

CITY OF CAPITOLA ECONOMIC DEVELOPMENT STRATEGIC PLAN

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**Prepared for
City of Capitola**

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INTRODUCTION AND SUMMARY

INTRODUCTION AND PURPOSE OF THE PLAN

This document seeks to place the important issues regarding community economic development within a broad framework for the City of Capitola. While many people view economic development as a set of policies and procedures to attract business to a community, this document views economic development in a broad light that underscores the city's economic energies as one of several important aspects of an overall community feel and image. The underlying belief of this Economic Development Strategy is that the local economy interlinks with many other aspects of a community, including housing, transportation, recreation and safety. To the extent that the local economy is consciously guided by the community, strategies which aid economic forces to develop and remain vibrant assists the entire town-residents, visitors and businesses alike.

While many economic forces are outside the realm of local control, using economic development as a defined local strategy provides the opportunity for the community to choose to emphasize or deemphasize particular economic forces in order to present a community character that is comfortable and reflective of its vision. There is no one economic development strategy that works for all or even most communities. Each community requires a unique economic development strategy responsive to its values, vision, and goals.

The City of Capitola is a dynamic coastal town which faces a unique set of economic issues. For more than two decades, the City, with a current population of about 10,000, has been the regional retail center for the county of Santa Cruz, as well as a tourist community. During this period the City government benefited from a sales tax revenue stream that allowed it to provide good services to its residents, and to welcome tourist visitors, whose total population during the summer months is more than three times the number of its residents.

However, the nature of the city and county economy has changed over the years and the regional retail impact of Capitola's economy is diminishing. With the development of economic centers in other parts of the county, Capitola's regional share of the retail market has lost some of its strength. In addition, local businesses face a variety of issues which over time have impacted their economic viability. Due to its beachfront location and proximity to the San Jose/San Francisco Bay Area, Capitola has high real estate costs and rents. Businesses face significant traffic congestion, lack of parking, and a scarcity of vacant developable land. Significant seasonal variations, due to portions of the local economy's dependence on beach-related activities, result in frequent turnover of tourist-dependent small businesses. Also, the nature of the retail market has changed significantly. "Power center" developments anchored by large-scale big box retail stores

have assumed a commanding presence in various retail markets, including Santa Cruz County. Major portions of the County's retail dollars are being spent at big box stores such as Costco, Target, and Home Depot, stores not located in the City of Capitola.

The Economic Development Strategic Plan (EDSP) is coming forth as a vital time in Capitola's history. The City currently faces a rapidly changing national and regional economic climate, which has already shifted the City's economic vitality. However, within this changing economy lie many as yet untapped advantages and possibilities. New evolving markets and national economic trends actually hold a number of new avenues to continued economic health and vitality. In addition, a number of undeveloped property sites within the City hold the potential for a number of new directions that the City could consider.

The goal of this EDSP, which was funded in part by the State of California Community Development Block Grant Program (CDBG) and the Pacific Gas and Electric Company (PG&E), is to provide a forum for the City to develop near-term and long-term economic development strategies that address these business constraints and the changing nature of the local and regional economy. The goal as well is to develop a strategy that will encourage the retention and invigoration of existing businesses and the attraction of new businesses and employers to the area. The report profiles the City's economic base, including retail and tourism, and identifies the City's economic opportunities and constraints. Based on the market opportunities identified in the analysis, the report estimates the job development potential for the Target Income Group in Capitola. Finally, this document also provides a basis for an Economic Element in the upcoming General Plan Update for Capitola.

EDSP PROCESS

This Economic Development Strategy has been prepared by consulting firm Applied Development Economics (ADE), with the assistance of City staff where needed. In addition, the consultants met on four occasions with the Economic Development Committee of the Capitola/Soquel Chamber of Commerce in order to report findings and results as the study progressed and to invite input and comment. The consultants also briefed the City Council on the study's progress at its meeting on July 27, 2006, and again to report on the ED Strategy as a whole.

The EDSP process began with data collection and analysis of the local and regional economy, retail market, and local demographics. The consultants collected and reviewed a wide variety of data, including the U.S. Census, California Employment Development Division, California Association of Realtors, Bureau of Economic Analysis, Bureau of Labor Statistics, State Board of Equalization, local retail sales tax data, and other sources. In addition, the consultants performed a Lodging Market analysis and reviewed visitor data counts from a variety of sources. To the extent possible, Capitola demographic, retail and lodging information was compared to the other cities within Santa Cruz County as well as other similar California coastal towns.

In addition to data collection and analysis, the consultants conducted personal interviews with a wide range of business and community leaders in Capitola, including local residents, small and large business owners, property owners, and local property managers. These interviews helped to fill in the economic data with important local opinions and points of view.

SUMMARY OF ISSUES

EVOLVING RETAIL MARKET

Capitola Village, with its quaint shops and streets, the proximity of the beach, the wharf and the Soquel River, provides the image that visitors and residents alike most closely associate with Capitola. However, the economic engine for the City is situated along the 41st Avenue corridor, where the Capitola Mall, the Brown Ranch shopping center, the auto dealers and various other major retail outlets generate more than 80 percent of the City's retail sales.

Although Capitola has been a strong regional retail center since the late-1970s, for the past five years, these sales have been flat, and have actually lost ground due to inflation during this time. There is a concern that Capitola's retail base needs to better position itself to meet changing retail market conditions, and that regional competition has taken a toll on retail transactions within the City.

CHANGING DEMOGRAPHICS

The market area demographics in both the City and the County have gone more upscale as household incomes and housing prices have grown. This also tends to increase the average age of the population, which changes market tastes toward more upscale retail demands.

LODGING AND TOURISM

Capitola historically has served as a popular visitor destination for both domestic and international tourists. The domestic visitor market traditionally comes from Central Valley, as well as the Santa Clara Valley, and is generally composed of younger families with children. The City also enjoys a steady European visitor contingent as well.

The City has relatively few lodging facilities, however, and tends to attract mainly day visitors. The regional lodging market has only recently recovered from the market downturn that began in 2001, with the higher-priced hotels faring slightly better than the overall market. Business in Capitola Village tends to be extremely seasonal, as well. Strong efforts are needed to maintain consumer interest in the village area during the winter months.

LABOR FORCE AND JOB DIVERSIFICATION

In terms of the local labor force, the City benefits from its proximity to the University of California, as well as a nearby job training program at Cabrillo Community College. This relatively low cost, but highly educated workforce fills many niches in the City retail and visitor-serving economic base. However, the rising housing prices make it increasingly difficult to recruit and retain more highly skilled and experienced workers in a number of trade occupations. In addition, the job growth in Capitola and Santa Cruz County has been stagnant since the early-1990s.

Conversely, though, as more early retirees settle in Capitola, entrepreneurial interest in starting new businesses and professions in town has increased, creating job demand from non-retail business spaces in the community. At a countywide level, the strongest performing industries have generally been in visitor-serving and health care-related sectors.

OPPORTUNITIES AND CONSTRAINTS

MARKET OPPORTUNITIES

- The overall retail market has moved upscale in recent years. Capitola's retail assets such as Capitola Mall can adapt to these changes to the retail market, while surrounding communities are not in the same advantageous position as Capitola.
- Increased mixed use development that integrates housing together with other uses would help augment the City's retail base to add a "lifestyle" component targeted to more upscale shoppers. Lifestyle centers incorporate more upscale stores with entertainment uses and an attractive, walkable design.
- Industries oriented towards retirees have grown regionally and are well positioned to serve the needs of an aging population.
- The region's visitor-serving industries have had high levels of growth in recent years.
- Hotel development would help improve the experience for Capitola's traditional visitor base while also serving upper scale market segments.
- New hotels would also increase retail sales from visitors in the Village. In addition, diversifying the lodging segments that Capitola serves would also help attract visitors from the business/conference market, which tends to be less seasonal than the existing tourist base.
- Capitola has a strong base of primarily small businesses, which potentially presents opportunities for business expansion and local entrepreneurship.

- The region's strong arts and culture presence, and high quality of life make the area very attractive to the "creative class."
- High degree of environmental awareness in Santa Cruz County and opportunities exist for small business development serving market for energy efficiency, global warming solutions, health and fitness, art and cultural products and services.

CONSTRAINTS TO ECONOMIC DEVELOPMENT

- Capitola Village faces challenges with parking, access, and rising real estate costs for independent businesses.
- Land supply in Capitola is very limited, so new development is primarily infill.
- Lack of parking constrains development in the village of uses that require additional parking.
- Transportation access, both regionally and within Capitola are frequently cited as major constraints to business operations and growth.
- The community has a small labor force that has shown limited growth in recent years. Workers in Capitola, particularly for non-professional positions, have to commute in from elsewhere.
- Major retail assets along 41st Avenue such as Capitola Mall and the auto mall have lost market share in recent years, and need to stay competitive.
- Santa Cruz County's overall employment base has stayed relatively stagnant since 1992, despite recent growth in housing prices and income levels.
- Parking solutions for the Village and 41st Avenue carry associated costs and impacts, especially since available parking sites are limited.

STRATEGIC GOALS AND ACTION PLAN

INTRODUCTION

This section outlines the strategic goals and implementation approaches that address the issues that impact upon economic development in Capitola. These goals and strategies address the following major topics:

- Community-wide Issues
- Retail
- Visitor-serving
- Job Diversification
- Area-specific Issues:
 - 41st Avenue
 - Capitola Village
 - Upper Village
 - Industrial Areas

In developing strategic goals for Capitola, it is necessary to look at economic development from a variety of perspectives. First, the goals need to address the existing Capitola economy. This includes both market opportunities and finding ways of building from and enhancing existing strengths within Capitola's business base and labor force.

Next, the goals need to address issues specific to geographic districts within Capitola. Even though many economic development issues affect businesses throughout the city, the unique character of the individual districts within Capitola also carry their own special sets of economic development challenges and opportunities.

COMMUNITY GOALS

COMMUNITY GOAL 1: KEEP ECONOMIC DEVELOPMENT REFLECTIVE OF THE CHARACTER, SCALE AND HISTORY OF CAPITOLA

Capitola has an active citizenry that maintains a high level of participation in development issues. Because new development would entail reusing existing properties, this activity would have to be appropriate to the surrounding neighborhoods and business districts. In addition, the types of uses that the City chooses to attract should

fit in with the type of activity that a broad cross-section of residents regard as appropriate to their community.

IMPLEMENTATION ACTIONS

- Maintain openness in public processes.
- Pursue opportunities with mixed use development (combining housing with other uses) but ensure that the scale of this development is appropriate for Capitola.
- Explore opportunities with environmentally friendly businesses, such as those offering green building materials and energy-efficient products.
- Include independent entrepreneurs in business retention and attraction efforts.

COMMUNITY GOAL 2: INITIATE A CITY OUTREACH EFFORT WITH LOCAL BUSINESSES AS PART OF BUSINESS ASSISTANCE AND RETENTION PROGRAM

Outreach efforts should focus on how the City can better serve the needs of businesses, and identify business climate issues that impact on whether a business chooses to stay and expand in Capitola.

This goal also entails attaining increased familiarity with the business community, particularly by identifying those businesses that are most responsible for generating jobs and sales tax revenue in Capitola. In order to take a customer service-oriented approach to economic development, the City needs to first identify who the “best customers” are in a variety of different industry groups.

In conjunction with identifying the “best customers,” an outreach program provides the informational base and relationship with the business community necessary to engage in business retention.

IMPLEMENTATION APPROACHES

- Initiate a Business Retention and Expansion (BRE) program that targets the business sectors and specific businesses that provide the base for Capitola’s jobs and tax revenues. Use the sales tax data and regional employment data to identify these targets.
- Maintain ongoing communication with prominent businesses, and identify businesses with potential expansion plans.

COMMUNITY GOAL 3: MAINTAIN A PROACTIVE APPROACH TO ADDRESSING THE NEEDS OF BUSINESSES THAT MIGHT BE LOOKING TO RELOCATE OUT OF CAPITOLA

Through the outreach process (as described in Community Goal 2) and a proactive approach to business retention, Capitola can potentially address any issues that might affect a business' ability to compete and remain viable in the city. As with the outreach process, the priority given for the mobilization of City resources might depend on the business' role in the local economy.

IMPLEMENTATION APPROACHES

- Use the outreach process as a communication tool to better understand local businesses (i.e., the “customer,”) as this understanding can create a competitive advantage for Capitola.
- Proactively address issues identified through the outreach process.

COMMUNITY GOAL 4: DEDICATE STAFF RESOURCES TO TRACKING MARKET TRENDS

This goal entails using City staff resources to monitor the market conditions and sales trends for existing and new retail businesses. This would help appropriate the necessary resources to those businesses that would benefit the most from additional assistance. This function could also include keeping track of business space vacancies and matching those leads up with businesses that might be looking to relocate into a larger or smaller space, or just move to a different location. In addition, the staff resources would go towards tracking employment trends.

IMPLEMENTATION ACTIONS

- Continue ongoing efforts by City staff to track market trends, and assign additional resources to track additional market trends as needed. Small cities often devote a part-time position (0.5 full-time equivalent [FTE]) to these tasks. This would include tracking the sales tax trends from district to district, and keeping tabs on any new commercial or industrial construction activity occurring in adjacent communities.
- Contact the EDD Labor Market Information Division and request the city level CEW (ES202) employment database on an annual basis. This confidential data can only be requested by the City, and can be used to track employment trends by industry.
- Keep close contact with land and building owners to maintain an updated inventory of available spaces and parcels.

- Monitor regional retail activities, with a particular emphasis on new large-scale retail centers that would potentially compete with Capitola, including developments in Santa Clara and Monterey counties.

RETAIL GOALS

RETAIL GOAL 1: BUILD ON CURRENT ECONOMIC STRENGTHS AND SUPPORT EFFORTS BY EXISTING RETAIL CENTER OPERATORS TO KEEP THEIR PROPERTIES COMPETITIVE

Even though the retail market constantly evolves to keep up with the spending habits and preferences of shoppers, Capitola has a base of existing retail centers that continue to serve local residents, residents of surrounding communities, and visitors. Even though some centers such as Brown Ranch Marketplace are relatively new and successfully address current market trends, other centers have not undergone any recent renovations, and at some point will need to be improved in order to remain viable. In addition, some of the existing retail centers whose tenants primarily serve local shopping needs are supported to a large extent by Capitola residents, and efforts to attract new retail spending should work in conjunction with support for efforts to improve local-serving shopping centers.

IMPLEMENTATION APPROACHES

- Identify and promote potential funding sources that property owners and retailers can use to improve their businesses and properties. These sources can include a combination of public and private sector programs, such as loans and grants, as well as potential contributions from City sources.
- Identify areas in the development approval process that can be feasibly streamlined in cases where retail operators are seeking to renovate or otherwise modernize their properties.

RETAIL GOAL 2: EXPAND THE RETAIL BASE TO TAKE ADVANTAGE OF NEW AND DEVELOPING DEMOGRAPHICS AND MARKET TRENDS

At a regional and national level, the population has undergone a steady aging trend, as the large baby boomer demographic group moves into an “empty nester” stage in which they are no longer raising children under the same roof. Also, the household base in Santa Cruz County has increasingly become connected to the affluent Bay Area economy. In addition to the lifestyle uses mentioned previously, higher end retail can also entail renovating other existing retail centers, and attracting a different mix of stores into shopping districts such as the Village.

