

City of Santa Rosa

Economic Development Strategy,

Phase II

Competing in the New Economy

Prepared by:

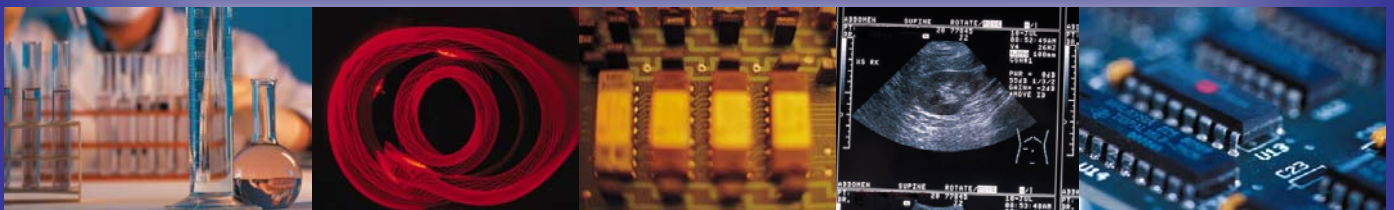
Audrey Taylor,
Chabin Concepts
2889 Cohasset Rd, Ste 5
Chico, CA 95973
800.676.8455
audrey@chabinconcepts.com

Leslie Parks
Strategic Partner
1450 Dry Creek Rd
San Jose, CA 95125
408.264.1601
lparks@chabinconcepts.com

Sarah Murley
Applied Economics
4648 E. Shear Blvd, Ste A-260
Phoenix, AZ 85028
602.765.2400
smurley@appliedeconomics.net

In cooperation with: City of Santa Rosa, Economic Development Department

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Audrey Taylor, President & CEO

Chabin Concepts, Inc.

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The image features a woman in a white lab coat standing in a laboratory setting. She is positioned in the center-right of the frame, looking towards the camera. To her left, a large parrot is visible in a wire cage. The background is a blurred laboratory environment with various pieces of equipment and shelves. The text 'Section I' is overlaid on the right side of the image in a bold, blue font.

Section I

Executive Summary

Executive Summary

I. Project Purpose & Background

In 2003, the City of Santa Rosa completed a Phase I, Economic Development Strategy Plan which focused on very specific economic development and housing projects, including recommendations for specific plans, financial incentives, streamlining the development approval process and identifying business retention/attraction targets.

As noted in the following matrix, the City has made excellent progress on moving these projects forward:

| Phase I, Economic Development Strategy – Project Status, April 2005 | |
|--|--|
| PROJECT | ✓ STATUS AS OF APRIL, 2005 |
| 1. Food and Wine Center | ✓ Accelerated TORPA redevelopment project complete |
| 2. Transit Village Project | ✓ SMART site agreements currently being finalized |
| 3. Lifestyle Center as “eastern anchor” to downtown | <ul style="list-style-type: none"> ✓ Worked with Chamber, who formed a subcommittee to investigate, and with the Santa Rosa Main Street Program ✓ Currently evaluating city-held assets for development opportunities |
| 4. Wastewater Fees | ✓ Payment plans now available for Downtown businesses |
| 5. Hotel Development | ✓ Working with developers on site opportunities |
| 6. Roseland Village Shopping Center | ✓ Continue to assist county by marketing site to developers and brokers |
| 7. Expand SR Avenue corridor | ✓ Corby/SR Avenue planning study underway |
| 8. Plan for automobile dealership expansion | |
| 9. Specific Plans and Master EIR to guide development | <ul style="list-style-type: none"> ✓ White House/Ledson/ Pauley sites, EIR complete and ready for development ✓ Advanced Planning Division analyzing new opportunities |
| 10. 1000 multi-family housing units in central area | <ul style="list-style-type: none"> ✓ Hugh Futrell project and other new projects underway, including White House site, Healdsburg Avenue, and 7th Street parking garage, Rises, Roxy on the Square, Riley Street, SR Cannons ✓ Council evaluating high-rise policy |
| 11. Target selected firms for retention and key sectors for attraction | ✓ Economic Development Strategy Phase II → criteria and policy direction |
| 12. New City Hall/Library complex | ✓ Continue to review opportunities with developers (along with other downtown properties). |
| 13. Leadership to induce commercial air service | ✓ Airport on “county” property → Santa Rosa supporting county-led initiatives |
| 14. Streamline development approvals process | <ul style="list-style-type: none"> ✓ One-stop shopping ✓ Ombudsman ✓ On-line permitting ✓ Proactive engagement with construction industry |

