

DRAFT

ECONOMIC DEVELOPMENT ELEMENT

Introduction

Scotts Valley's local economy contributes greatly to the overall quality of life experienced by the city's residents. A healthy local economy consists of a highly trained and educated workforce, diversified businesses, accessibility to the Monterey Bay and Silicon Valley, available housing, financial assistance to businesses, and infrastructure ready to serve technologically advanced businesses. Scotts Valley's business-friendly outlook and excellent quality of life make it one of the most attractive cities in the Monterey Bay region for business location, particularly for technology and manufacturing. Using these incentives, the City can continue to attract, retain, and expand the local economy. This will, in turn, ensure Scotts Valley's fiscal and financial health, allowing for a high level of public services and programs. As such, economic development goals and policies described in this element set the tone and direction for the City's business community.

This element contains polices to maintain the economic viability of Scotts Valley through the provision of balanced employment and housing opportunities, attraction and retention of businesses, and promotion of fiscal strength and stability in the community.

Preparation of an Economic Development Element is not required under State law, but the Government Code authorizes cities and counties to adopt additional elements as deemed relevant and necessary. State General Plan Guidelines include Economic Development as a suggested topic to promote fiscal stability and economic growth. If a jurisdiction prepares an optional Economic Development Element, that element must be consistent with the other General Plan elements.

This element is most directly related to goals, policies, and implementation programs within Scotts Valley's Land Use, Circulation, and Housing elements.

Current Status

Recommended by Planning Commission to City Council – DATE

Accepted by City Council at Public Hearing – DATE



Background and Context

This Economic Development Element focuses on the provision of resources and incentives for business retention and expansion, primarily in retail, professional offices, and technology firms, and revitalization of vacant and underutilized sites with industrial and commercial uses.

Scotts Valley has limited land available for new development and strong interest in retaining Scotts Valley's small town character. Additionally, because the city's share of local property tax revenue is among the lowest in California, balancing the City budget while maintaining the City's reputable municipal services is increasingly a challenge.

Below is a socioeconomic overview of the City of Scotts Valley. It was drawn from the *Scotts Valley Economic Development Strategy Framework* prepared by Economic & Planning Systems (EPS), dated October 16, 2017.

Employment

The dominant industry in Scotts Valley is manufacturing, which accounts for nearly 20 percent of all jobs.¹ The City's second largest sector is accommodation and food services, which makes up 11 percent of Scotts Valley jobs. Employment in the accommodations sector is expected to grow with the 2017 opening of 1440 Multiversity, which will add roughly 525 beds at buildout and generate additional spillover hotel demand for certain events. Other significant employment sections in the City include the retail, health care, and professional. [Figure ED-1: Employment Trends in Scotts Valley by Industry](#) provides a breakdown of city employment by sector.²

