, first with some broad observations and a summary of my conclusions and then with specific feedback on each of the seven goals articulated in the report.

### **Summary**

The *overall* direction of the draft EVS is encouraging. The EVS acknowledges that we must “expand the county’s economic base in order to create fiscal sustainability for local government.” The report is also clear that we must balance growth and development with local values of sustainability and adopt a “21<sup>st</sup> Century forward looking view.” These statements imply a more “business friendly” and proactive approach by the county to promote business formation, growth and retention, while respecting our heritage in environmental stewardship.

The report has some good suggestions, but also reads like a laundry list of half measures, many starting with the recommendation to “encourage and support X, Y or Z.” There is no indication of the relative importance of each item in the detailed two year work plan. It would be useful to have an indication of which initiatives are believed to be the real game changers, which ones are table stakes for establishing a level playing field with other communities, and those which will have minor, if any, impact.

It’s also important to note that the quantity of specific items in the two year work plan will lead to a expansion of county staff (many small items that require lots of people power to accomplish). Although some staff increases will be needed, I would propose organizing a training workshop for all county staff who touch planning, infrastructure, and economic development issues to better understand the needs of business for start-up, growth and retention. This may reduce the need for hiring additional staff in times of tight budgets, and focus discretionary money on big initiatives.

My major conclusions are summarized below and detailed in the specific write-up which follows:

- Articulate and promote a clear vision and strategy for the county, and provide training to all staff to support the strategy.
- Address critical infrastructure issues (water, roads, bandwidth, affordable housing) as soon as possible, at the very least with directional policy, so that private enterprise can understand the direction and make appropriate investment decisions to support the county's strategy. Keep it consistent.
- Focus action items around building a diversified, sustainable, small company economy leveraging distinct regional assets while preserving and enhancing our environment.
- Employ the work force that actually lives here now (and leaves daily) by creating high wages jobs via the strategy above.
- Take a regional approach in sectors like agriculture and tourism, our two biggest private sectors, to leverage existing excellence and magnify its impact.
- Invest increasing tax revenue to provide the services in education, health care, public safety, infrastructure, parks and recreation, and the arts that the community desires.
- Articulate and rally around a holistic brand for the county which is aspirational and encompasses the attributes and passions of the community.

### **Goal 1: Create a Shared Vision and Organize for Action**

I agree that we need to create a shared vision which is fully supported by the Board of Supervisors and the community. Collecting the right data, and establishing and tracking appropriate metrics to know where we stand on the playing field, are essential. The adoption of an EVS is the first step. Another important step is the report's recommendations to streamline regulations and permits and focus on expediting key projects identified as critical. A *regional* economic development approach is the right way to go. Incorporating into the plan collaborative efforts with Monterey, San Benito, Santa Clara and San Mateo counties is an effective way to ensure less commuting, shared infrastructure, common permitting and regulation, and cooperative efforts to attract and retain businesses. I am not proposing that we stop Santa Cruz County specific actions to coordinate with other counties. I am proposing that we attempt to understand, harmonize and leverage cross-county issues *in the future* to maximize the impact in our county.

I believe it is difficult to create a strategy for the county without agreement about a shared vision. Specific actions must flow from a shared vision. Simply saying we want to promote "world class" Santa Cruz is not a vision or a strategy. If one were to look at the county website, there is no indication of vision...just a listing of various departments, services and resources. The City of Santa Cruz web site is oriented around tourism and outdoor activities, with a couple of visuals on the arts. The Convention and Visitors Council web site sports the theme "Let's Cruz," which is oriented around tourist events and opportunities. Obviously, we live in a beautiful place with ample recreational opportunities, but is that all we want to offer or be known for? I have proposed in a presentation, entitled Economic Development

Strategy for the Central Coast (<http://www.slideshare.net/budcolligan/economic-development-strategy-for-the-central-coast-with-notes>) that we adopt a vision for “a diversified small company economy leveraging distinct regional assets while preserving and enhancing our environment.” Full details can be found in the presentation. Regardless of which vision we adopt as a community, it is important that the county be explicit so that we can prioritize the many competing demands for public resources and channel private investment to support the vision.