IMPLEMENTATION APPROACHES

- Support any efforts by existing retail center operators to attract more upscale shopping opportunities, and complement those efforts where applicable with active participation by the City.
- Explore other options that might be available for higher end retail opportunities in the Village and along the 41st Avenue corridor.

RETAIL GOAL 3: MAXIMIZE NON-RETAIL TAXABLE SALES REVENUE TO MAKE UP FOR POTENTIAL SHORTFALLS IN RETAIL TAXABLE SALES

The City of Capitola receives taxable sales revenue primarily from retail stores. However, the City also receives sales tax revenue from other types of non-retail businesses. These non-retail point-of-sale transactions can occur in a wide range of contexts such as manufacturing or service operations that sell direct to consumers, leasing operations, service providers such as interior designers that order products for off-site delivery, and capital equipment purchases. Capitola's declining regional market share has direct fiscal implications on the City's finances. Growing these non-retail businesses that generate sales tax revenue can help to offset any declines in sales tax revenue. The residential remodeling firms and building materials distributors previously mentioned as "green" businesses (Community Goal 1) would also potentially generate significant taxable sales as a point-of-sale.

The economic base analysis conducted for this study identified many growing industries in the region can potentially generate taxable sales for Capitola if they produce point-of-sale transactions. These industries include rental and leasing services, professional and technical services, administrative and support services, amusements/recreation, and repair and maintenance services. These industries would be more beneficial targets of a business attraction program than non-retail businesses that do not generate taxable sales.

In addition to business attraction, Capitola can also make sure that existing businesses (including home-based businesses) in Capitola properly identify the point-of-sale for any taxable transactions.

IMPLEMENTATION APPROACHES

- Coordinate with business outreach efforts to ensure that businesses in Capitola designate the city as their point-of-sale
- Identify the point-of-sale potential during business attraction inquiries

VISITOR-SERVING GOALS

VISITOR-SERVING GOAL 1: MAINTAIN CAPITOLA’S APPEAL TO ITS EXISTING TOURIST BASE

In conjunction with efforts to take advantage of opportunities with higher end tourist markets, Capitola should ensure that these opportunities do not displace existing tourists. Capitola is a well recognized visitor destination, and any potential changes to the visitor experience should recognize the reasons why visitors have historically come to Capitola. The elements that make Capitola a desirable place to visit should remain in place, as efforts to broaden its appeal as a visitor destination move forward.

IMPLEMENTATION APPROACHES

- Identify the most viable visitor attractions in Capitola and ensure that they remain viable.
- Work with the Santa Cruz Conference and Visitor Council to identify factors leading to repeat visits to Capitola, and use this information to prioritize marketing efforts.

VISITOR-SERVING GOAL 2: EXPAND OPPORTUNITIES TO ATTRACT A BROADER RANGE OF VISITORS

Capitola has a strong opportunity to expand the visitors and tourists it attracts. The most prominent shortcoming in Capitola’s visitor-serving market is the relatively limited number of hotel sites in Capitola, and rooms serving the higher end markets in particular. The higher priced hotel market has outperformed the rest of the lodging market in Santa Cruz County. Currently, the County does not have any modern “boutique” hotels, and that would constitute an attractive target market for Capitola because these types of hotels tend to attract upscale customers and do not require large tracts of land.

Capitola’s appeal as a waterfront destination contributes to the seasonality of its tourism base. In general, the regional tourism base primarily attracts leisure travel, rather than business travel. Attracting business travelers is important to developing Capitola into more of a year-round destination. In addition, the business market is built around meeting and conference spaces. For example, the hotels in Monterey County greatly benefit from the conference and business trade, and maintain a consistently higher occupancy rate than Santa Cruz County, particularly in the fall and spring seasons.

Even though Capitola might not have sufficient land to attract a large-scale business hotel, Santa Cruz has existing business-oriented hotels with some proposed renovations. If the business market can more fully develop in Santa Cruz, then Capitola can serve as a secondary option for travelers that might want a different type of lodging, particularly if some higher end rooms are developed in Capitola.

IMPLEMENTATION APPROACHES

- Direct lodging attraction efforts towards small-scale “boutique” hotels for Capitola’s more naturally scenic sites.
- For other undeveloped or underdeveloped sites, direct lodging attraction efforts towards excellent family-oriented hotels, integrating business-oriented amenities such as meeting spaces.
- Actively work with the Santa Cruz Conference and Visitor Council to further develop Capitola’s role as a tourist destination, and to market Capitola as an alternate lodging destination for conference attendees in Santa Cruz.

LABOR MARKET EXPANSION GOALS

LABOR MARKET GOAL 1: USE A TARGETED APPROACH TO BUSINESS ATTRACTION

A targeted approach to business attraction would focus on a specific message for a specific audience. For the purposes of business attraction, this message can differentiate based on the type of industry. For example, the marketing message for regional retail stores will differ from the message that the City might present to professional service businesses because a retail store will likely see more benefit to Capitola’s household shopping and income patterns, whereas a professional service business will see Capitola’s connections to Silicon Valley and its quality of life. This targeted approach would also entail producing separate marketing packages that depend on the type of business prospect.

As noted above (Community Goal 1 and Retail Goal 3), one particular area that Capitola can focus its business attraction effort is with emerging “green” industries. These types of businesses include energy efficiency firms, “green” building materials distributors, and residential remodeling businesses that focus on sustainable construction approaches and materials. This sector would also include environmental businesses, including non-profit organizations. These businesses would need professional office space.

IMPLEMENTATION APPROACHES

- Develop targeted marketing materials and messages for specific business types.
- Specifically target “green businesses” in the local region that might be looking for new business space.
- Promote development of professional office spaces, and target environmentally-oriented businesses, including non-profit organizations.

- Ensure that contacts with the City and inquiries for business space maintain a consistent marketing message and that inquiries are appropriately directed.

LABOR MARKET GOAL 2: LEVERAGE ATTRACTIVENESS OF CAPITOLA TO YOUNG “CREATIVE CLASS” ENTREPRENEURS AND PROFESSIONALS

With the decline of the manufacturing sector across the country, cities have increasingly repositioned their communities for a service and technology-driven economy. Increasingly, communities are using quality-of-life considerations and planning for dynamic neighborhoods as an economic development strategy, all in an effort to attract the so-called “creative class.”¹ As popularized in the writing of Richard Florida, these are typically young professionals in their early-20s to mid-30s who work in a variety of “creative” fields such as architecture, performing arts, and design. This view of economic growth is built around the “3 T’s – technology, talent, and tolerance” with communities that embrace creativity and openness best positioned to capitalize on this. Attracting the creative class not only builds a dynamic labor force for existing businesses, but it also creates great potential for entrepreneurship.

Capitola is well situated to benefit from this trend because of its natural scenic beauty, high quality of life, and proximity to arts and cultural events in Santa Cruz. Capitola can attract and benefit from the creative class by encouraging unique business spaces, and mixed use development. In particular, a vision of Capitola as a place for “green” businesses and innovations built around sustainable environmental practices would be of great interest to the creative class.

With Capitola’s limited supply of vacant land, nearly all new development in the community entails infill development on parcels with existing uses. Because of this limited land supply, Capitola should look to additional mixed-use development. Mixed-use projects have already been built along 41st Avenue, with new developments proposed. These mixed-use projects can potentially transform those blocks along 41st Avenue into pedestrian-oriented areas.

IMPLEMENTATION ACTIONS

- Encourage mixed use development in targeted areas, and ensure that the land use designations are amenable to mixed use.
- Identify potential pilot projects designed around a vision of Capitola as a center for “green” industries, and pursue any grants that are available for these types of activities.
- Incorporate young professionals and entrepreneurs into any overall marketing message for the City of Capitola

¹ This term was popularized by *The Rise of the Creative Class*, which was written by Richard Florida in 2002.

LABOR MARKET GOAL 3: IDENTIFY INDEPENDENT ENTREPRENEURS WHO WANT TO TRANSITION INTO A STOREFRONT OPERATION

In addition to retail and certain non-retail businesses, the City of Capitola also derives taxable revenue from home-based businesses. Some of these home-based businesses might grow to a point that an individual entrepreneur will need to add staff and open a new business location. The City can maintain communication with these home-based entrepreneurs, and identify the ones that would like to eventually expand into a storefront operation. This type of outreach also helps to keep these business owners, and their sales tax revenue, within Capitola.

IMPLEMENTATION APPROACHES

- Ensure that contacts with the City and inquiries for business space are directed to the appropriate contact person.
- Use the sales tax database to identify those home-based businesses that generate significant revenue, and take a proactive approach to offering assistance and identifying resources for business expansion.

AREA-SPECIFIC GOALS: 41ST AVENUE

41ST AVENUE GOAL 1: ADDRESS EXISTING BUSINESS CLIMATE ISSUES ALONG 41ST AVENUE

As shown in the retail market analysis, businesses located along the 41st Avenue corridor generate over 75 percent of Capitola's sales tax revenue. Moreover, these businesses attract significant retail spending from outside of Capitola, and provide the community with a broadly diverse range of retail offerings that a community of Capitola's size could not otherwise support with local household spending alone.

Despite this regional strength, the retail establishments along 41st Avenue have shown stagnant revenue growth in recent years. Moreover, there is an underlying perception by some local businesses that business climate issues along 41st Avenue do not attract as much attention from the City as other parts of Capitola such as the Village. Despite the importance of the corridor, the competition that it currently faces from newly developed regional centers elsewhere in Santa Cruz County, and the concentration of businesses in the area, Capitola does not currently have a business group that focuses on 41st Avenue. Having an organizational presence for 41st Avenue businesses would call attention to business climate issues that directly affect the area, and serve as a valuable source of input for any future planning efforts.

Some of the other business climate issues facing 41st Avenue include the following:

- Traffic congestion
- Dated physical appearance/design

- Regional retail competition
- Limited expansion space
- Evolving retail trends away from existing 41st Avenue retail offerings and configurations

Even with these limiting factors, 41st Avenue remains a significant resource for Capitola that can serve as a starting point for future business/retail growth. The future viability of 41st Avenue depends on taking advantage of the regional growth opportunities. Some of these opportunities include the following:

- Higher-end retail uses
- Housing/mixed-use development
- Office development

IMPLEMENTATION APPROACHES

- Convene a business group -- inclusive of business owners, property owners, and other local stakeholders -- that specifically addresses 41st Avenue.
- Explore transportation improvement options.
- Identify planning initiatives that would encourage mixed use development strategies appropriate for the area.
- Create a Specific Plan for 41st Avenue corridor that addresses the distribution of land uses, mixed-use parcels, transportation alternatives, and urban design.

41ST AVENUE GOAL 2: MAINTAIN THE ECONOMIC VIABILITY OF 41ST AVENUE RETAIL CENTERS

For the short-term, the 41st Avenue corridor needs to keep its existing retail centers relevant as the retail market continues to evolve. During the past 15 years, retail trends evolved quickly, and this has affected Capitola with much of the retail market evolving away from mall-based retailing and more towards “big box” oriented power center developments during the 1990s. Power centers have not been developed in Capitola. Only recently has Santa Cruz and Watsonville begun to develop their own power center uses, and these developments will likely continue to divert shopping trips away from Capitola.

The City needs to recognize potential vulnerabilities within its existing retail centers, and be prepared to proactively address market opportunities. In addition to Capitola Mall, the 41st Avenue corridor also has local-serving shopping centers primarily catering to Capitola residents that were mostly developed more than 20 years ago.

The current trend in retailing is the move towards upscale “lifestyle” centers that place emphasis on architectural amenities, outdoor walkable spaces, and more upscale shopping opportunities mixed with entertainment. Across the country, these types of elements have been incorporated into existing shopping malls or used to radically reconfigure an existing shopping center.

IMPLEMENTATION APPROACHES

- Focus retail attraction efforts on elevating the overall retail niche along 41st Avenue.
- Identify resources that can be used to assist retail center operators that want to improve their property, such as the State of California Community Development Block Grant (CDBG) Economic Development Program.

41ST AVENUE GOAL 3: LEVERAGE EXISTING STRENGTH WITH CAPITOLA MALL

Capitola Mall represents one of the community’s most important economic resources. Even though the mall has shown relatively flat sales trends in recent years, its stores continue to attract substantial numbers of shoppers from outside of Capitola. Moreover, the mall is a major commercial asset that cannot be readily replicated by any surrounding communities.

In addition to keeping the mall relevant and viable as national retail trends and the regional shopper base evolve, Capitola Mall’s role as an economic development asset should be further explored in other areas because of its potential engine for future growth opportunities. For example, parking structures can free up land area currently used for parking for conversion into other uses. These spaces can potentially be used for new retail and/or entertainment uses, as well as mixed use development along the 41st Avenue corridor.

Another area of economic benefit that can be leveraged by Capitola Mall is with the visitor-serving market. A considerable number of visitors already shop at Capitola Mall, and an approach to lessen the parking problems with the Village could entail using the mall as a shuttle stop for beach visitors. This would also raise the regional profile of the mall, and potentially steer additional tourism spending towards the center.

In addition, the mall itself represents an opportunity for reinvention, in a manner similar to other enclosed malls throughout the country that have repositioned themselves into a variety of different configurations. Some malls have incorporated power center anchors, such as discount stores and other big box retail stores that have traditionally shunned or have been shunned by regional malls. Others have begun to add “lifestyle” wings that integrate new entertainment and upscale retail stores and restaurants to go along with newer design amenities. In addition, other recent lifestyle center developments such as the Paseo Colorado in Pasadena and Santana Row in San Jose have added housing as a way of reinventing a more traditional shopping center into

a use that better serves the current retail market. The lifestyle center concept is one of several opportunities available to Capitola Mall if it pursues expansion.

IMPLEMENTATION APPROACHES

- Work with mall management to identify areas where City actions can strengthen long-term competitiveness of Capitola Mall
- Consider alternative uses for existing buildings and/or land area that will enhance the economic viability of the area.
- Work with mall management to encourage and support efforts by Capitola Mall to expand and reposition the existing mall and surrounding spaces.
- Explore reuse options for the mall and its land assets, as these represent the most attractive opportunity for new development and renovation.
- Continue to emphasize the mall as a transportation hub, and explore options for linking the mall with the Village.
- Emphasize potential opportunities with lifestyle center uses in addition to other current approaches in retail.
- Identify possible funding sources which the Capitola Mall can use to assist with re-use options, such as the State of California CDBG Economic Development Program.

41ST AVENUE GOAL 4: ENHANCE THE AUTO MALL BY TAKING FULL ADVANTAGE OF MARKET OPPORTUNITIES AND ADDRESSING ANY COMPETITIVENESS LIABILITIES

Auto dealerships represent one of Capitola's primary retail strengths and an area of focus for business retention. The primary concern with the Capitola Auto Mall is a lack of space to accommodate larger sales volumes. One dealership has considered moving one of its brands into a new facility outside Capitola due to the lack of space on the existing lot.