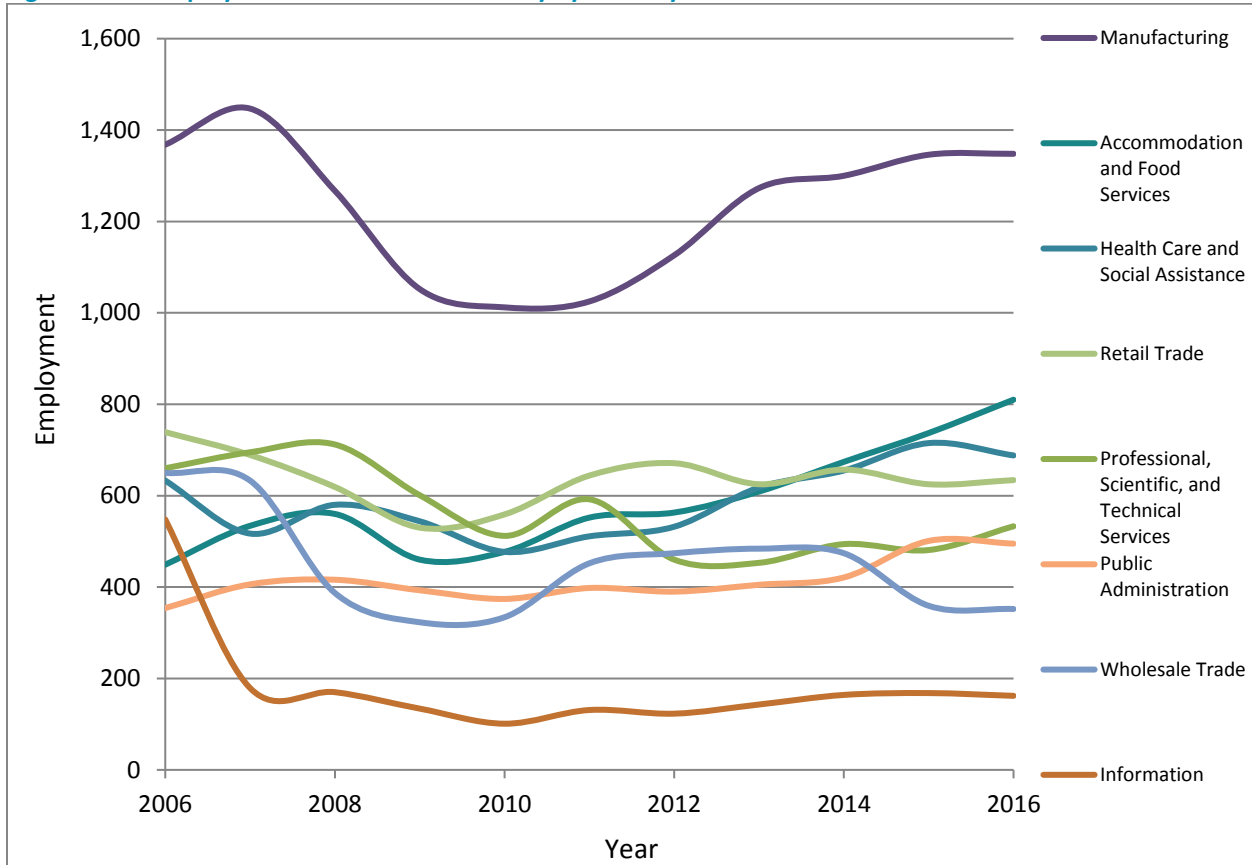
Despite notable employment opportunities within the City, Scotts Valley is a bedroom community with roughly twice as many residents as employees. Only about 11 percent of employed Scotts Valley residents work in the City. Roughly 32 percent of the City's employed residents commute to other parts of Santa Cruz County. Notably, 34 percent of the working residents commute to Santa Clara County. About 63 percent of Scotts Valley jobs are filled by employees commuting from within Santa Cruz County, primarily from the cities of Santa Cruz and Watsonville. Just 12 percent of Scotts Valley jobs are filled by employees commuting in

¹ Note that all industries comprise a diversity of occupations, often ranging from management executives to hourly support staff or unskilled labor.

² Data from California's Employment Development Department. These job counts typically undercount employment slightly, particularly self-employed positions.

from Santa Clara County (see Table ED-1: Commute Patterns of Scotts Valley Residents and Employees, by City).

Figure ED-1: Employment Trends in Scotts Valley by Industry



Source: California Employment Development Department & EPS, Inc., 2017.



Table ED-1: Commute Patterns of Scotts Valley Residents and Employees, by City

Employment Destinations for Scotts Valley Residents			Commute Origins for Scotts Valley Employees		
Place	Number	Share	Place	Number	Share
Santa Cruz	690	14.2%	Santa Cruz	662	11.8%
San Jose	658	13.6%	Scotts Valley	517	9.2%
Scotts Valley	517	10.7%	Watsonville	358	6.4%
Live Oak	180	3.7%	San Jose	331	5.9%
Santa Clara	166	3.4%	Live Oak	244	4.4%
Sunnyvale	155	3.2%	Ben Lomond	157	2.8%
Mountain View	136	2.8%	Capitola	155	2.8%
Watsonville	132	2.7%	Soquel	143	2.6%
Palo Alto	124	2.6%	Pleasure Point	91	1.6%
Capitola	114	2.4%	Aptos	81	1.4%
All Other Locations	<u>1,973</u>	<u>40.7%</u>	All Other Locations	<u>2,860</u>	<u>51.1%</u>
Total	4,845	100%		5,599	100%

Source: US Census Longitudinal Employer-Household Dynamics (LEHD) OnTheMap 2014, Economic & Planning Systems, Inc., 2017.