## **Goal 2: Support Sustainable Development and Availability of Housing**

Sustainable development is the key to creating a consensus around an economic development strategy. The report states, “no change can lead to decline just as too much change.” The policies of the last 30 years have led to economic decline for Santa Cruz County, with companies leaving, a preponderance of low wage seasonal jobs, poor county wide community health indicators (public safety, schools, health care, roads, infrastructure, deferred maintenance, etc.), and the highest relative cost of housing for a city its size in the United States! I would argue that if the county adopts the vision for a diversified small company economy *leveraging distinct regional assets*, public policy and investment should be focused on establishing the conditions to support the creation and growth of companies with 50 – 500 employees, with those employees coming from the 18,000 community members currently commuting over Highway 17 every day. For starters, this would mean weighing all the action items of the EVS against how they support this objective. We have the human and intellectual capital to create these companies in the county, but incentives, regulations, permitting, infrastructure decisions, affordable housing, business development efforts, and the like must be focused on supporting this objective. Many of the strategies in Section 2 of the report seem reasonable for encouraging sustainable development of this type.

Clearly, affordable housing is a HUGE issue, not only in Santa Cruz County but statewide. In some areas of California, population growth is far outstripping housing stock growth. This should be less of an issue in Santa Cruz County, which has only gained 5% in population since 2000, compared to 11% in Santa Clara County and 13% statewide. Some cities are taking an aggressive approach to address the affordable housing issue. For example, San Francisco Mayor Ed Lee recently proposed spending \$94M of city money to build affordable housing. We will need to be very creative due to the demise of Redevelopment in California and the lack of other public money in Santa Cruz County for affordable housing. What can we do with land use policy and incentives for private developers to build affordable housing in areas where we are also targeting job growth? The EVS has some suggestions for actions in the affordable housing area, but it's not clear which ones are believed to be game changers. Given the severity of the housing problem for college students, young workers, agriculture workers, seniors and those with limited incomes, it is incumbent upon us to understand which policies and investments will have the *most* impact.

### **Goal 3: Strengthen Key Economic Sectors – Agriculture, Health, Education and Leisure & Hospitality**

The EVS identifies the above sectors as the basis of the current economy, and I agree. The other large sector that goes along with health and education is government. If you combine government, education and health (sectors that receive the large majority of their funding from federal, state or county tax dollars), the group accounts for 35% of the county economy. Agriculture and Leisure/Hospitality are the next two biggest sectors of the economy, both largely private. Agriculture is also the largest driver of the Monterey County economy (about 30%), so Santa Cruz County is linked to that large economic engine as well. Leisure/Hospitality is also large in Monterey County, so integrating strategies between both counties on tourism and agriculture could provide substantial leverage. I would encourage us to explore ways to invest in a regional approach to both of these large dynamic sectors.

In agriculture, the EVS has several sensible suggestions regarding agri-tourism, cottage food industries, winery signage and tasting rooms, and workforce training, given the average age of farmers nationwide is now just under 60. Organic agriculture is our best bet for focus and growth given the county's organic history (CCOF, OFRF, and CASFS) and the current success with organic farming, food products and supplements. Organic agriculture grew 11.5% in 2013 vs. 4.4% growth for conventional agriculture.

Education and health appear to be two segments of the local economy that are growing and provide good jobs. Building a modern well equipped hotel in the medical corridor could help families visiting their loved ones, as well as provide a much needed location for off-season business, sports, food, wine and general event meetings. In addition, suggestions to link education and training in high schools and community colleges to job prospects in the county economy are spot on.

I am not in favor of any public money being invested in incubators. An incubator needs to be run like any business. NextSpace and Cruzio are businesses that provide affordable shared office and co-working space and serve an important need. NextSpace has in fact successfully taken its Santa Cruz grown concept to other cities nationwide. If a private investor wants to start an *incubator* like Y Combinator (here's a list of 20 incubators in San Francisco: <http://uipalette.com/top-startup-incubators-in-the-sf-bay-area>)--great! He or she will run it as a business and make their money from successful start-up exits. The county has no particular expertise in building start-up businesses nor should it contract with someone that does. If it makes sense, a private party will do it.

The EVS suggests a number of strategies in the Leisure/Hospitality sector that would appear to have minimal impact. We have a vibrant tourism sector now, but one characterized by short visits and high seasonality, dominated by the Boardwalk. I believe that our best efforts would focus on traffic mitigation and flow, amenities,

good restaurants, regional integration, and off-season opportunities. No one likes the traffic and parking issues in the summer, but what can we do to deal with it in a way that makes the visiting experience delightful for tourists (and residents)? I'm sure the Boardwalk would have many ideas on how to optimize the experience. When summer is over, what festivals, business, cultural, and recreational events can the county encourage to create a year-round calendar of sustainable tourism? Regarding restaurants, it starts with good food! We have many examples of profitable and well run restaurants—Soif, La Posta, Assembly, Café Cruz, Paradise Grill, Akira, etc. A well run restaurant with good food has plenty of customers. If the SBDC can provide specific training to improve the quality of food and the management of restaurants, that would be a big help.