These space constraints represent the biggest threat to maintaining the competitiveness of the Capitola Auto Mall. Several potential approaches can relieve the crowded conditions at the existing facilities. One approach taken by dealerships at other auto malls is to construct parking structures and more vertically build the support facilities. Thus far, dealerships in Capitola have not done any vertical expansions of their facilities.

In addition, some other dealership activities such as car storage, preparation, repair, and body work can be moved off-site. Identifying new sites for these types of activities can help the existing dealerships maintain their competitive advantage. For example, the

City of Cerritos acquired otherwise undevelopable utility right-of-way space and leased these areas to its auto dealerships for car storage. Because of the high sales volumes represented by auto dealerships, any business outreach and retention efforts need to place a high priority on these businesses.

IMPLEMENTATION APPROACHES

- Support expansion efforts by existing dealerships, and identify potential City role for assisting in these efforts, including redevelopment agency activities.
- Identify sites for relocating existing non-sales functions with existing dealerships, including sites that might be otherwise constrained for other types of development.
- Include the Auto Mall with any business outreach efforts and proactively maintain contact with the dealerships regarding operations and expansion plans.
- Identify possible funding sources which for 41st Avenue underdeveloped or transition sites that can be used to assist with reuse options, such as the State of California CDBG Economic Development "Over-the-Counter" Program.

41ST AVENUE GOAL 5: IDENTIFY LONG-TERM OPTIONS FOR UNDERDEVELOPED AND OTHER TRANSITIONAL SITES

41st Avenue has numerous commercial sites that continue to generate significant retail sales, but have not had any major renovation activity in at least 20 years. These centers include the Dharma's shopping center, and the retail center anchored by Longs Drugs and the Albertson's supermarket. Even though these centers continue to attract shoppers, the existing alignments for these centers do not necessarily follow the development prototypes for newer local-serving shopping centers, which generally specify larger anchor stores. In addition, a large-scale Safeway supermarket is currently under construction just outside of Capitola in nearby Soquel. This will present a new competitive challenge to the existing Capitola retail centers along 41st Avenue.

Long-term options need to be identified for these centers. Potential options would include renovation of the existing buildings, or realignment of the retail store mix. Assessment of long-term options would also need to look at the current scale of these retail centers, and whether they can remain competitive in the current alignment or if the anchor spaces require expansion. Long-term options would also potentially include reusing sites for other types of uses such as housing, offices, and/or mixed-use development.

IMPLEMENTATION APPROACHES

- Proactively work with existing shopping center owners to address to identify areas where City can address long-term competitiveness of 41st Avenue retail centers.
- Consider whether expanded anchor store sites are appropriate for 41st Avenue.

- Consider alternative uses for existing buildings and/or land area that will enhance the economic viability of the area.

AREA-SPECIFIC GOALS: CAPITOLA VILLAGE

VILLAGE GOAL 1: ADDRESS PROBLEMS WITH ACCESS TO THE VILLAGE AND PARKING

Capitola Village represents the community's primary visitor attraction, but the intimate scale and the steep terrain that make the Village so visually striking and a pleasant place to visit also constrains vehicular access and parking. Because of Capitola Village's popularity as a visitor attraction, visitors still crowd the area during the peak season and many will walk long distances to access the waterfront. However, these obstacles are also one of the primary reasons that many local residents avoid going to the Village. Perceptions about access and parking in the Village also potentially limit the types of businesses that might want to locate there, even though parking and access are much easier during the off-peak months.

The City has already implemented parking and shuttle programs to help alleviate the parking shortage in the Village. The City currently provides metered parking adjacent to City Hall. This site fills up quickly during the peak season and requires traversing a hill to access the waterfront.

In addition, the City has sponsored a park-and-ride shuttle program from the Upper Village to Capitola Village that operates during the summer. When first implemented, the parking lot for this shuttle service was located close to the Bay Avenue freeway exit. But, the isolated location of this lot led to low ridership, and the number of patrons using the shuttle service has gradually increased since moving the pickup location to a more active area along Bay Avenue.

To date, no parking structures have been built in the Village, and aside from metered surface parking next to the beach, the off-street parking options within the Village remain limited. The City is currently planning to conduct a more comprehensive study of the parking situation in the Village, and identify potential solutions.

IMPLEMENTATION APPROACHES

- Conduct an inventory of existing parking options within Capitola Village.
- Identify potential sites for off-street parking and alternatives for integrating additional parking into new development within the Village.
- Explore options for expansion of the City Hall parking lot, including parking structures and relocation of City functions to make additional space available.
- Explore design options for better integrating the Village with parking areas located outside the Village, such as the City Hall parking lot.

- Work with businesses in the Village to identify valet parking options.
- Identify alternative park-and-ride shuttle routes that include stops along 41st Avenue and the Esplanade.
- Ensure that marketing materials clearly identify the parking and access alternatives for the Village, and identify the off-peak season alternatives.

VILLAGE GOAL 2: MAXIMIZE BENEFITS AND OPPORTUNITIES ASSOCIATED WITH SPECIAL EVENTS IN THE VILLAGE

Special events at Capitola Village attract thousands of visitors every year. Events such as the classic car show and the Wharf-to-Wharf run showcase the Village and its businesses. The City needs to make sure that the promotional value of these events is maximized for local businesses and make the Village a place that people want to visit again. This effort should also make sure that local businesses are fully coordinated with the event logistically.

IMPLEMENTATION APPROACHES

- Consider using a consultant to help businesses in the Village market themselves to event attendees.
- Consider scheduling more events during the off-peak months to promote Capitola as year-round destination.

VILLAGE GOAL 3: ATTRACT MORE VISITORS TO THE VILLAGE DURING OFF-PEAK SEASON AND MORE LOCAL RESIDENTS ALL YEAR-ROUND

The number of visitors to Capitola Village is highly seasonal, with much of the retail activity in the Village following this seasonal pattern. By establishing lodging establishments in Capitola with more business amenities, the Village can potentially benefit from this activity because the business/conference market is not limited to the summer months. In addition, business attraction efforts for the Village should look for more businesses that attract shoppers all year-round. This would include higher end restaurants and stores not necessarily tied to water activities or warm weather. By increasing the diversity of the stores in the Village, this also increases the potential for local residents to shop more often in the Village.

IMPLEMENTATION APPROACHES

- Use focused business attraction efforts with possible incentives to attract higher end and/or year-round businesses into the Village.
- Inventory potential sites that could be used or reused for new retail activity.

- Work with local businesses and the Santa Cruz Conference and Visitor Council to market Capitola Village as a place to visit all-year-round, and look into ways of attracting visitors from less seasonal markets such as business/conferences, weddings, and private groups.
- Schedule any new special events in the off-peak months.

VILLAGE GOAL 4: IDENTIFY LONG-TERM OPTIONS FOR UNDERDEVELOPED AND OTHER TRANSITIONAL SITES

The primary underdeveloped site in Capitola Village is the vacant Capitola Theatre site. Recent discussions have identified this site for a future boutique hotel and spa. Redevelopment of this site into a new hotel would help the Village evolve into more of a year-round destination if this hotel becomes an attraction in its own right by offering amenities and a level of service not currently offered in the Santa Cruz County market. This hotel proposal would also include a stack parking facility, which partly addresses the off-street parking shortage in the Village. Although other uses for the existing theater building can also contribute to the economic vitality of the Village, the lodging option represents an attractive way of addressing an existing market opportunity while also adding to the vitality of the Village.

Another underdeveloped site in the Village is City Hall, which occupies a high visibility location and serves as one of the primary parking locations for visitors to the Village. The City Hall site can potentially serve as a location for expanded parking (including parking structures) or other uses by relocating City Hall functions to a different location. Options for the City Hall site can also include new commercial or office space. Redeveloping the City Hall site also allows for potentially unique design solutions to better integrate the Village with the off-site parking areas.

IMPLEMENTATION APPROACHES

- Continue to work with property owner and developer of Capitola Theatre site to ensure that any proposed development is appropriate to the scale and desired image of the Village.
- Include the Business Improvement Association in any public process that identifies reuse options for underdeveloped sites in the Village.
- Explore reuse options for City Hall, while simultaneously identifying potential locations for relocating City Hall functions.
- Identify design solutions for better integrating the City Hall parking site with the Village.

- Identify possible economic development funding opportunities for City Hall and/or the Capitola Theatre site, such as the State of California CDBG Economic Development "Over-the-Counter" Program.

AREA-SPECIFIC GOALS: UPPER VILLAGE

UPPER VILLAGE GOAL 1: IDENTIFY LONG-TERM OPTIONS FOR UNDERDEVELOPED AND OTHER TRANSITIONAL SITES

The Upper Village has three underdeveloped/transitional sites that could potentially be used to fulfill economic development goals. These sites include the Capitola Inn site, the Redtree property adjacent to the Nob Hill shopping center, and the MacGregor lot.

The Capitola Inn serves as one of the few existing lodging options in Capitola. However, the establishment has not undergone any major renovations recently, while it occupies a relatively low visibility location. Long-term options for the site would potentially include renovation of the lodging facilities, addition of other uses on the site, and/or redevelopment of the site for other uses such as offices or public facilities (i.e., City Hall functions).

The Redtree property along Bay Avenue is currently an underutilized site. A building was constructed on the site to serve as a senior center, but the rest of the site has not been developed. The adjacent Nob Hill Foods location and the supporting retail uses were recently renovated and expanded. Potential options for the Redtree property include additional phasing for the adjacent retail site, alternate uses such as offices or housing, and/or a combination of uses on the site.

The MacGregor site is a vacant lot located adjacent to Highway 1. The site formerly served as the parking area for a seasonal park-and-ride shuttle that took visitors into the Village, but the site also attracted limited ridership due its isolated location. At one point, the site was identified as a potential location for a midmarket hotel. The site remains a good location for a hotel because of its visibility from the highway, and location away from neighboring businesses and residences, which allows for a greater range of activities on-site.

The Rispin Mansion is owned by the City and is currently being developed into a Bed & Breakfast by private developers. The completion of this project could bring a vital synergy to the Upper Village and assist with other important economic revitalization and redevelopment efforts.

IMPLEMENTATION APPROACHES

- Work with business and property owner of Capitola Inn to identify future plans and long-term options for the site, including renovation of existing uses and redevelopment into other uses.

- Work with Redtree Properties to identify long-term options for the Bay Avenue site.
- Revisit use options for the MacGregor site, including lodging.
- Identify possible economic development funding opportunities for Upper Village underdeveloped sites, including the State of California CDBG Economic Development "Over-the-Counter" Program.
- Pursue current plans for a Bed & Breakfast at Rispin Mansion, including an "Over the Counter" Program application with the California CDBG Economic Development Program.

AREA-SPECIFIC GOALS: EXISTING INDUSTRIAL AREA

INDUSTRIAL AREA GOAL 1: UTILIZE ECONOMIC OPPORTUNITIES FOR THE EXISTING INDUSTRIAL AREA

The industrial area located along Kennedy Street is the only area within Capitola that currently has industrial uses. Some of these properties are currently underutilized and could work in conjunction with a coordinated effort to attract more “green” industries to Capitola. In addition, these spaces can be used for small-scale local manufacturing start-up businesses, as well as light industrial shops that might be looking to relocate from other locations within Santa Cruz County.

IMPLEMENTATION APPROACHES

- Promote Kennedy Street as a location for environmentally-friendly industrial businesses.
- Identify individual underutilized parcels best suited for new business development.
- Identify resources that can be used to assist business start-ups and/or relocated light industrial businesses seeking to locate in Capitola

APPENDIX A: REGIONAL BENCHMARKS

This section summarizes some of the socioeconomic characteristics of Capitola and compares them with surrounding communities as well as a sample of coastal comparison cities. Benchmark comparisons provide a means by which Capitola can compare itself with other communities. Most of these measures relate to labor force characteristics and other demographic factors. For economic development planning, these measures indicate whether Capitola has competitive advantages with its labor force. These benchmarks represent some of the more important measures typically used in assessing a community's economic development capacity.

The surrounding communities used in the benchmarks are the other incorporated cities in Santa Cruz County (Santa Cruz, Watsonville, and Scotts Valley). Many residents of these communities are employed at companies located in Capitola and shop at Capitola's retail centers as well. Knowing how they compare to Capitola provides an indicator as to whether those communities potentially contribute to or constrain the growth potential for Capitola businesses.

In addition to the other cities in Santa Cruz County, the benchmark comparisons also included similar coastal communities with large visitor-serving economies. These comparison cities include Half Moon Bay, Monterey, Morro Bay, Pismo Beach, and Watsonville.

1. POPULATION

In 2006, Capitola had a population of just under 10,000 residents. Among neighboring communities, this is most similar to Scotts Valley, which had a population of 11,600. (Figure A-1) Among the coastal comparison communities, Capitola's population is most similar to Morro Bay, while Half Moon Bay, Pismo Beach, and Sausalito also had comparable populations that ranged between about 7,400 and 12,700 residents. (Figure A-2)

ETHNICITY

Capitola's ethnic distribution shows white residents representing more than three-fourths of the population (78 percent), with Hispanics/Latinos representing about 13 percent. (Figure A-3) Neighboring Santa Cruz has similar characteristics with slightly higher Hispanic/Latino representation. This strongly contrasts with Watsonville, where Hispanic/Latino residents make up 76 percent of the population. (Figures A-4 to A-6) The comparable coastal communities generally have a similar ethnic distribution to Capitola. (Figures A-7 to A-11)

AGE

Compared to other communities in Santa Cruz County, Capitola has a generally older population with the lowest proportion of residents under 20 years of age, and the highest proportion of residents over 40 years old. (Figure A-12) However, compared to the other coastal comparison cities, Pismo Beach and Morro Bay have a substantially higher percentage of their population aged 60 or higher. All of these communities have similarly low proportion of residents under 20 years old. (Figure A-13)

2. UNEMPLOYMENT AND POVERTY

Capitola has a relatively low percentage of residents (7.0 percent) living in poverty, compared to Santa Cruz and Watsonville. (Figure A-14) Capitola's poverty rate is also lower than the other coastal comparison cities. (Figure A-15)

With an unemployment rate of 3.2 percent, Capitola has a higher proportion of employed residents than Santa Cruz and Watsonville, and a similar rate with Scotts Valley. (Figure A-16) Capitola's unemployment rate is also similar to the other coastal comparison cities (except Monterey, which has a higher unemployment rate). (Figure A-17)

3. EDUCATIONAL ATTAINMENT

Capitola generally has a lower percentage of residents attaining college degrees than Scotts Valley and Santa Cruz. This contrasts with Watsonville, where less than half of its population has graduated from high school. (Figure A-18) Compared to the other coastal comparison cities, Capitola was generally in the middle with its educational attainment, with Sausalito having by far the highest proportion of college graduates. (Figure A-19)

4. LANGUAGES SPOKEN

About 16.5 percent of Capitola residents speak more than one language at home. This is similar to Santa Cruz and Scotts Valley, but substantially lower than Watsonville where more than half of its residents speak more than one language. (Figure A-20) Capitola's percentage of multilingual residents is also lower than in Half Moon Bay and Monterey, but higher than in Morro Bay and Pismo Beach. (Figure A-21)