The focus of the *Phase II, Economic Development Strategy* was a follow-on strategy concentrated on a more macro review of Santa Rosa's economic position within the Bay Area and regional market, an update of the potential targets given the *new knowledge-based global economy* and recommendations for strategic economic development programs and services integrated with partners and other business resources to ensure Santa Rosa attractiveness to globally competitive emerging growth companies. The analytical approach to the Phase II, Economic Development Strategy will assist in guiding public policy and focus actions on those sub-strategies where the City can play a primary or key partnership role in economic development.

The research, findings, strategies and tactics provided in this report should form the **foundation** from which the council can adopt and set policy for Economic Development Goals and Objectives.

The projects and recommendations in Phase I are still valid and every effort should be made to ensure these projects remain priorities and are integrated with the Phase II, Economic Development Strategy Plan and the City Council's adopted goals.

II. The Regional & Global Economy Implications

As local communities are well aware, the national and international economies are in a period of rapid change. Many of the changes taking place are highly relevant to the future of Santa Rosa:

- *Competition among corporations in different markets of the world is escalating creating hyper-competition.*
- *The utilization of technology and innovation are increasingly important as key drivers of the economy.*
- *A highly skilled, educated and motivated workforce is a key competitive advantage.*
- *The new urban live-work-play environment is one of the key location factors that help attract and retain young qualified professionals, often referred as the "creative class", as the Baby Boomers exit the workforce.*
- *The importance of a supportive business climate that understands and is responsive to the dynamics of business, such as, "speed-to-market" and flexibility.*
- *Economic development is increasingly a public-private partnership with open lines of communications between government and business.*
- *Regional collaboration for goal-setting, investment strategies and public accountability are increasing.*

Although Santa Rosa may geographically be located in the "North Bay", it is a part of and affected by the Bay Area region. Even with the dot.com bust and major recession, the San Francisco Bay Area is one of the most productive and competitive regions in the world, particularly in the utilization of technology and innovation. Santa Rosa's proximity and connection the Bay Area is a strength to be leveraged – *the "Bay Area" competes with leading innovation centers such as Seattle, Research Triangle, Austin, which are all regional economies.* As part of the region Santa Rosa can

leverage regional indicators for comparison and promote local unique attributes for strategic advantage.

III. Project Process

The objectives of this project was to provide the City with a framework, based on analytical data, to create an economic vision and adopt economic goals for the City which will position the City for sustainable economic vitality.

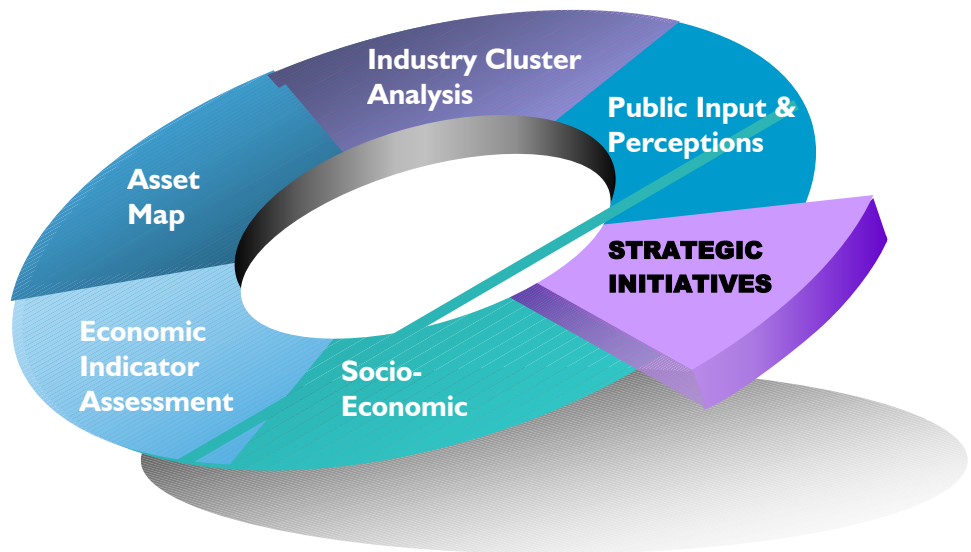
Project Objectives:

1. Assist Santa Rosa with an inventory and evaluation of its innovation assets and economic strengths and weaknesses, and
2. Identify initiative priorities, policies and practices for strengthening Santa Rosa’s economic development platform for the new Innovation Economy.