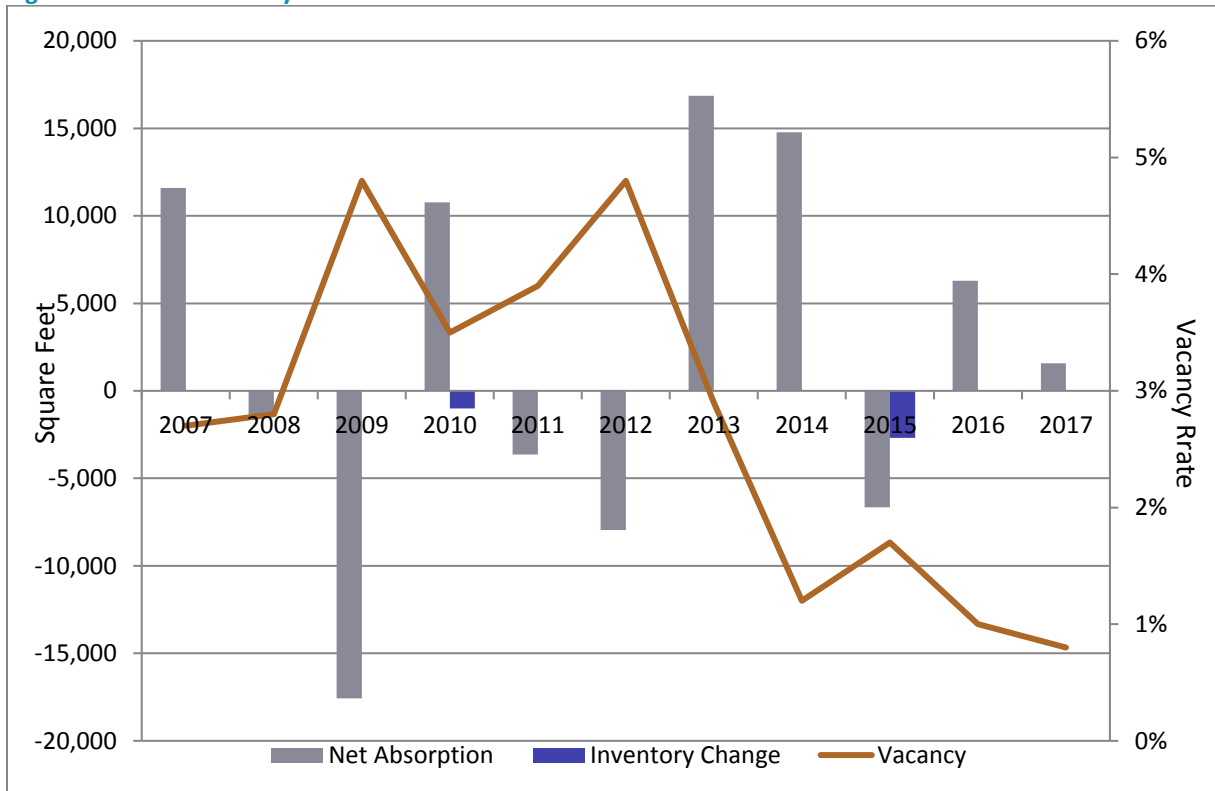
Real Estate Market Overview

Retail

Scotts Valley currently supports several independent retailers and restaurants, large-format retailers and other chain establishments, nearly all of which are located on Mount Hermon Road and Scotts Valley Drive.

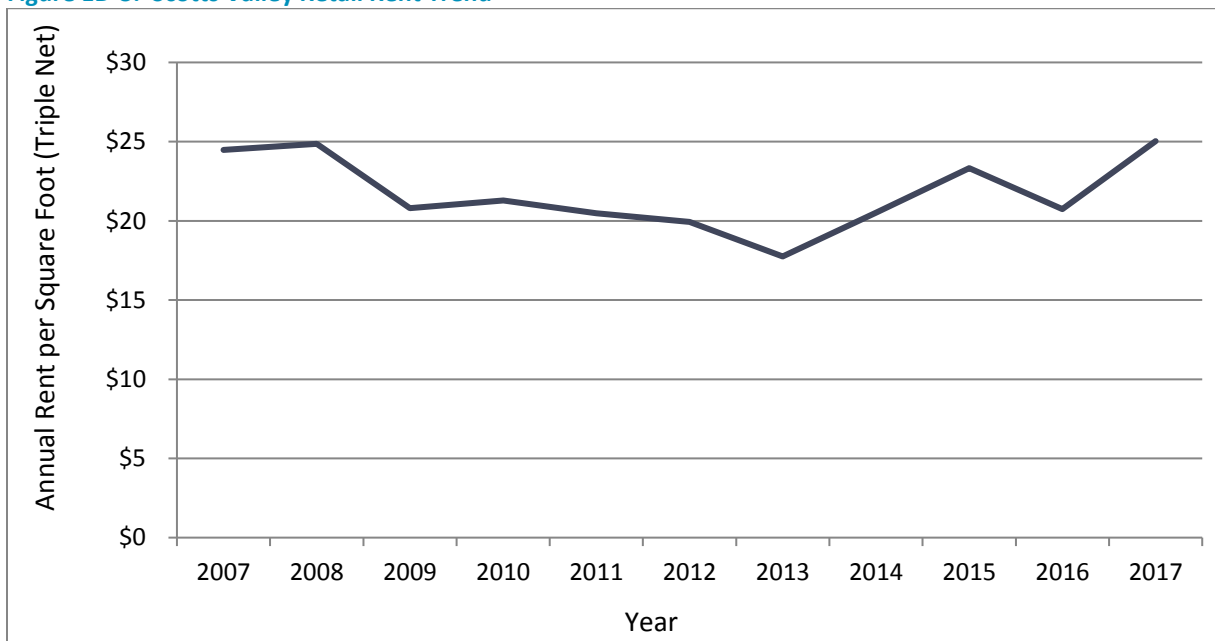
The Scotts Valley retail real estate market comprises roughly 915,000 square feet of space. Market data indicate that there is remarkably low vacancy (just one percent) and that rental rates range between \$20 and \$25 per square foot per year (triple net) as shown in [Figure ED-2: Scotts Valley Retail Real Estate Trends](#) and [Figure ED-3: Scotts Valley Retail Rent Trend](#). Despite the low vacancy rate, real estate professionals indicated that opportunities for new retail development are limited, given trends in the retail industry. Deliveries of new retail space have been minimal in recent years, with just 115,000 square feet of retail space added countywide between 2014 and 2017. There has been just one new retail delivery in Scotts Valley over the last 10 years, a stand-alone limited service restaurant on Scotts Valley Drive. However, there may be untapped opportunity for unique, experiential retail and food and beverage establishments that do not compete directly with the internet for sales.