5. COMMUTE PATTERNS

Capitola residents generally commute to jobs outside of the city. Capitola's outcommute rate of 80 percent is the highest among Santa Cruz County cities. (Figure A-22) Compared to the other coastal comparison cities, Capitola also had the highest outcommute rate. (Figure A-23)

Generally, Capitola commuters drive their cars to work (86.6 percent), which is similar to the pattern in Scotts Valley and Watsonville. (Figure A-24) Compared to the other coastal comparison cities, Half Moon Bay, Morro Bay, and Pismo Beach residents have similar patterns of commuting by car. (Figure A-25) Among the alternative transportation modes used by commuters, bicycle commuting was the most popular mode for all cities, except for Sausalito where public transportation ranks as the most commonly used alternative transportation mode. (Figures A-26 and A-27)

In addition to commuters, approximately 4.2 percent of Capitola working residents work at home. This is slightly lower than the percentage of Santa Cruz and Scotts Valley residents that work at home. (Figure A-28) Capitola also has a lower percentage of residents working at home compared to all of the coastal comparison cities except for Monterey. (Figure A-29)

6. HOUSEHOLD INCOME

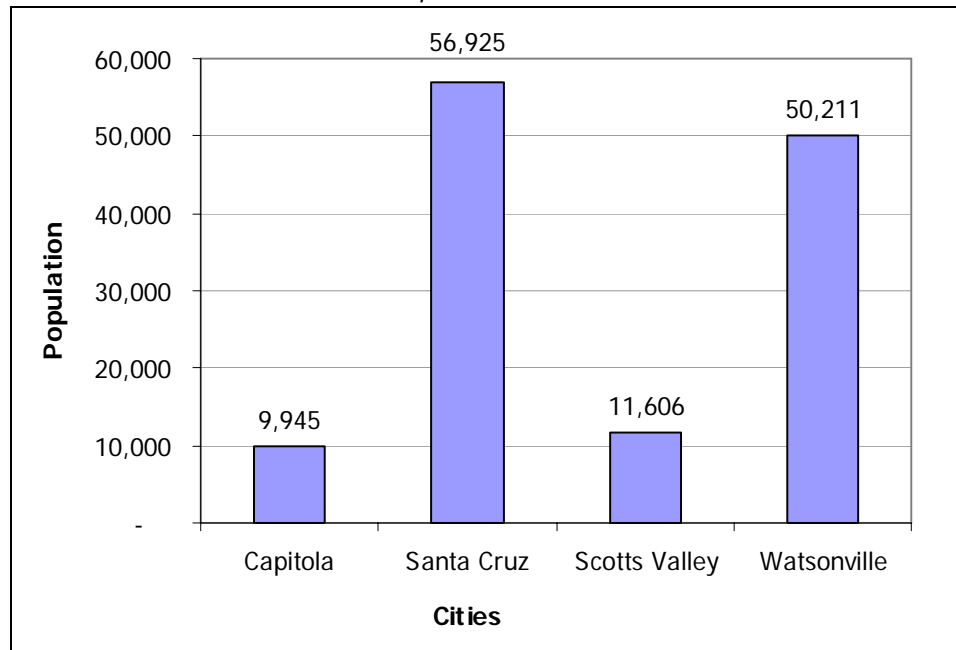
Capitola had a median income of just over \$46,000 in 1999, which was similar to Santa Cruz. (Figure A-30) This median income was also similar to Monterey and Morro Bay. (Figure A-31) Capitola also had a similar income distribution to these communities. (Figures A-32 and A-33)

7. HOUSING AFFORDABILITY

In July 2006, Capitola's median housing price of \$675,000 ranked in the middle for Santa Cruz County, just below Scotts Valley and Santa Cruz, and above Watsonville. (Figure A-34) This is similar to how Capitola compares with the other coastal comparison cities, with Capitola's median housing price above Monterey, Morro Bay, and Pismo Beach; and below Half Moon Bay and Sausalito. (Figure A-35)

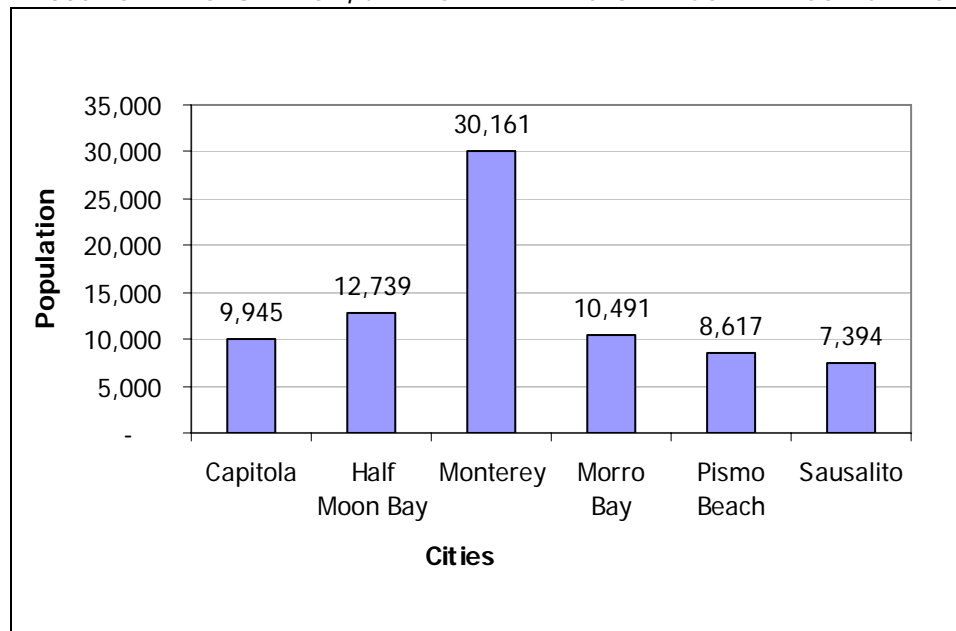
The housing affordability index compares per capita income with the average selling price for housing. In this measure, Capitola is more affordable than Santa Cruz and Scotts Valley, and lower than Watsonville. Capitola's housing affordability was about on par with the other coastal comparison cities, except for Sausalito, which had a notably more favorable housing affordability.