Project Phases:

The project foundation is built on analytical data, validated through primary research, focus groups and interviews.

To ensure all organizations, agencies, institutions and residents had an opportunity for input, an on-line survey was posted on the City’s website, notices published in the local papers, press releases sent to all media and e-mail announcements distributed to all partner organizations, such as, the Chambers of Commerce for distribution to the members.



In addition to the public input from the local area, perceptions interviews were held with firms and individuals outside of Santa Rosa. A work session was held with City Economic Development staff to review findings and discuss potential initiatives. The final step of the project was to draft **Strategic Action Initiatives** and *Sub-Strategies and Tactics* for each Initiative.

Project Findings:

Following are highlights of the analytical findings (Socio-Economic Analysis, Knowledge-based Economy Indicators, Asset Map and Industry Cluster Analysis). The review of “factors” are listed as assets – strategic advantages, or as a **red flag** – potential constraints and areas that should be

strengthen to sustain, grow and compete in the new **knowledge-based, innovation economy**. The detailed analytical reports are included in Appendices A-H¹.

OVERVIEW – ANALYTICAL FINDINGS

| I) Socio-Economic | Assets | Red Flags |
|--------------------------|---|---|
| Population | <ul style="list-style-type: none"> > Increase in residents under 24 (29%) compared to Bay Area - key workforce advantage > Emerging population diversity | <ul style="list-style-type: none"> > Population growth is moderate but more than double that of the Bay Area thereby driving up housing prices > Larger share of people over 65 – those leaving the workforce |
| Human Capital | <ul style="list-style-type: none"> > Generally highly educated population but lower than Bay Area > Emerging partnerships between higher education and business | <ul style="list-style-type: none"> > Lower percentage of adults that have college or advanced degree – knowledge economy depends on educated workforce > High school graduation rates 19% lower than U.S. average – concern for future workforce > Perception K-12 public education system is weak |
| Cost of Living | <ul style="list-style-type: none"> > Cost of living is lower than Bay Area but higher than U.S. average – need quality business environment that supports higher paying jobs to offset this | <ul style="list-style-type: none"> > Housing costs continue to increase relative to incomes > Lower family and household incomes than Bay Area indicative of types of jobs in Santa Rosa > Higher cost of living makes it difficult to attract and retain workers |
| Workforce | <ul style="list-style-type: none"> > Talented, educated workforce at the upper end of the workforce > 18-24 age workforce is growing | <ul style="list-style-type: none"> > Lower manufacturing productivity and wages – need to improve competitiveness > Workforce gap between those with high and low skills |
| Business Characteristics | <ul style="list-style-type: none"> > 88% of local businesses have less than 20 employees – new job creation comes from small businesses > Larger share of employment in manufacturing than Bay Area – need to sustain this base | <ul style="list-style-type: none"> > Fewer managerial and technical jobs than Bay Area and more jobs in service, sales and production > Larger share of employment and earnings in retail than Bay Area > Earnings grew by 30% from 1998-02 but there were declines in total manufacturing (less than Bay Area), wholesale trade, FIRE and transportation and warehousing – vital industries to the economy |

¹ Analytical Benchmark: As part of the Bay Area region, the socio-economic data is benchmarked to the Bay Area and the US average. How Santa Rosa is performing within this market provides a benchmark where Santa Rosa should be on indicators to compete globally for business investment and growth. Santa Rosa indicator goals should be equal to or better than the US market and region average.