#### **Goal 4: Enhance Growth Opportunities for Emerging Sectors of Technology/Innovation and The Arts and Support Small Business**

There is large potential, and the biggest growth opportunity, in software, marine science, ag tech, computational genomics, and gaming. There is also a robust volunteer eco-system which has done a fabulous job nurturing the innovation community in Santa Cruz County. UCSC has not been as connected to the entrepreneurial community as would be optimal, and provides an area for improvement. The EVS lists several strategy recommendations, some of which have potential for moving the needle. My suggestions would include:

- Support the \$50M fundraising effort to establish the UCSC Genomics Institute under David Haussler's direction. The institute has the potential to be a real game changer for perceptions of Santa Cruz and also the relationship between UCSC and the Santa Cruz community. (Bonus: locate the Institute downtown to occupy empty office space, create a more vibrant downtown atmosphere, and solidify a strong working relationship between the city/county and UCSC).
- Invest county money to sponsor ongoing eco-system efforts, which include New Tech Meet-up, Tech Raising, Event Santa Cruz, and Santa Cruz Tech Beat. These efforts exist due to the incredible volunteer commitment of their leaders and provide a strong foundation to leverage county support. The county does not need to pay for everything, but it should be an active sponsor of these efforts—it's the best form of leverage.
- Engage UCSC to create a strong linkage between UCSC entities like the Center for Entrepreneurship, School of Engineering, and the Department of Physical and Biological Sciences and county/business efforts around company/job creation. I would make this investment only if there is an incremental set of actions and investment from the university that demonstrate a strong and ongoing commitment to nurture entrepreneurship, spin out more technology, and engage with the local tech community. The investments recommended here do not need to be large—they should be highly focused and coordinated with incremental investment from UCSC. A good example is

the recent UCSC Hackathon, which initiated this type of cooperation and joint investment.

- Zach Friend and the Central Coast Broadband Consortium have provided excellent leadership to modernize ordinances and spur the creation of a modern Internet infrastructure in the county (we should support and accelerate the implementation of these initiatives). Steve Blum has noted in his blog that “broadband is as vital as water to the Santa Cruz County economy.” As a smaller community, we MUST have the infrastructure to compete on a worldwide basis—designing products here, manufacturing in Asia, delivering via the Internet anywhere in the world, video conferencing in HD with suppliers, partners, distributors everywhere. If we have an advanced infrastructure, we can play “above our weight,” create competitive companies that operate worldwide, and keep desired high wage clean jobs in the county. Suggested actions would include increasing competition among current service providers to provide faster bandwidth at lower cost, competing for gigabit to home and business infrastructure build-outs being proposed by Google and others (which will spur the incumbent service providers to change their approach to doing business here, as it has in Kansas City and Austin), leveraging the new Sunesys fiber build-out with spurs to business clusters in the county, and exploring new opportunities for fiber build-out, like the Rail to Trail pathway.
- Encourage continued formation and deployment of venture capital, particularly smaller funds making \$250K - \$1M investments in order to get more capital and technical advice to start-ups in the area.
- Housing appears here again as it does in almost every section of the EVS, which underscores its importance!
- I am not excited about encouraging satellite operations of Silicon Valley companies. First, the people that get on buses every morning do not work on the same projects, and therefore clustering them has little impact on productivity or project progress. Second, we will again be subject to the vagaries of big company human resource decisions, which has not been a successful strategy in the past (e.g. Texas Instruments, Seagate, Capital One in Monterey County). We have companies like NextSpace and Cruzio that can fulfill this need if companies see it as an effective strategy for their Santa Cruz resident employees. Finally, a strategy of self-reliance is much more sustainable.

The arts are very important in Santa Cruz County and an important part of our identity as a community. I don't feel qualified to comment on the recommendations of the EVS, but as previously stated, it reads like a litany of “support and encourage” suggestions. We have an Arts Council and a number of successful arts organizations in the county. I would encourage us to narrow the list of strategies in which we invest and emphasize leverage as much as possible in our approach.

In small business, the biggest leverage will come from increased capital. Helping small business “modernize” through training programs from the SBDC and mentoring from Pacific Community Ventures’ advisors is also beneficial.

Opportunity Fund has brought micro loans to the county and has been very successful in its first year, already deploying 25 new loans for a total of \$400,000. With help now from the Packard Foundation and the Community Foundation of Santa Cruz County, this support will only increase. More efforts to make capital available through the SBA, credit unions and commercial banks, and *to help small businesses find it*, are critical for the county. The ideas to assist home business formation with an “Over The Counter” business permit and designate a small business ombudsman are good.