FIGURE A-1
2006 TOTAL POPULATION, CAPITOLA AND NEIGHBORING CITIES



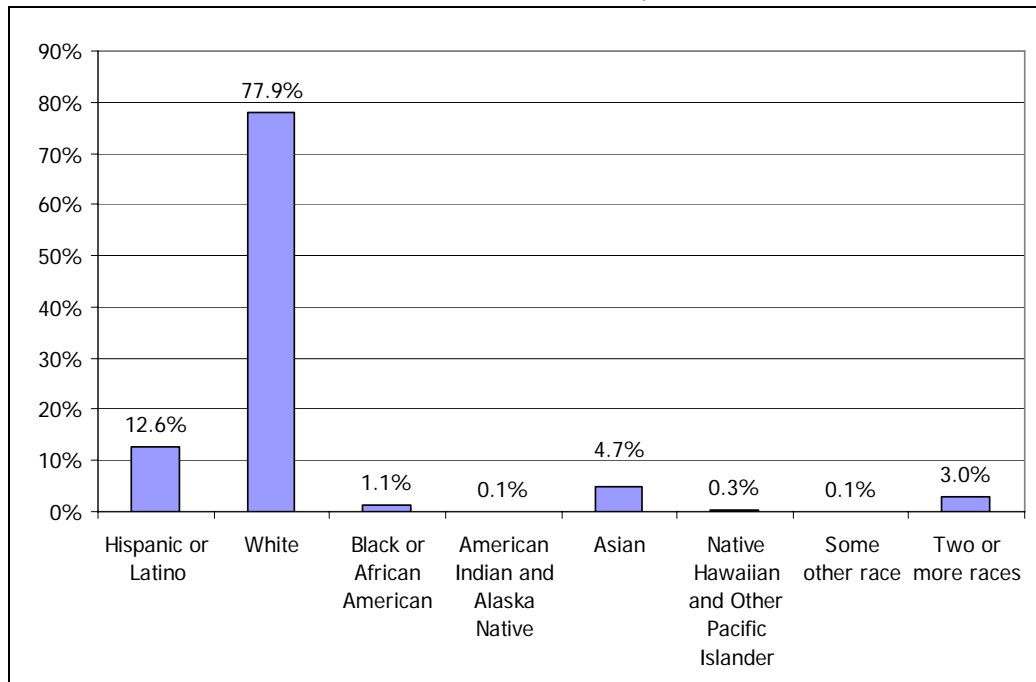
Source: ADE, data from U.S. Census

FIGURE A-2
2006 TOTAL POPULATION, CAPITOLA AND REGIONAL COMPARISON CITIES



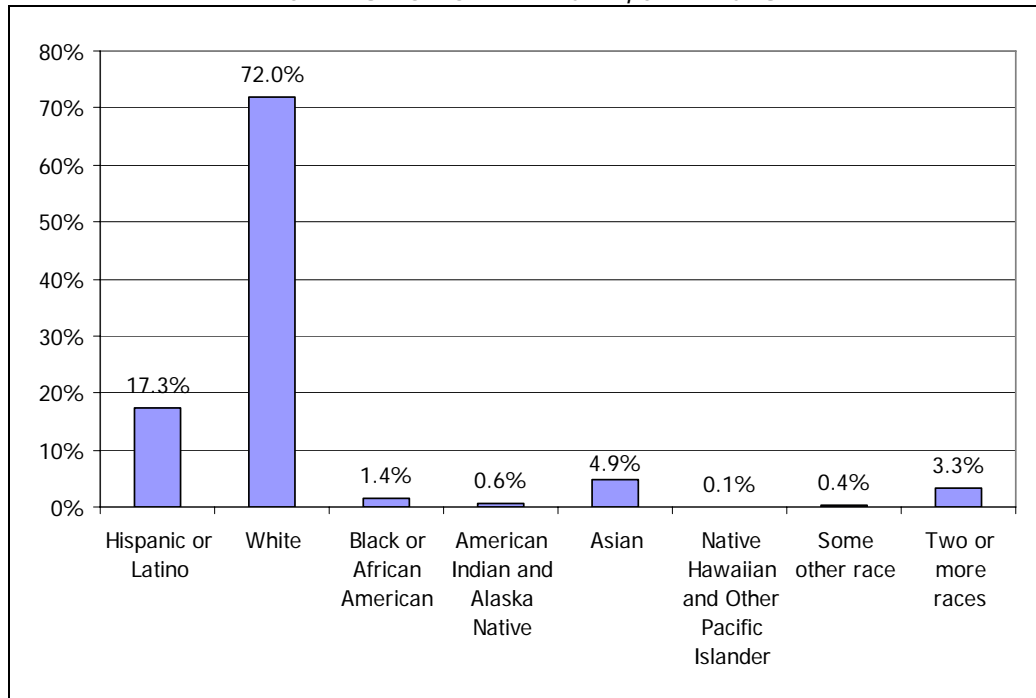
Source: ADE, data from U.S. Census

FIGURE A-3
DISTRIBUTION OF ETHNICITY, CAPITOLA



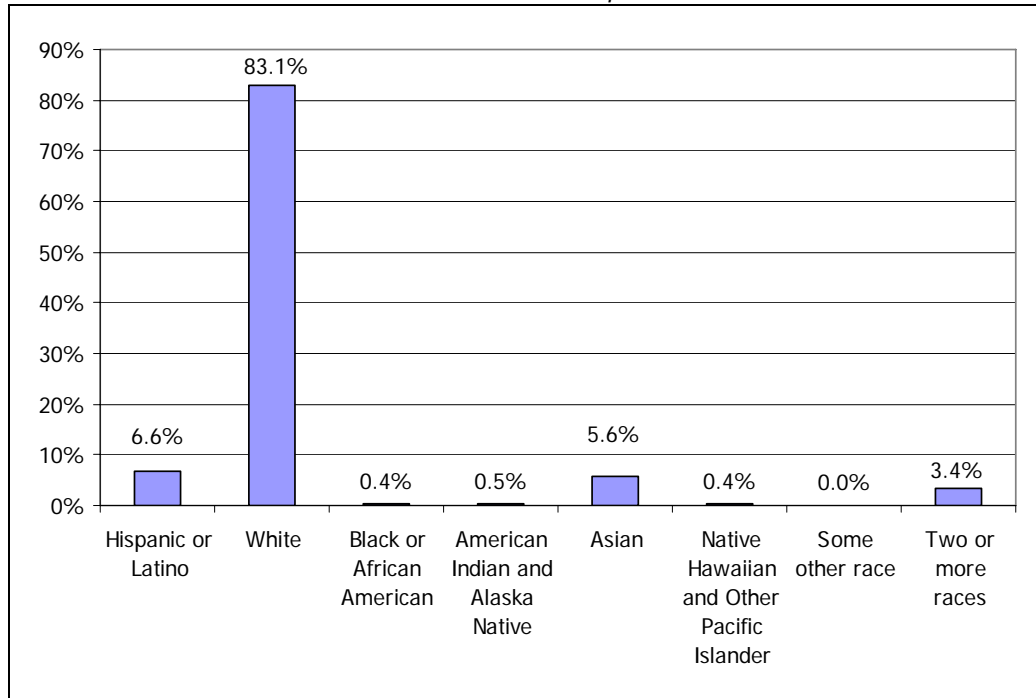
Source: ADE, data from U.S. Census

FIGURE A-4
DISTRIBUTION OF ETHNICITY, SANTA CRUZ



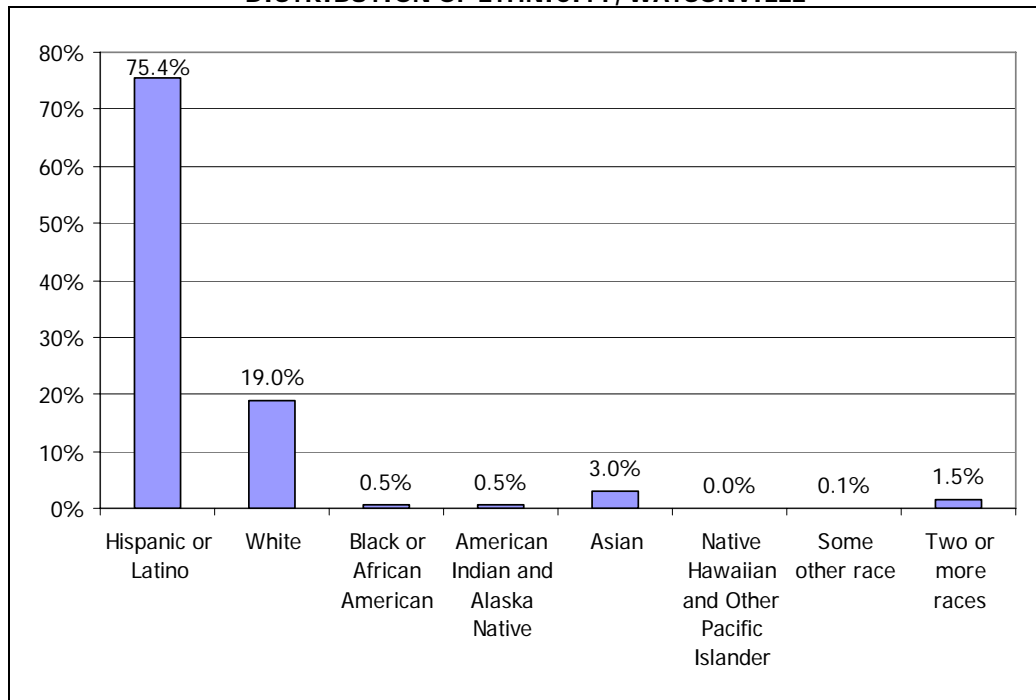
Source: ADE, data from U.S. Census

**FIGURE A-5
DISTRIBUTION OF ETHNICITY, SCOTTS VALLEY**



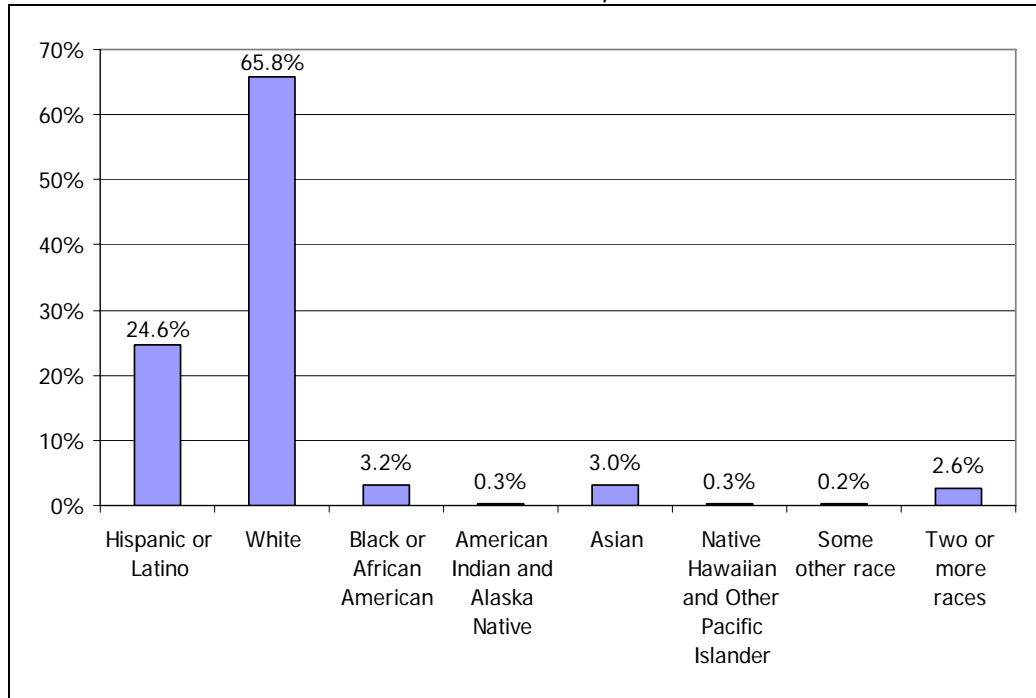
Source: ADE, data from U.S. Census

**FIGURE A-6
DISTRIBUTION OF ETHNICITY, WATSONVILLE**



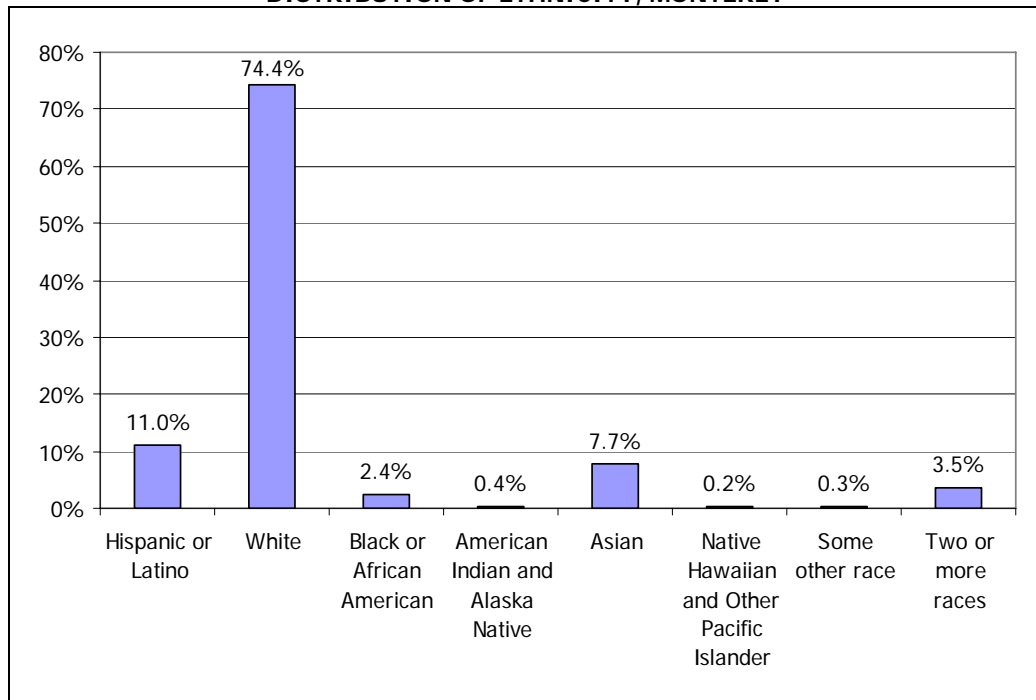
Source: ADE, data from U.S. Census

**FIGURE A-7
DISTRIBUTION OF ETHNICITY, HALF MOON BAY**



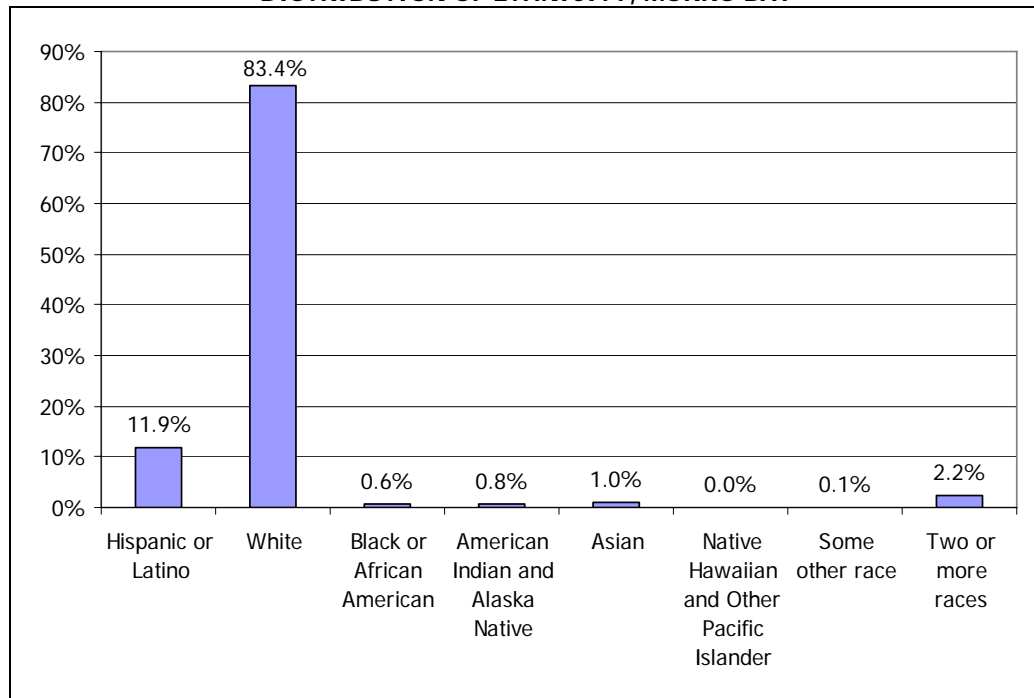
Source: ADE, data from U.S. Census

**FIGURE A-8
DISTRIBUTION OF ETHNICITY, MONTEREY**



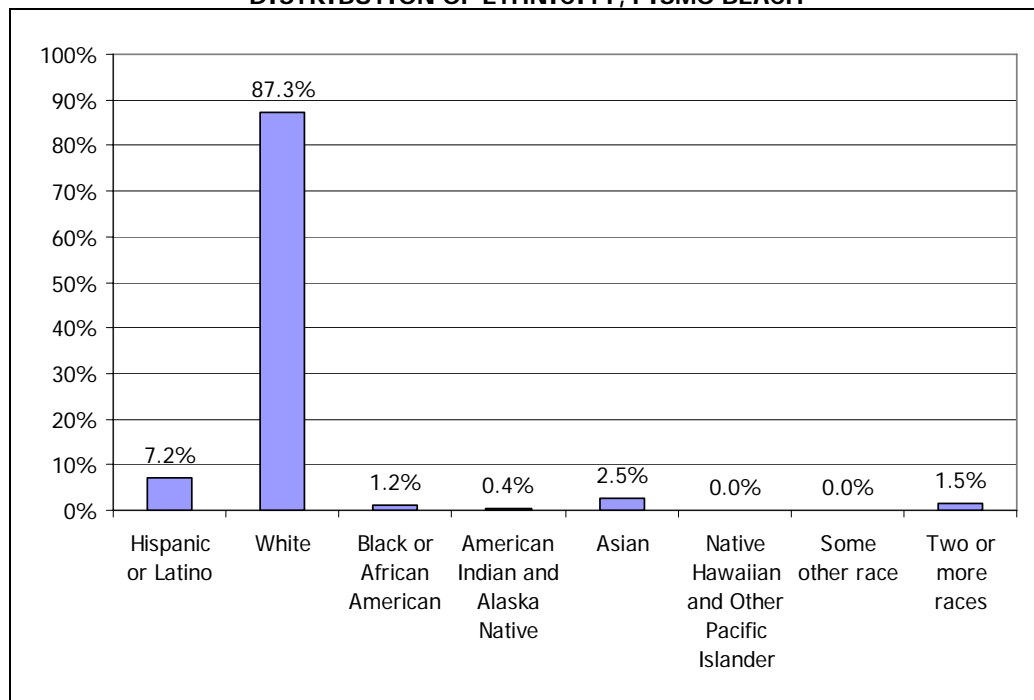
Source: ADE, data from U.S. Census

**FIGURE A-9
DISTRIBUTION OF ETHNICITY, MORRO BAY**



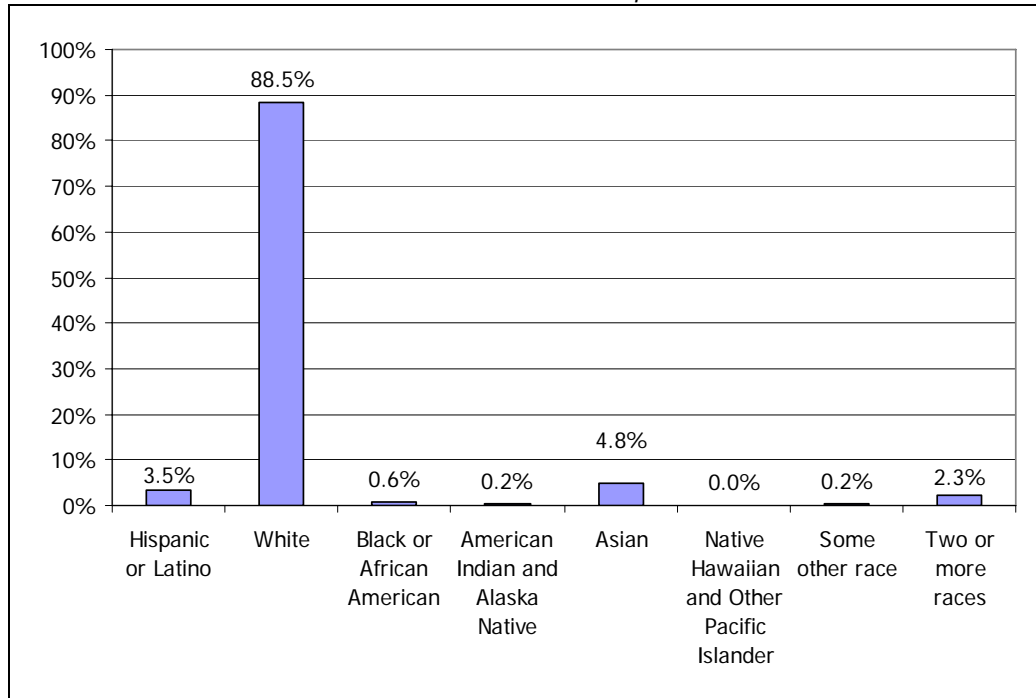
Source: ADE, data from U.S. Census

**FIGURE A-10
DISTRIBUTION OF ETHNICITY, PISMO BEACH**



Source: ADE, data from U.S. Census