OVERVIEW – ANALYTICAL FINDINGS

| 2) Core Technology | Assets | Red Flags |
|-----------------------------|--|---|
| Internet | <ul style="list-style-type: none"> > High percentage of adults using Internet and students using computers in the classroom – indicates progress toward digital economy > More ISPs per zip code than Bay Area | |
| Share of High Tech Jobs | <ul style="list-style-type: none"> > Share of high tech jobs is significantly higher than national average | |
| Patents | | <ul style="list-style-type: none"> > Patents per worker which is an indicator of entrepreneurial activity and, ultimately, creating higher paying jobs is below Bay Area average |
| Science & Engineering Grads | <ul style="list-style-type: none"> > Some technology focused programs in public schools (K-12) | <ul style="list-style-type: none"> > Smaller share of science and engineering grads but new SSU engineering degree programs should help |
| Entrepreneur Environment | <ul style="list-style-type: none"> > Some technology Special Industry Groups such as SofTech, North Bay Technology Roundtable, and North Bay Life Sciences > New bachelors and masters programs in engineering at SSU > Local community college SBDC offers entrepreneurship training and technical assistance | <ul style="list-style-type: none"> > Limited financial capital for entrepreneurs and start-up companies > Limited network for innovation companies > Limited access to start-up professional services > Limited leadership to focus/promote on encouraging growing Emerging Growth Innovation companies |
| International Trade | <ul style="list-style-type: none"> > Manufacturing export sales per manufacturing worker is comparable to Bay Area | <ul style="list-style-type: none"> > Program and services that support global business and trade not available |

OVERVIEW – ANALYTICAL FINDINGS

| 3) Location Amenities | Assets | Red Flags |
|-------------------------|--|--|
| Physical Infrastructure | <ul style="list-style-type: none"> > Highly desirable quality of life and picturesque location | <ul style="list-style-type: none"> > Limited vacant land left for build-to-suit development > Limited incubator-size (smaller use) space in business-industrial parks > Limited Class A and B office space in the downtown > Escalating housing prices > Transportation congestion > No major air service access |
| Cultural Infrastructure | <ul style="list-style-type: none"> > Region has strong tourism potential because of adjacency to wine industry > Close proximity to San Francisco > Highly desirable quality of life | <ul style="list-style-type: none"> > Downtown needs to reflect new urban sense of place > Need for more cultural and entertainment amenities downtown to create stronger sense of place |

OVERVIEW – ANALYTICAL FINDINGS

| 4) Economic Development Resources | Assets | Red Flags |
|-----------------------------------|--|---|
| | <ul style="list-style-type: none"> > City’s foresight for continuing with economic development strategy that focuses on what the City must do to be competitive in a global economy > City’s investment in downtown and other key projects > Current outreach to existing business is being recognized | <ul style="list-style-type: none"> > City economic development program has few tools and resources for businesses > Weak link between workforce and economic development > Need for single portal to business services > Perception - Economic development program not visible and not a priority > Weak city/business partnerships on fostering business growth > Need for stronger alignment of economic development strategies with all organizations (regional) |

5) Industry Clusters

To identify priority industries sectors that will contribute to Santa Rosa’s economic vitality, cluster maps were produced for the Santa Rosa MSA to 1) understand the regional industry context and 2) to graphically display the current strength of the industry segments in both employment and earnings and then compare them to a second set of cluster maps which graphically displays the industry segments position and strength in the economy when national projections for the year 2010 are added for both employment and earnings.

The Santa Rosa MSA cluster maps can be viewed in Appendix D, Industry Analysis.

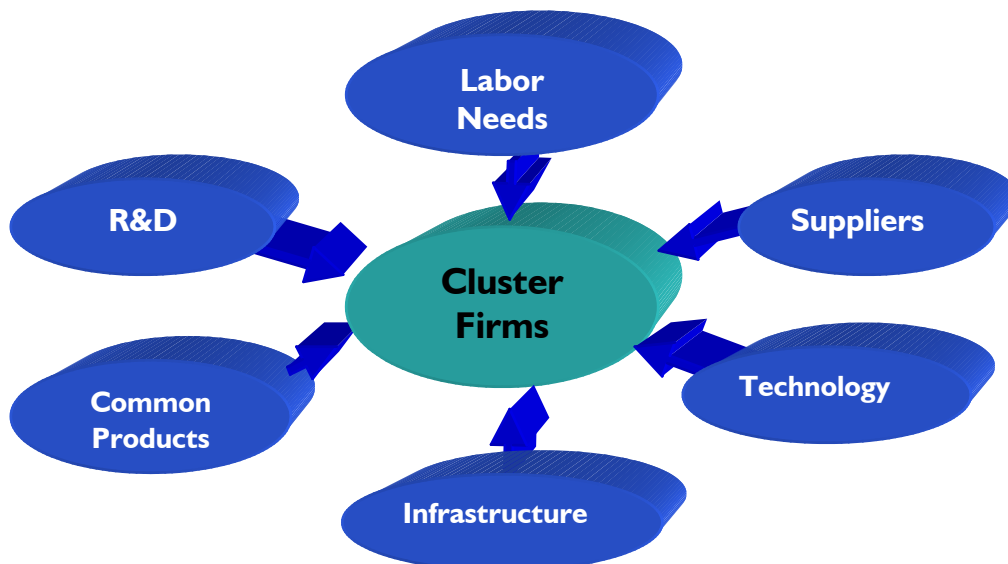
There are three types of clusters:

- Labor Based, firms with similar skill requirements,
- Value Chain, firms that are a part of the same value (product) chain, and
- Innovation, firms that exchange key information leading to technological advances and competitive improvements.

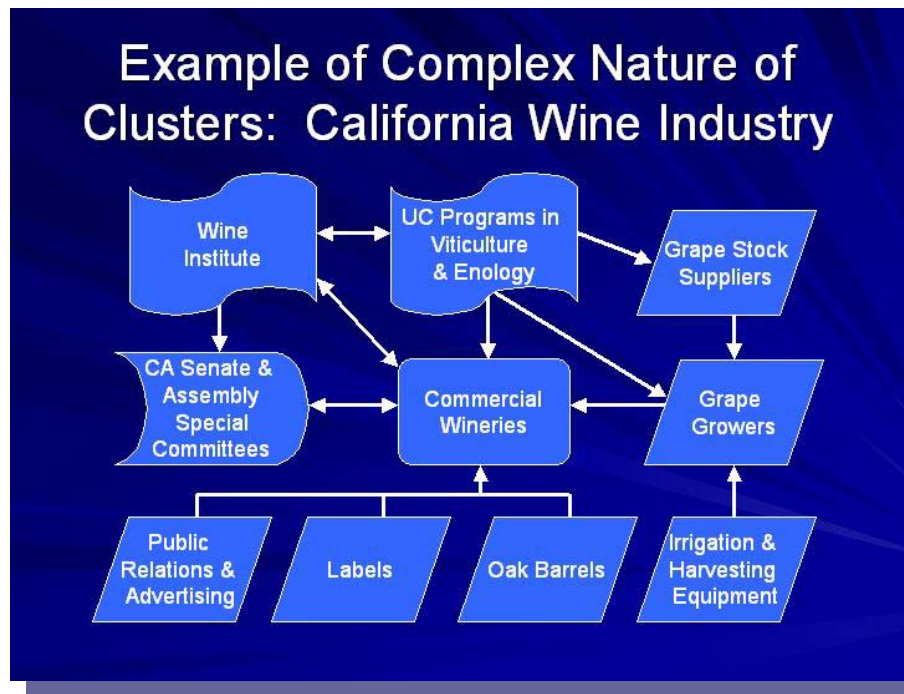
The premise for this analysis for identifying key targets of opportunities is Michael Porter’s Diamond of Advantage, Harvard Business School, *“regions can create and maintain a competitive advantage that drives innovation through the growth of industry clusters.”*

Cluster Definition:

- ❖ A concentration of interdependent companies and institutions within a geographic region.
- ❖ Clusters are centered on “exporting” firms who bring wealth into the region.
- ❖ Firms within clusters may be cooperative or competitive.
- ❖ Each firm’s competitive position depends on one, some or all of the other firms.



One of the best examples of the dynamics of a cluster - the inputs and outputs needed to grow and sustain the centered “export firm” - is the California Wine Industry, which is very relevant to Santa Rosa MSA economy.



For Santa Rosa, six clusters were identified as “**targets of opportunity**” for retention, expansion and new innovation.

- ❖ Wineries & Related Ag
- ❖ Hospitality
- ❖ Health Care
- ❖ Specialty & Advanced Manufacturing
- ❖ Telecom/ISP
- ❖ Biomedical/Medical Devices

These clusters play a significant role in Santa Rosa’s economy and future growth as an economic center for the North Bay.