Figure ED-2: Scotts Valley Retail Real Estate Trends



Source: CoStar group; Economic & Planning Systems, Inc. 2017.

Figure ED-3: Scotts Valley Retail Rent Trend



Source: CoStar group; Economic & Planning Systems, Inc. 2017.

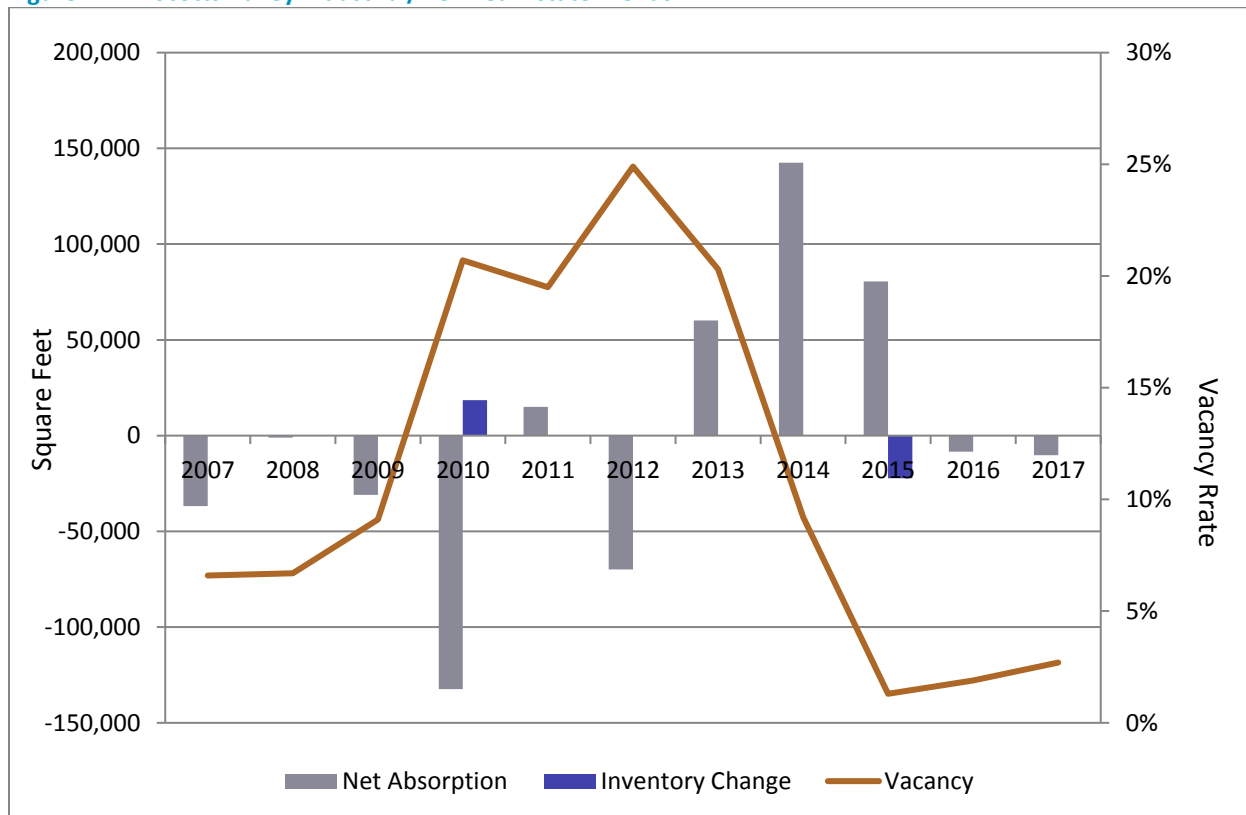


Industrial/Flex

Scotts Valley is home to several large manufacturers which occupy traditional industrial and “flex” space (e.g. Threshold Enterprises, Fox Racing Shox). This industrial/flex real estate market comprises about 1.3 million square feet of space. As shown in [Figure ED-4: Scotts Valley Industrial/Flex Real Estate Trends](#), while industrial/flex space has been in demand countywide, very little new space has been constructed. The Scotts Valley market has added only 20,000 square feet of space since 2010 and continues to experience very low vacancy, hovering around two percent since 2015.