FIGURE A-11
DISTRIBUTION OF ETHNICITY, SAUSALITO



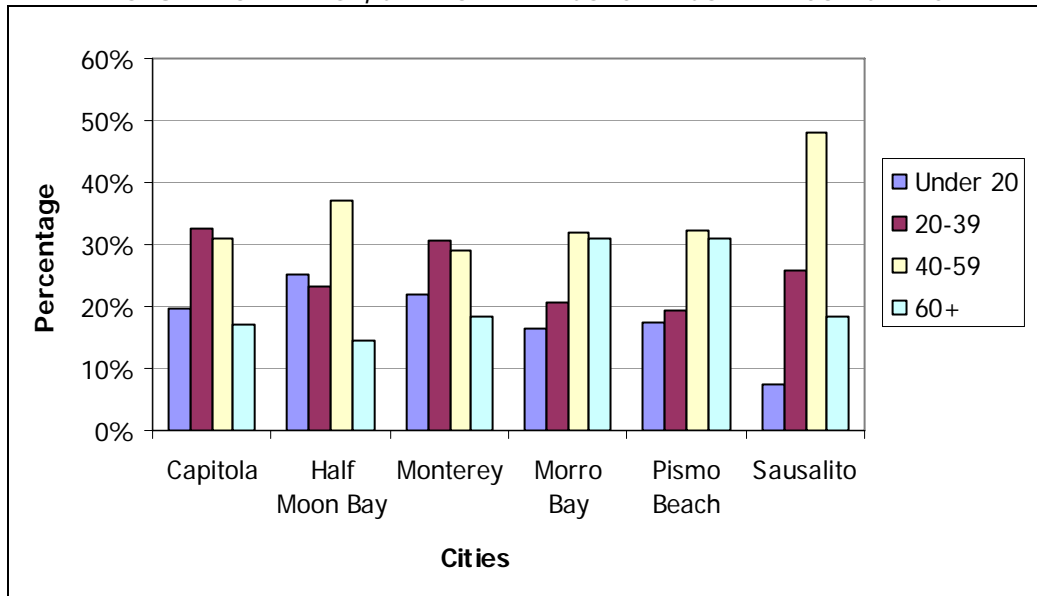
Source: ADE, data from U.S. Census

**FIGURE A-12
POPULATION BY AGE, CAPITOLA AND NEIGHBORING CITIES**



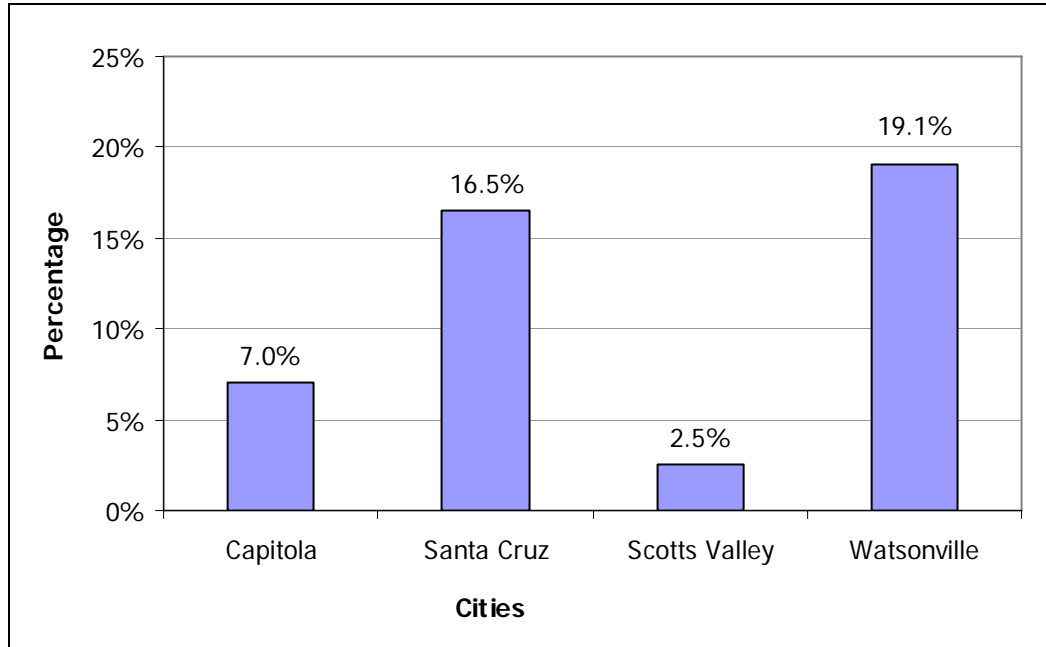
Source: ADE, data from U.S. Census

**FIGURE A-13
POPULATION BY AGE, CAPITOLA AND COASTAL COMPARISON CITIES**



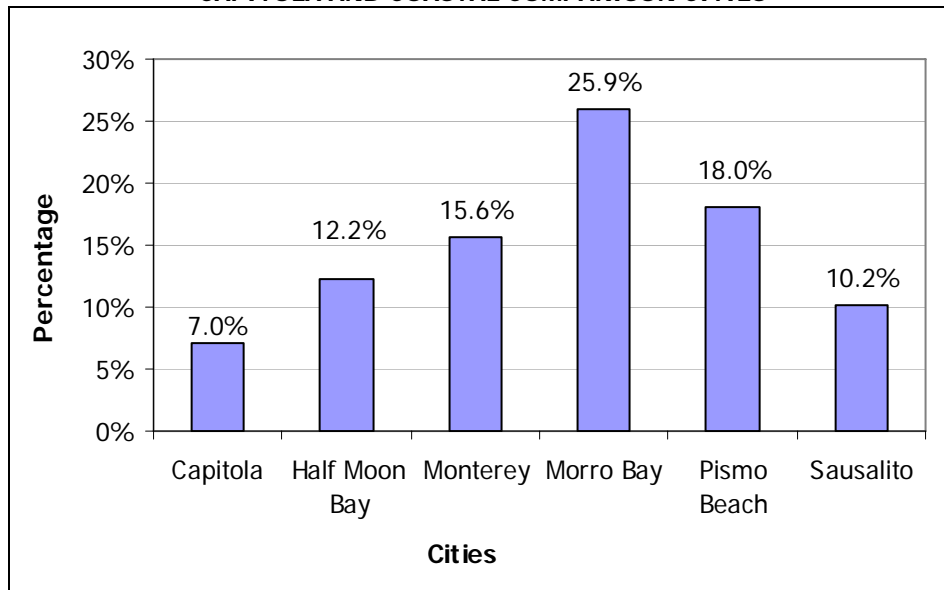
Source: ADE, data from U.S. Census

**FIGURE A-14
PERCENTAGE OF RESIDENTS LIVING BELOW POVERTY,
CAPITOLA AND NEIGHBORING CITIES**



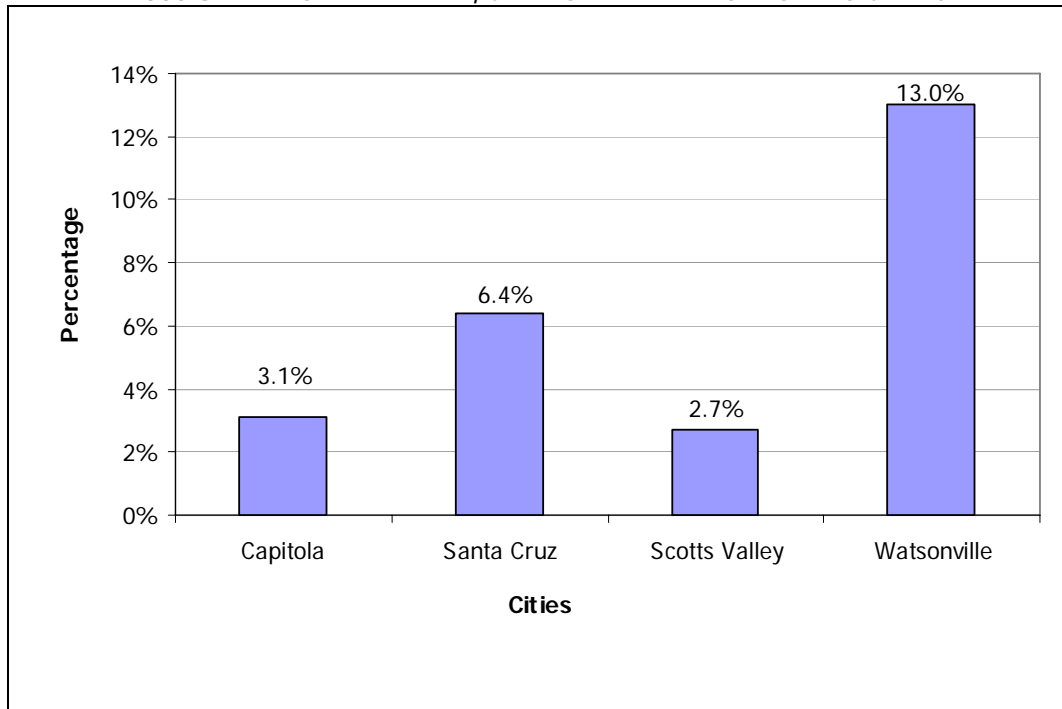
Source: ADE, data from U.S. Census

**FIGURE A-15
PERCENTAGE OF RESIDENTS LIVING BELOW POVERTY,
CAPITOLA AND COASTAL COMPARISON CITIES**



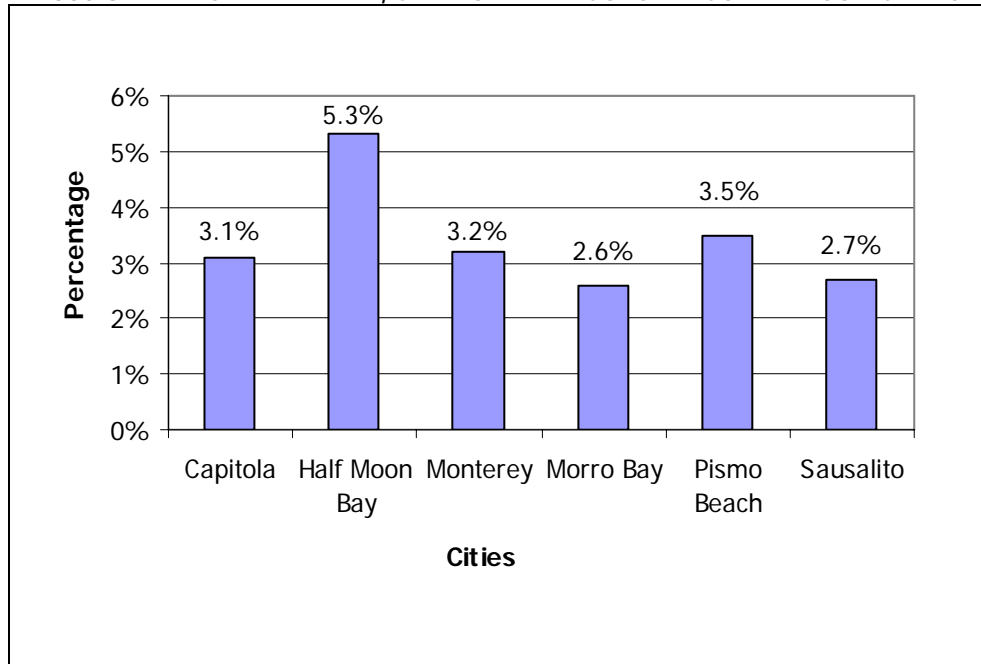
Source: ADE, data from U.S. Census

FIGURE A-16
2005 UNEMPLOYMENT RATE, CAPITOLA AND NEIGHBORING CITIES



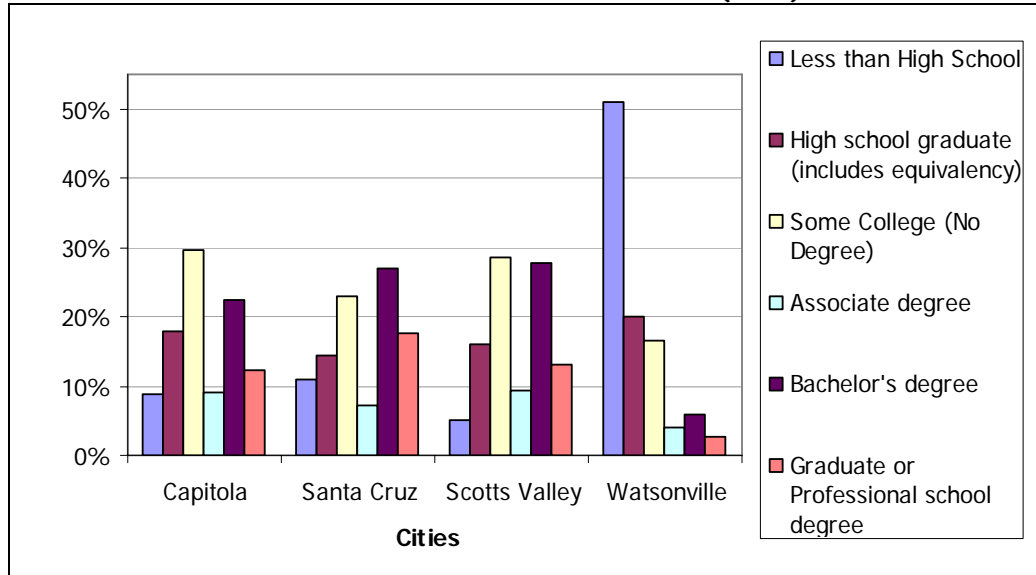
Source: ADE, data from Employment Development Department, Labor Market Information Division

FIGURE A-17
2005 UNEMPLOYMENT RATE, CAPITOLA AND COASTAL COMPARISON CITIES



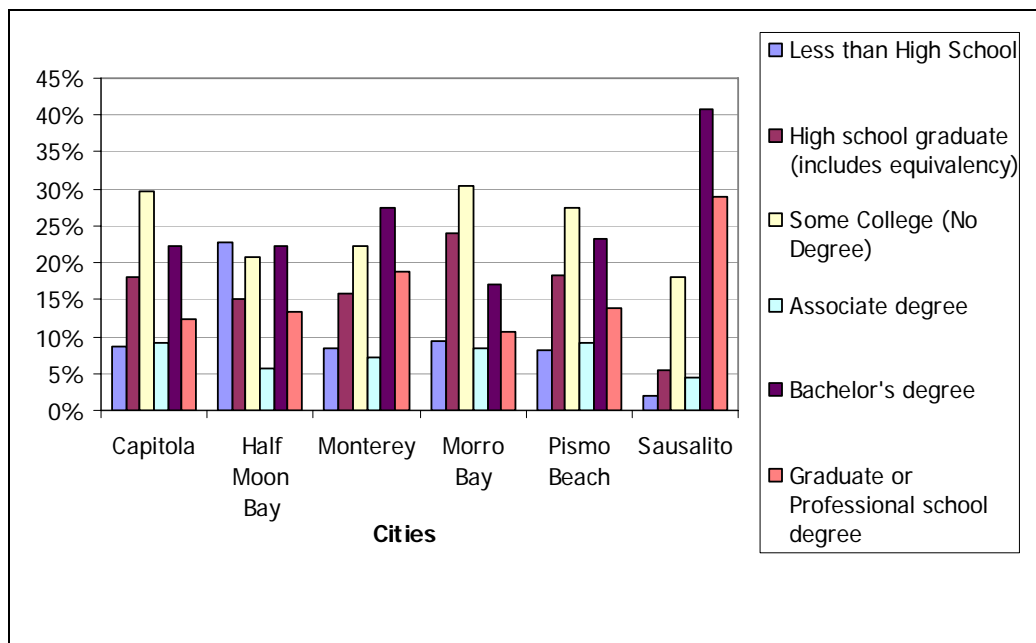
Source: ADE, data from Employment Development Department, Labor Market Information Division

FIGURE A-18
EDUCATION ATTAINMENT FOR POPULATION OVER 25 YEARS OLD,
CAPITOLA AND NEIGHBORING CITIES (2000)