The chart below describes the clusters position in the economy, its size (both relative to employment, earning and future growth) and related strategies to support the clusters viability and growth.

| CLUSTER TARGETS OF OPPORTUNITY | | | |
|---|------------------------------|---------------------------|---|
| CLUSTER GROUP | CLUSTER TYPE | CLUSTER SIZE | <i>Strategies supporting clusters²</i> |
| Wineries & Related Ag Hospitality | Established & Mature | Large | <i>Retain, Expand & Innovation</i> |
| Health Care | Support | Large | <i>Expand</i> |
| Specialty & Advanced Manufacturing | Value-Added, <u>Emerging</u> | Small, growth opportunity | <i>Entrepreneur & Innovation Network</i> |
| Telecom/ISP | Growth Companies | | <i>Manufacturing Competitiveness</i> |
| Biomedical/Medical Devices | | | |

6) Public Input

Input from community members, stakeholders and external audiences was compiled which validating findings. However, also during this phase of the project, both local stakeholders and external audiences repeatedly expressed a number of *PERCEPTIONS*. These perceptions, mainly regarding Santa Rosa’s business climate and city corporate culture, were reviewed and noted that action was being taken but not widely communicated to the public. Further actions were integrated into strategy recommendations in Section II - Strategic Action Plan.

² The Strategic Action Plan recommends three Action Initiatives detailing sub-strategies and tactics for implementing an innovative economic development platform.

IV. Strategic Initiative Platform

Each community is unique in its ability to grow and foster businesses. The existing industry base, community assets, attitude of government, available workforce and regulatory climate are a few of the factors that combine to create the environment for economic development.

Three strategic initiatives are recommended as a platform for the City’s Economic Development program:

- Retaining and expanding existing and emerging “clusters” of businesses that will sustain and grow the economy,
- Focusing on creating a niche for entrepreneurship and innovation,
- Creating a positive business climate with collaboration between the private and public sectors;

Economic Development Recommended Platform



Strategies & Sub-Strategies

Section II of this report, **Strategic Action Plan**, details the strategies, sub-strategies and tactics for implementing the proposed economic development platform for the City of Santa Rosa. The following charts provide an overview of the goal and sub-strategy for each initiative.

| I. Existing & Emerging Cluster Development | |
|---|---|
| Goal | Create a Business Outreach Program that is 1) targeted to existing and emerging clusters, 2) focused on retaining and expanding these clusters, 3) supported with tools, resources and services that businesses can utilize to assist them to remain competitive in the global marketplace and 4) sends a clear message that Santa Rosa is the North Bay's premier location for technology and entrepreneurial businesses. |
| Sub-Strategies | <ul style="list-style-type: none">1.1 Business Outreach & Resource Team and Program1.2 Economic Development Tool Box1.3 Strengthen Manufacturing Competitiveness1.4 Diverse Housing Opportunities1.5 Physical Infrastructure Improvements |
| II. Innovation & Entrepreneurial Development | |
| Goal | Develop and strengthen locational assets and business assistance programs that support innovation, create an entrepreneurial business climate that promotes Santa Rosa has the North Bay's premier location for technology and entrepreneurial businesses. |
| Sub-Strategies | <ul style="list-style-type: none">2.1 Access to Innovation & Entrepreneur Tools & Resources2.2 Downtown "A Sense of Place" - <i>urban live-work-play environment</i>2.3 Business – Education – Workforce Development Partnerships2.4 Supporting Population Diversity |
| III. Business Climate, Culture & Communication | |
| Goal | Initiate actions and communicate to business a City corporate culture and business climate that is oriented and supportive of global business values, such as, speed-to-market driven, flexible, innovative, and productivity - and recognizing the value business brings to the City of Santa Rosa. |
| Sub-Strategies | <ul style="list-style-type: none">3.1 City Corporate Culture3.2 Business Climate3.3 Communication Strategy |

V. Next Steps

Before implementation of the action plan can begin there are several Council-initiated actions that should occur:



VI. Public-Private Collaboration

While this Phase II, Economic Development Strategy has been initiated by the City of Santa Rosa, responsibility for the City's future economic vitality requires a commitment from all stakeholders in the community—businesses, residents, government, education, community-based groups and public agencies—to ensure the community has a strong foundation with which to sustain Santa Rosa's future economic vitality.