Annual rent per square foot (triple net) has typically ranged between \$10 to \$12, but dropped as low as \$8 during the 2011-2013 economic downturn.

Figure ED-4: Scotts Valley Industrial/Flex Real Estate Trends



Source: CoStar group; Economic & Planning Systems, Inc., 2017.

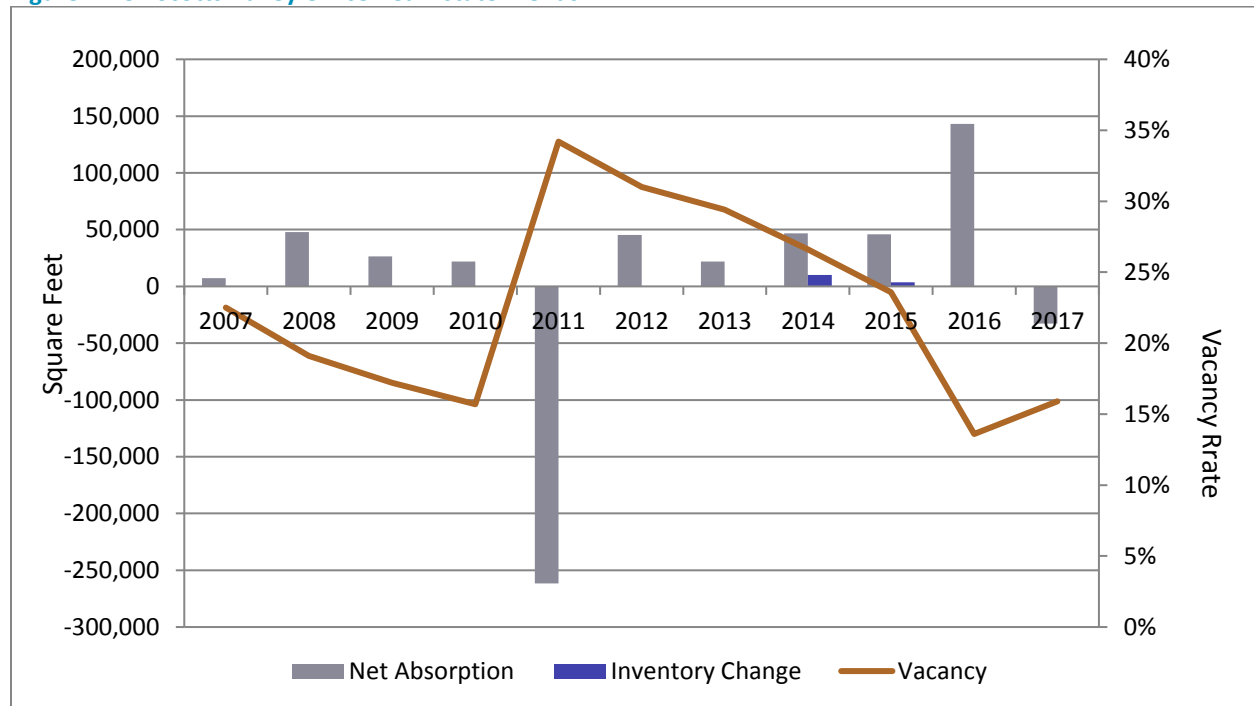
Office

The Scotts Valley office market has experienced positive absorption since 2012 with vacancy now at 15 percent. While this double-digit vacancy rate indicates a soft office market, it is notably improved from the 35 percent vacancy rate in 2011. Annual rent per square foot (base rent) has typically ranged between \$20 and \$24.