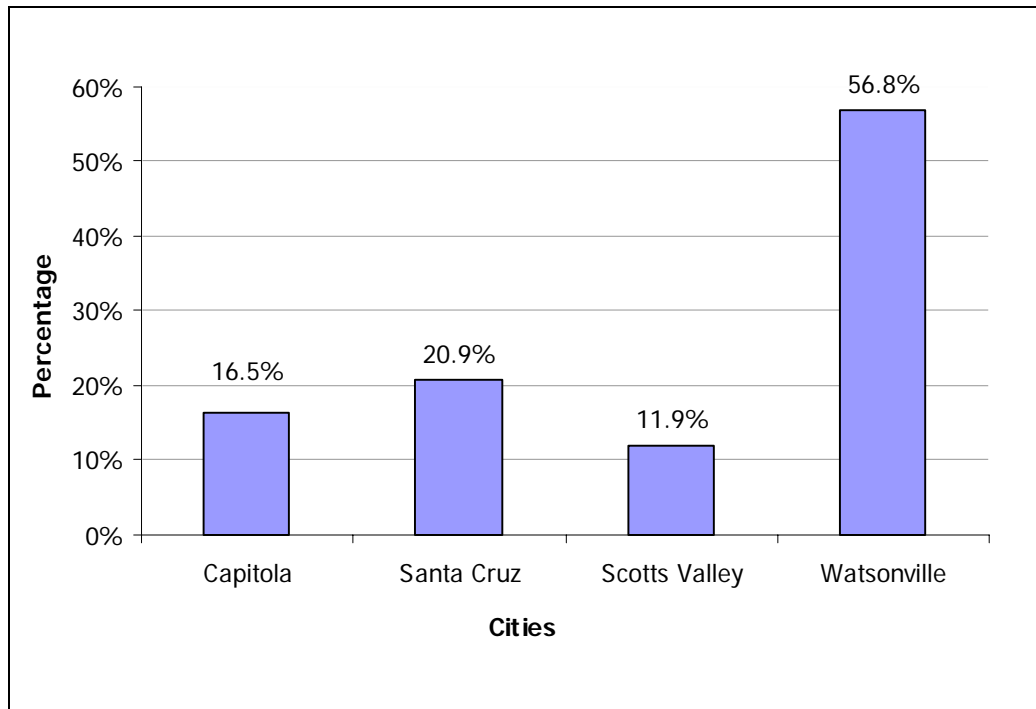
Source: ADE, data from U.S. Census

FIGURE A-19
EDUCATION ATTAINMENT FOR POPULATION OVER 25 YEARS OLD,
CAPITOLA AND REGIONAL COMPARISON CITIES (2000)



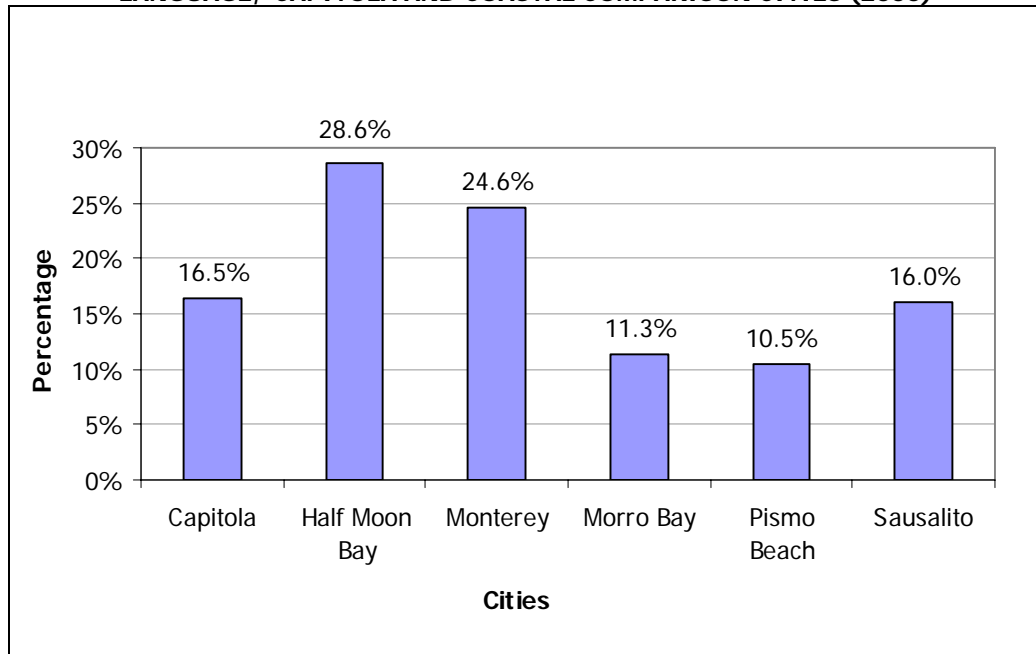
Source: ADE, data from U.S. Census

FIGURE A-20
PERCENTAGE OF RESIDENTS 5 YEARS AND OLDER SPEAKING
MORE THAN ONE LANGUAGE,
CAPITOLA AND NEIGHBORING CITIES (2000)



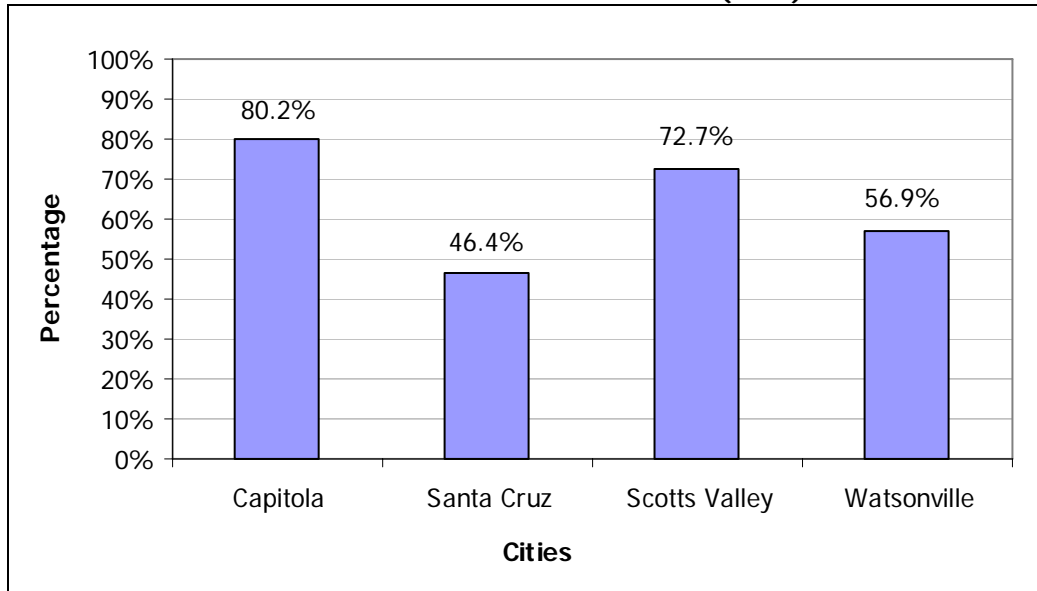
Source: ADE, data from U.S. Census

FIGURE A-21
PERCENTAGE OF RESIDENTS 5 YEARS AND OLDER SPEAKING MORE THAN ONE
LANGUAGE, CAPITOLA AND COASTAL COMPARISON CITIES (2000)



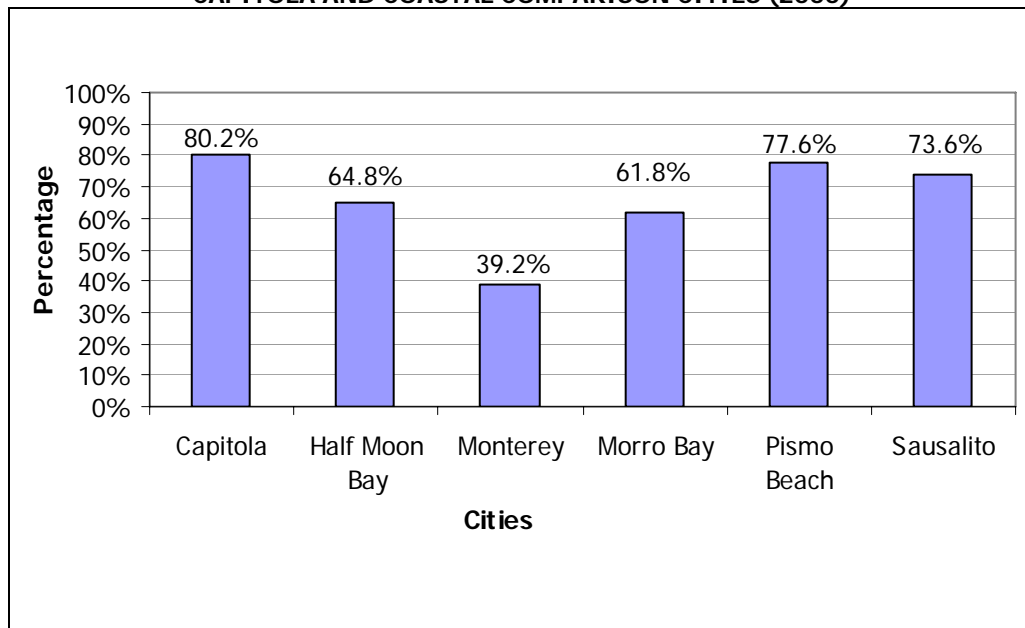
Source: ADE, data from U.S. Census

FIGURE A-22
PERCENT OF WORKERS THAT WORK OUTSIDE CITY OF RESIDENCE,
CAPITOLA AND NEIGHBORING CITIES (2000)



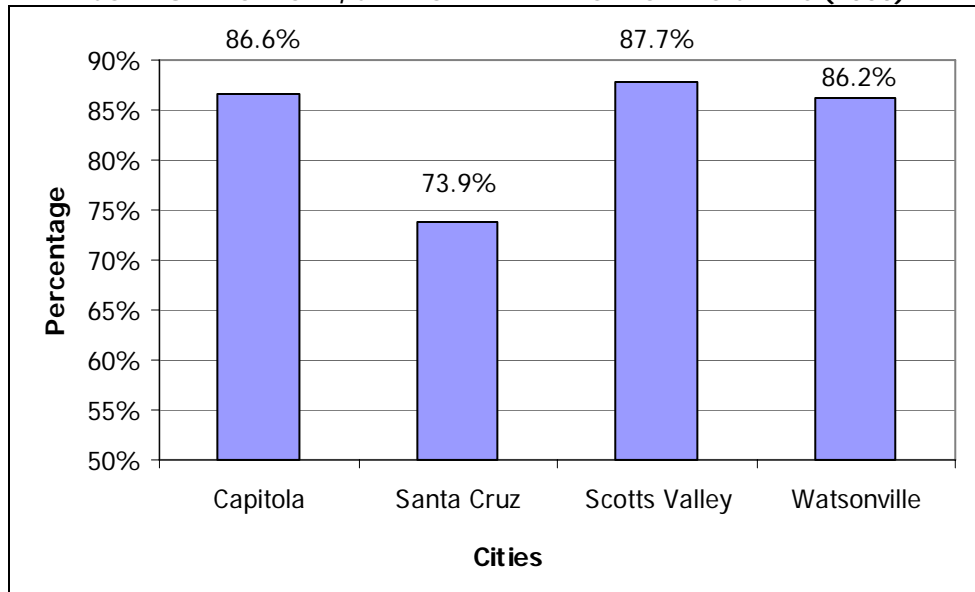
Source: ADE, data from U.S. Census

FIGURE A-23
PERCENT OF WORKERS THAT WORK OUTSIDE CITY OF RESIDENCE,
CAPITOLA AND COASTAL COMPARISON CITIES (2000)



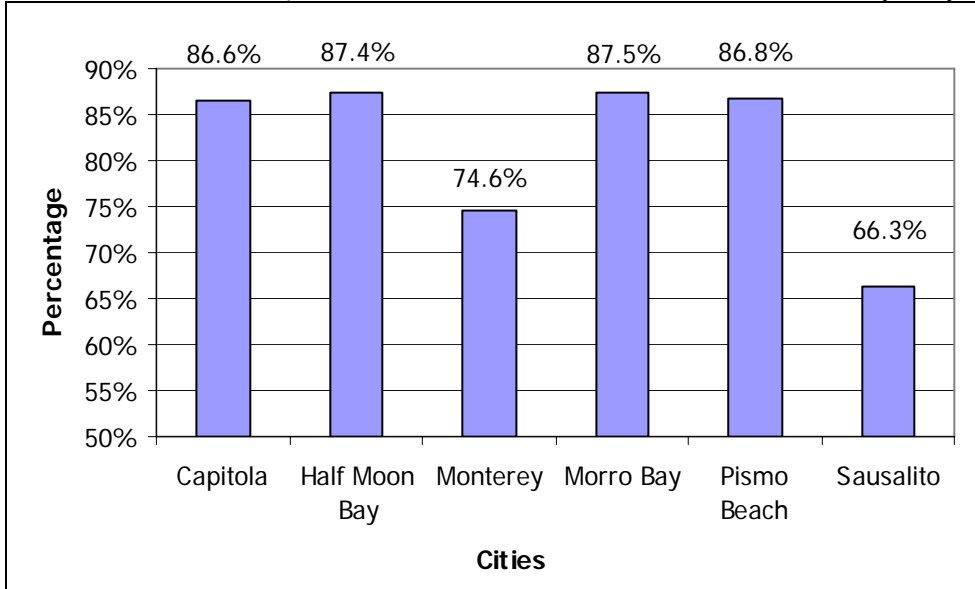
Source: ADE, data from U.S. Census

FIGURE A-24
PERCENT OF COMMUTERS USING PRIVATE AUTOMOBILE OR MOTORCYCLE TO
COMMUTE TO WORK, CAPITOLA AND NEIGHBORING CITIES (2000)



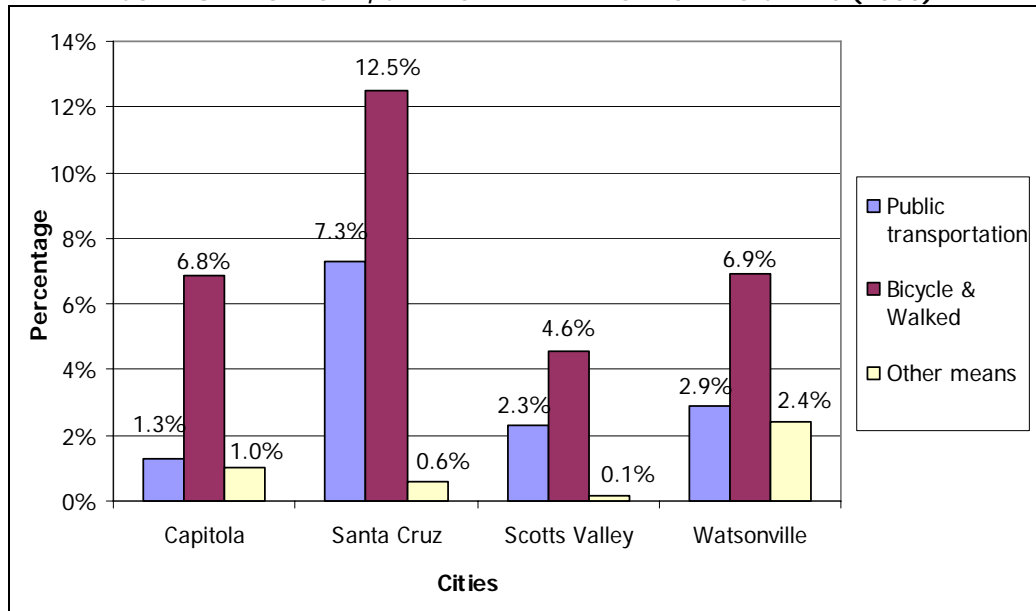
Source: ADE, data from U.S. Census

FIGURE A-25
PERCENT OF COMMUTERS USING PRIVATE AUTOMOBILE OR MOTORCYCLE TO
COMMUTE TO WORK, CAPITOLA AND COASTAL COMPARISON CITIES (2000)