### **Goal 5: Expand Public Sector Capacity and Infrastructure**

Rather than responding to specific strategies mentioned in the EVS, I would simply say that Goal 5 should be Goal 1. The primary responsibility of the Board of Supervisors *and related infrastructure agencies* is to establish a long-term strategy for sustainable economic development and work backwards to make the necessary policy and infrastructure investments in roads, water, electricity, bandwidth, and affordable housing to support the strategy. The EVS is the beginning of the formation of a vision and strategy, and it’s hard to make choices among a myriad of action recommendations without first knowing where we are going. Some of the infrastructure issues like water have eluded a consensus to date. It is my hope that the Board of Supervisors will clearly articulate a vision and overall strategy, and then focus on the infrastructure improvements that support its strategy.

### **Goal 6: Revitalize Town Centers and Commercial Areas**

The biggest thing we can do to revitalize town centers and commercial areas is follow through on specific actions to effect the realization of the *other* goals in the EVS. For example, building 10 – 15 new companies of 50 – 500 employees will lead to 3,000 new high wage jobs in Santa Cruz County. If hundreds of new small businesses and start-ups are formed, another 2,000 jobs could be created. The wages and tax revenue from these jobs will lead to more vibrant commercial areas. The EVS points out that the size of our community and its proximity to San Jose will always make it challenging for some large retail enterprises, but other communities our size have succeeded in having a strong retail sector. Again, I would look at narrowing the focus of the EVS recommendations and prioritize the top ones for impact, but the long-term success will be built on the realization of the *other* goals.

### **Goal 7: Promote Santa Cruz County to Local, State, Regional, National and Global Markets**

The EVS has some good suggestions about attracting off-season visitors and providing better conference facilities to achieve a more stable year-round economy. It is also clear that the Boardwalk’s three million visitors per year provide a ready audience that could be channeled into other tourist activities spread throughout the county. There is substantial opportunity in coordinating strategies with Monterey County to leverage the large number of annual tourists to the Monterey Aquarium,

Pebble Beach, Carmel and other destinations there. I would put our focus on enhancing the main traffic corridors between the counties (road, rail, bus), updating/building modern hotel and conference facilities, ensuring a better experience (traffic mitigation, signage, parking, public safety, and other leisure opportunities) for the three million Boardwalk visitors we are attracting now (and a better experience for residents dealing with the influx of summer tourists), providing awareness and incentives for the tourists coming to the Boardwalk and Monterey County to spend more time in Santa Cruz County, and develop a calendar of off-season festivals, events, and cultural activities to provide a *steady* level of economic stimulus. We have much to build on—let's leverage what we already have, driven by data and local/regional cooperation to extend its impact.

I have outlined around Goal 1 the need for a consensus vision and strategy. The communications plan for the county needs to be based on this work as well. Today, the Santa Cruz "brand" revolves around a laid back lifestyle. If one goes to the Santa Cruz City web site, the visuals are all about surfing, ocean, forests, and recreation. The county website is moot on any positioning. The Conference and Visitors Council sports the tagline "Let's Cruz" on its web site. The CVC's new site has done an excellent job in offering visitors many alternatives for spending time in Santa Cruz County and has already moved beyond the sole beach/Boardwalk orientation. I am not a proponent of multiple brands, where we have one brand for tourists (Let's Cruz), another brand for locally grown products (Santa Cruz County Grown), and still another brand for other products (Santa Cruz Authentic). "Let's Cruz" works for tourists and the CVC web site is a good foundation for building on the leveraged Boardwalk and regional tourism strategy I am proposing.

For the county overall, I would like to see a more aspirational brand that can work across cities and economic sectors and speaks to the type of region we want to be. I suggest that we move toward a more holistic view of Santa Cruz County, not just as a recreational tourist destination, but as a safe, creative, innovative community with good schools, a beautiful environment, ample recreational opportunities, great place to raise a family, cooperative attitude to business, and a local government with a "can do" attitude. I am suggesting a brand that encompasses these concepts: "*Invent Your Future Here.*" It works across industries and is targeted at families, students, young workers, seniors—basically anyone who wants to do something creative, forward-looking, exciting, and significant—this is the place to make it happen. Whether you want to make your mark in the non-profit world, environment, small business, arts, technology, agriculture, marine science, hospitality, recreation or the like, we offer an environment, mentality and the infrastructure where you can realize your dreams. It's so important to get our strategy right up front, because everything the county and cities in the region touch IS our brand: website, signage, social media, interactions with public employees, brochures, elected officials, the attitude of influential stakeholders, and the obvious facts on the ground.