The Enterprise Technology Center, with 423,000 square feet, has been a significant contributor to office vacancy in Scotts Valley since Borland left in the early 2000s. However, recent tenanting has increased the occupancy rate 66 percent, up from 32 percent in 2013.

As shown in [Figure ED-5: Scotts Valley Office Real Estate Trends](#), Scotts Valley has endured repeated spikes in vacancy over the years, owing to the loss of several large employers such as Borland, Netflix, and Seagate. However, in 2013, the market improved after the purchase of the Enterprise Technology Center by a Chinese investor and the purchase of the Seagate property on Disc Drive by Bay Photo. Recently, UC Santa Cruz recently took 130,000 square feet in the Enterprise Technology Center and Kaiser opened a 20,000-square-foot facility in an existing office building on Scotts Valley Drive.

Figure ED-5: Scotts Valley Office Real Estate Trends



Source: CoStar group; Economic & Planning Systems, Inc., 2017.



Economic Development Issues and Opportunities

The *Scotts Valley Economic Development Strategy Framework* included a strengths, weaknesses, opportunities, and threats (SWOT) analysis based on findings from interviews with community stakeholders in Scotts Valley. As shown in [Table ED-2: SWOT Summary](#), the results offer a reference point for identifying economic development and planning strategies. A more comprehensive summary of stakeholder comments is provided in the *Economic Development Strategy Framework*.

Table ED-2: SWOT Summary

Strengths	Weaknesses	Opportunities	Threats
Safety	Limited Local Workforce	Town Center	Static Political Environment
Small Town Feel	Cost of Living	1440 Multiversity and Supporting / Complementary businesses	Housing Supply
Proximity to Silicon Valley and the Beach	Town Center Development Challenges	UCSC "Spin-off" Companies	Impact of Population Growth on Community Character
Schools	Minimal Capacity for Growth	Healthcare Demand	Traffic Congestion
Local Character	Limited Capacity of City Staff	Mountain Communities Tourism	
Accessible and Capable City Staff	Lack of Amenities and Nightlife	Marketing and Branding	

Source: EPS, Inc., 2017.

The *Economic Development Strategy Framework* concludes with six recommendations for future exploration:

1. Sustain existing high-quality City services and valued access to local officials and City staff.
2. Chart the course for citywide economic development through existing City Planning efforts, most significantly the General Plan Update.
3. Update the Town Center Specific Plan, now nearly 10 years old, to reflect current City goals, market realities, site-specific factors, and emerging opportunities.
4. Leverage regional economic development resources.
5. With increased fiscal stability, consider adding staff to prevent bottlenecks and execute basic economic development functions.
6. Consider marketing and branding opportunities.



Goals, Policies & Actions

Goal ED-1 Proactively manage land uses to provide and enhance economic development and job growth in Scotts Valley.

Policies

Region

Policy ED-1.1 Regional Economic Development Coordination
Work with regional organizations involved in land use and economic development to strengthen strategic alliances, ensure the efficient use of City resources and encourage mutually supportive efforts.

Policy ED-1.2 Regional Housing Supply
Work at the regional level to promote a shared responsibility for sufficient housing supply to accommodate the changing demographics and a growing population.

City

Policy ED-1.3 Land Capacity for Employment
Evaluate land capacity for employment uses and protect and improve the quantity and quality of land designated exclusively for industrial and research and development, especially those vulnerable to conversion to non-employment uses.

Policy ED-1.4 Balanced Supply of Commercial Uses
Monitor land uses and development trends in the City to ensure a balanced supply of commercial, industrial, and mixed-use designations and development intensities.

Policy ED-1.5 Economic Diversity
Support a diverse economic base including industrial suppliers and services, commercial/retail support services, clean technologies, high technology manufacturers, business services, and other related industries.

Policy ED-1.6 Parcel Consolidation
Support efforts to consolidate parcels for commercial development to improve economic conditions and generate new jobs.

- Policy ED-1.7 Technical Assistance to Businesses**
 Provide technical assistance to businesses wanting to locate or expand within Scotts Valley. Services may include site location assistance, employment linkages, marketing and public information, permit processing, financial referrals, façade improvement grants, and economic analysis.
- Policy ED-1.8 Housing Balance**
 Encourage a balance between job type, the workforce, and housing development to reduce the negative impacts of long commutes and provide a range of employment opportunities for a diverse community of Scotts Valley residents.
- Policy ED-1.9 Taxation**
 Maintain a local tax burden for business that is competitive with other jurisdictions in the region.

Actions

- Action ED-1.1 Town Center Specific Plan**
 Given the dynamic changes in the retail sector, maintain and update, as necessary, the Town Center with an appropriate mix of land uses that are supported by a new market and financial feasibility analysis that is economically attractive to investors and developers.
- Action ED-1.2 Business Supporting Amenities**
 Work with local businesses and economic development/promotion organizations to identify and cultivate business-supporting amenities such as full-service restaurants and conference and meeting room facilities.

Goal ED-2 Promote the City as a positive environment for economic development.

Policies

Region

- Policy ED-2.1 Economic Partnerships**
 Actively participate in regional economic partnerships in Santa Cruz and Santa Clara Counties. Explore joint marketing efforts that would attract desirable businesses to locate in the City of Scotts Valley and the region.



City

- Policy ED-2.2 Job Creation Incentives**
Provide incentives that promote the creation of high-quality jobs across all industries.
- Policy ED-2.3 Business and Job Attraction**
Attract and retain a diverse mix of businesses and industries that can provide jobs for the residents of various skill and education levels.
- Policy ED-2.4 Marketing and Brand Identity**
Promote and market a unique brand identity for Scotts Valley, capitalizing on the City’s valley setting and strong community values.
- Policy ED-2.5 Start-up and Locally Owned Businesses**
Support strategies and programs that facilitate the development of small high-tech start-up companies and locally-owned businesses.
- Policy ED-2.6 Economic Activity in Public Spaces**
Explore policies and programs to lease parts of public spaces (e.g. parks, community center, library) to private businesses and non-profit organizations to activate the space with programs and activities, such as small product vendors, bike rentals, exercise programs, events and festivals.
- Policy ED-2.7 Community Events**
Work in cooperation with community organizations to promote community events such as farmers market, annual festivals, music venues, library events, etc. that will draw visitors to Scotts Valley.
- Policy ED-2.8 Cultural Facilities**
Work in cooperation with community organizations to seek the establishment of a performing arts center, amphitheater, and/or other cultural facilities.
- Policy ED-2.9 Funding for Improvements**
Work in partnership with property and business owners to provide funding for physical improvements, public art installations, arts programming, and marketing.

Actions

Action ED-2.1 Business Round Table

Consider forming a Scotts Valley Business Round Table made up of business and property owners, business organizations (including the Scotts Valley Chamber of Commerce) and City officials where topics related to economic development can be freely expressed.

Action ED-2.2 Business Attraction and Retention

Meet periodically with the Scotts Valley Chamber of Commerce and other stakeholders to discuss strategies to attract and retain businesses. As part of these meetings, review:

- City regulations that may limit businesses from locating in Scotts Valley.
- City investments and improvements that may help attract desired types of businesses, such as environmentally conscious businesses.
- Ways to strengthen the City’s reputation as business-friendly environment.
- Methods to assist property owners and managers to attract desired types of tenants.
- Methods to assist property owners to consolidate lot ownership as part of redevelopment efforts.

Action ED-2.3 Merchant Surveys

In collaboration with the Scotts Valley Chamber of Commerce, conduct surveys of merchants to assess their needs and issues.

Action ED-2.4 Chamber Coordination

Work with the Scotts Valley Chamber of Commerce in developing promotional materials which tell the story of our community’s positive business environment.

Action ED-2.5 Marketing and Branding

Create a brand image for the City of Scotts Valley and identify means to market the City locally and regionally to promote economic development.



Goal ED-3 Encourage business expansion and retention.

Policies

City

- Policy ED-3.1 Diversified Economy**
Support a diversified economy to maintain Scotts Valley’s long-term economic and fiscal health.
- Policy ED-3.2 Business Attraction**
Attract and sustain a growing concentration of companies to serve as the economic engine for Scotts Valley, particularly industries such as information and communication technologies, clean technology, niche manufacturing, health care, hospitality, and other sectors based on creativity and innovation.
- Policy ED-3.3 Business Assistance**
Provide business assistance and support to facilitate job creation, develop new businesses, spur private investment, and promote industry growth.
- Policy ED-3.4 Property Development**
Encourage business and property development that will provide jobs and generate revenue to support city services and infrastructure.
- Policy ED-3.5 Tax Revenue**
Support additional visitor accommodation uses and retail sales to grow transient-occupancy and sales tax revenues.
- Policy ED-3.6 Fiscal Impacts of Development**
Consider the fiscal impacts from new development on the City when reviewing major development projects. Fiscal impacts should be considered as one of many criteria when taking action on a proposed project.

Actions

- Action ED-3.1 Coordination with Real Estate Brokers**
Periodically meet and confer with commercial real estate brokers to assess market trends.

- Action ED-3.2 Strategic Engagement with Vulnerable Businesses**
Use the Scotts Valley Business Round Table and individual meetings to identify opportunities and strategies that encourage business retention.
- Action ED-3.3 Civic Wayfinding Signage**
Develop continuity in civic wayfinding signage throughout the City to better facilitate the use of public facilities and services.
- Action ED-3.4 Update City Policies and Regulations**
Evaluate and periodically update the City’s policies, regulations and ordinances to maintain Scotts Valley’s competitive ability to attract and grow businesses, including small businesses and home occupations.

Goal ED-4 Foster a healthy commercial sector that provides goods and services necessary to meet the shopping needs of both the region and the local community.

Policies

City

- Policy ED-4.1 Retail Development**
Promote an appropriate level of retail development to help generate City revenue, create jobs, improve customer convenience, and enhance neighborhood livability.
- Policy ED-4.2 Regional-Serving Retail**
Maintain and adapt the retail base to changing market conditions which meet the needs of regional shoppers and residents.
- Policy ED-4.3 Entertainment Venues**
Support private efforts to achieve a broader mix of evening and late-night uses including restaurants and entertainment venues (e.g. theaters) in and around the Town Center to promote a vibrant City center that generates jobs, increases revenues, and attracts visitors to Scotts Valley.
- Policy ED-4.4 Mixed-Use Development**
Support mixed-use development with residential densities that will help support a vibrant and active commercial corridors and Town Center for Scotts Valley.



Policy ED-4.5

Mt. Hermon Road and Scotts Valley Drive Streetscape

Work with property owners, businesses and stakeholders to improve the streetscape on Mt. Hermon Road and Scotts Valley Drive. Improvements may include: added center medians, landscaping, pedestrian amenities, improved transit stops, crosswalks, limiting ingress-egress points (where practical), and signage. (May need to cross-reference with LU policies.)

Actions

Action ED-4.1

Database of Local Businesses

Maintain a database of businesses offering goods and services locally. Work with the Scotts Valley Chamber of Commerce to attract new businesses to fill leakage areas.

Goal ED-5 Assure that municipal services and public infrastructure will support and encourage a viable business climate.

Policies

City

Policy ED-5.1

Municipal Fiscal Prudence

Support policies and regulations that direct the City to follow prudent financial standards and to maintain strong financial reserves as inherent parts of the budget decision-making process.

Policy ED-5.2

Strategic Infrastructure Investment

Invest in strategic infrastructure improvements to encourage private investment, reduce new construction costs, increase business efficiency, support business retention and growth, stimulate economic activity, and employ people.

Policy ED-5.3

Infrastructure Coordination

Coordinate infrastructure upgrades and extensions, environmental remediation, land acquisition and/or assembly as necessary to provide for the orderly development of commercial, industrial, and mixed-use properties.

- Policy ED-5.4** **Prioritize Funding Resources**
 Maintain close coordination between City departments to plan and prioritize funding resources that are allocated to the City’s most critical economic needs.
- Policy ED-5.5** **Technology Investment**
 Support investment in technology that reduces the costs of City services and result in more efficient use of City resources and revenues.
- Policy ED-5.6** **Efficient and Timely Services**
 Maintain City government practices attuned to business needs for clearly and timely use of incentives, regulations and development entitlement processes, and valued access to local officials and city staff.
- Policy ED-5.7** **User Fees for Services**
 Levy fees charged by the City to reflect actual costs for providing such services and consider offsets from other funding sources when considered strategically advantageous to the long-term economic interests of the City.
- Policy ED-5.8** **Permit Process**
 Maintain a clear, efficient process for processing business licenses and building permits/entitlements.
- Policy ED-5.9** **Fiscal Health Monitoring**
 Maintain the City’s ability to provide accurate accounting records that keep the City Council, City Manager and community informed of the City’s financial conditions.

Actions

- Action ED-5.1** **Resource Checklist**
 Support and maintain the resource checklist that can be used by new businesses to explain our processes, regulations, promotions, and City assistance.
- Action ED-5.2** **City Staffing**
 With increased fiscal stability, consider adding staff to prevent bottlenecks and execute economic development functions.
- Action ED-5.3** **Development Activity Status**
 Maintain a list and map that identified current development projects and vacant and underutilized land in the City.



ECONOMIC DEVELOPMENT

Action ED-5.4 Periodic Update to Economic Development Data