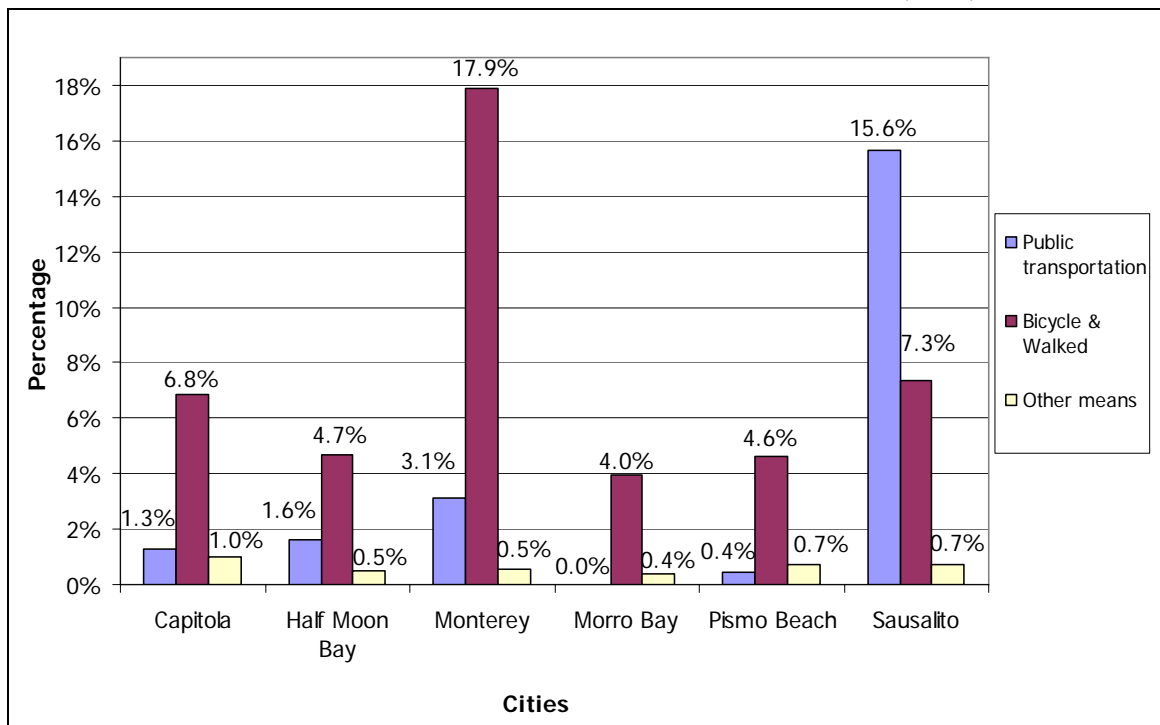
Source: ADE, data from U.S. Census

FIGURE A-26
PERCENTAGE OF COMMUTERS USING ALTERNATIVE TRANSPORTATION MODES TO
COMMUTE TO WORK, CAPITOLA AND NEIGHBORING CITIES (2000)



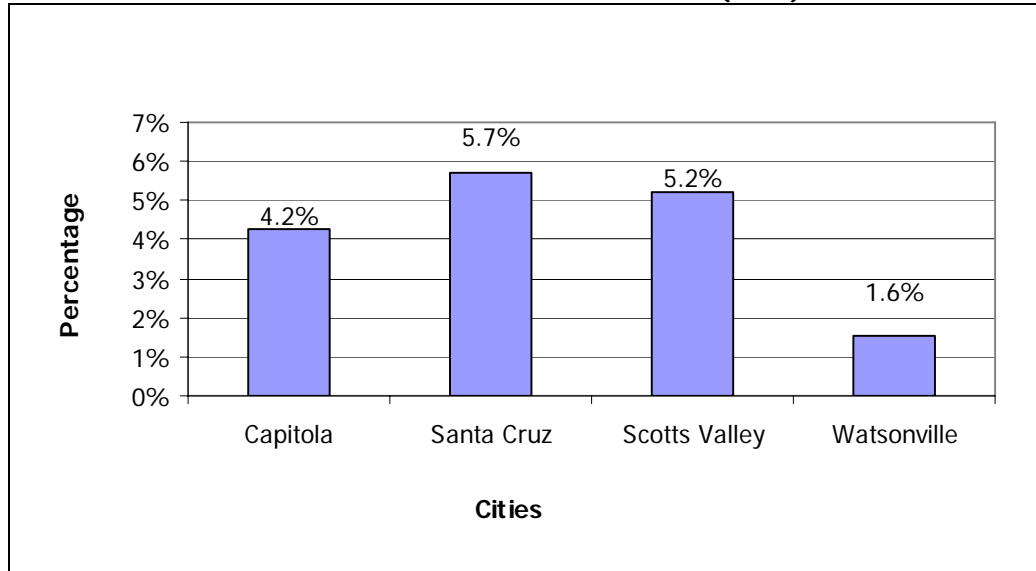
Source: ADE, data from U.S. Census

FIGURE A-27
PERCENTAGE OF COMMUTERS USING ALTERNATIVE TRANSPORTATION MODES TO COMMUTE
TO WORK, CAPITOLA AND COASTAL COMPARISON CITIES (2000)



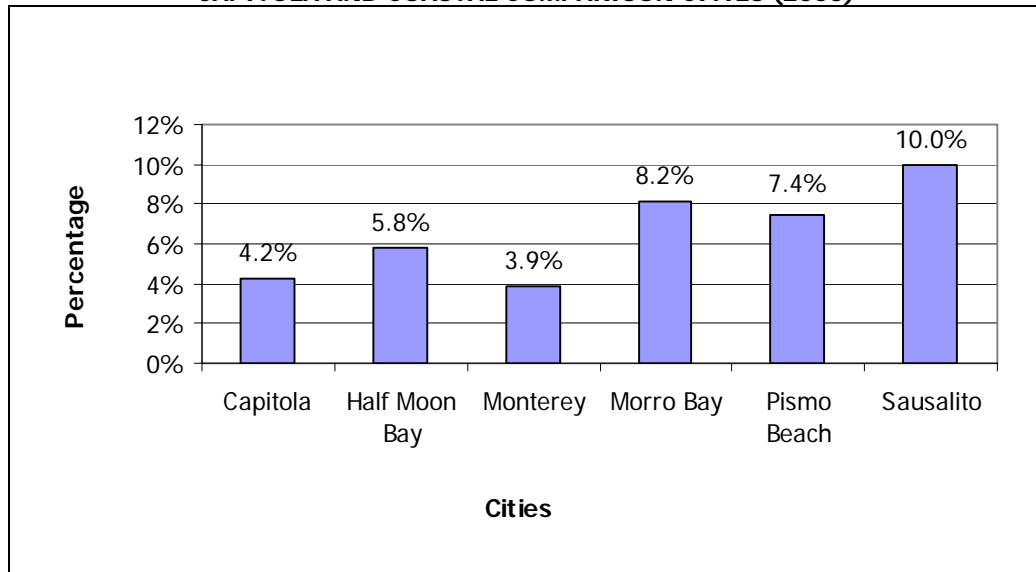
Source: ADE, data from U.S. Census

FIGURE A-28
PERCENTAGE OF EMPLOYED WORKERS WHO WORK AT HOME,
CAPITOLA AND NEIGHBORING CITIES (2000)



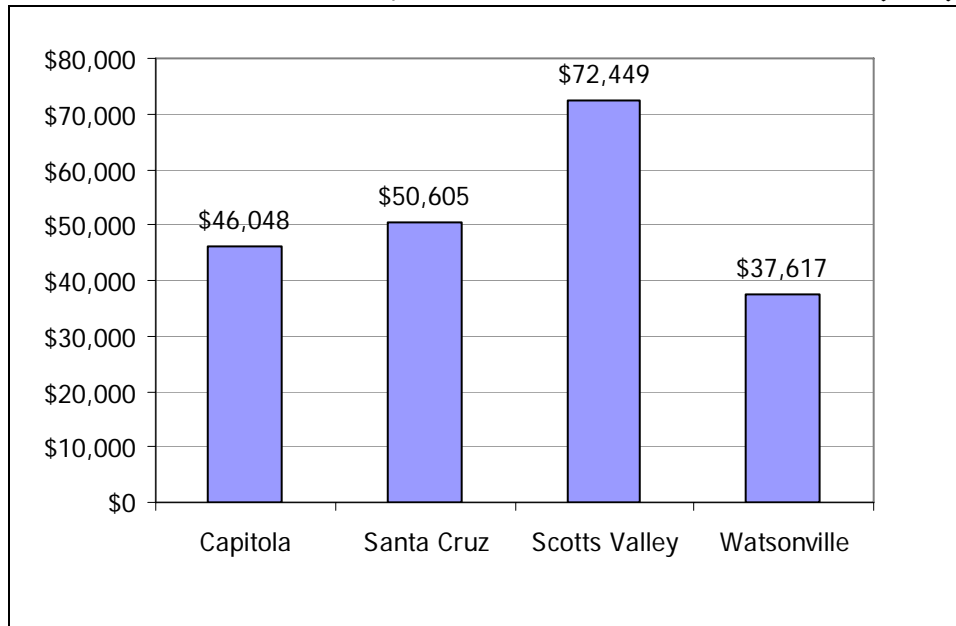
Source: ADE, data from U.S. Census

FIGURE A-29
PERCENTAGE OF EMPLOYED WORKERS WHO WORK AT HOME,
CAPITOLA AND COASTAL COMPARISON CITIES (2000)



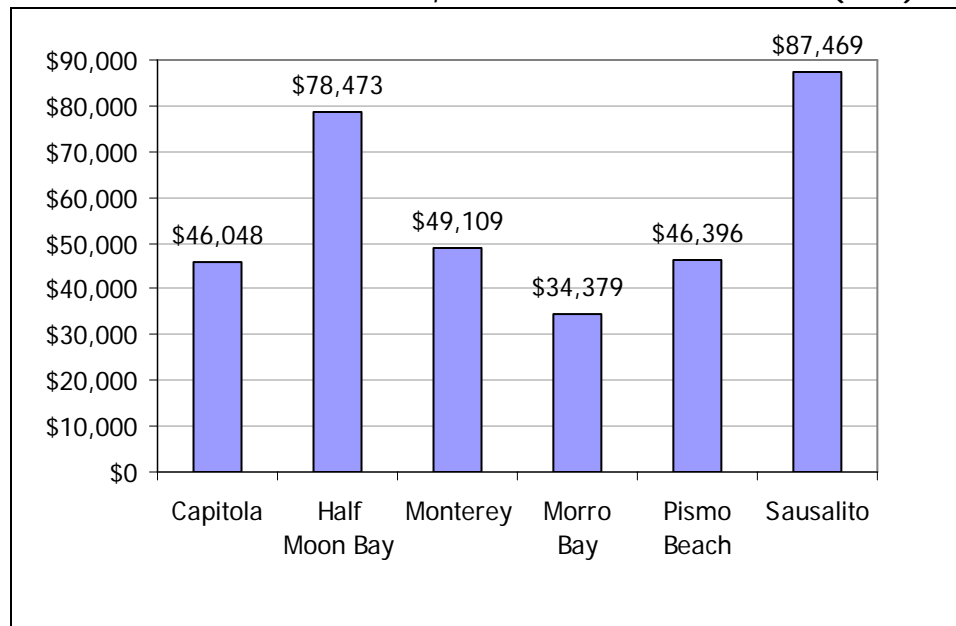
Source: ADE, data from U.S. Census

FIGURE A-30
MEDIAN HOUSEHOLD INCOME, CAPITOLA AND NEIGHBORING CITIES (1999)



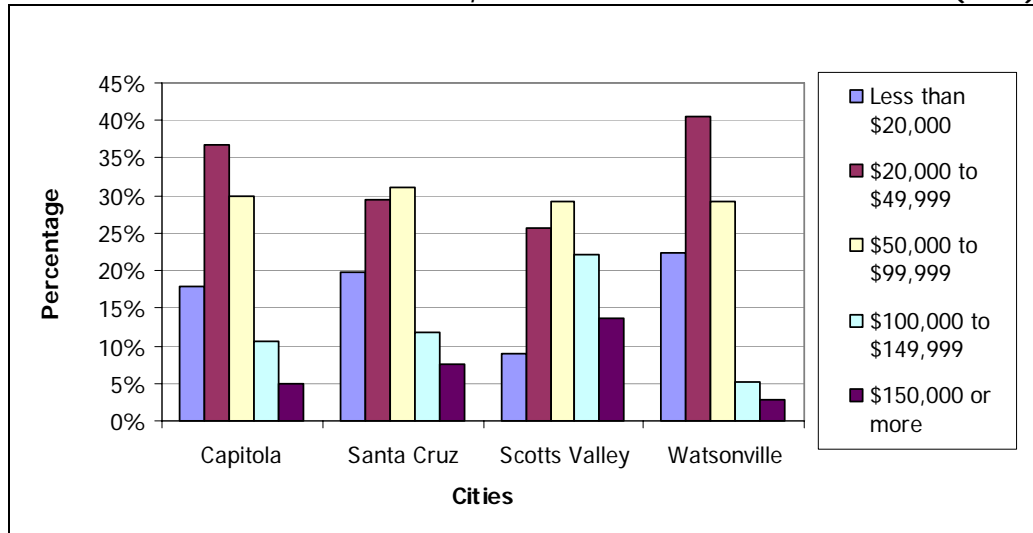
Source: ADE, data from U.S. Census

FIGURE A-31
MEDIAN HOUSEHOLD INCOME, COASTAL COMPARISON CITIES (1999)



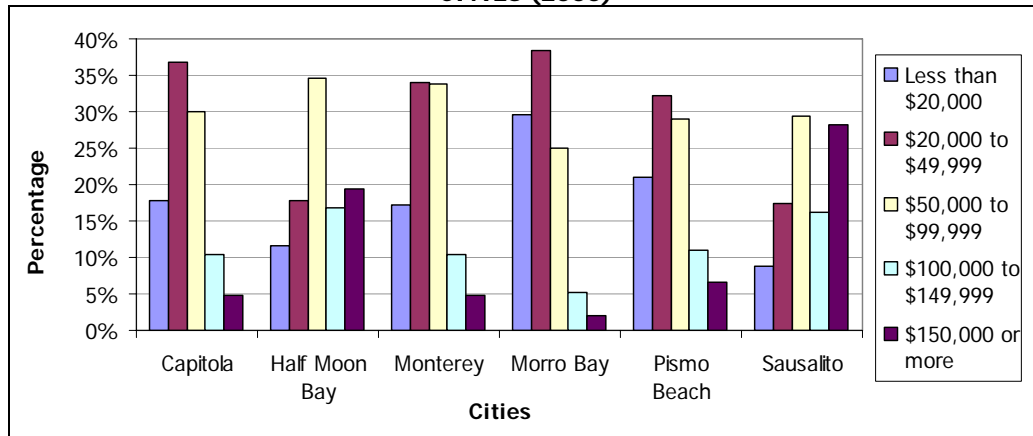
Source: ADE, data from U.S. Census

FIGURE A-32
HOUSEHOLD INCOME DISTRIBUTION, CAPITOLA AND NEIGHBORING CITIES (2000)



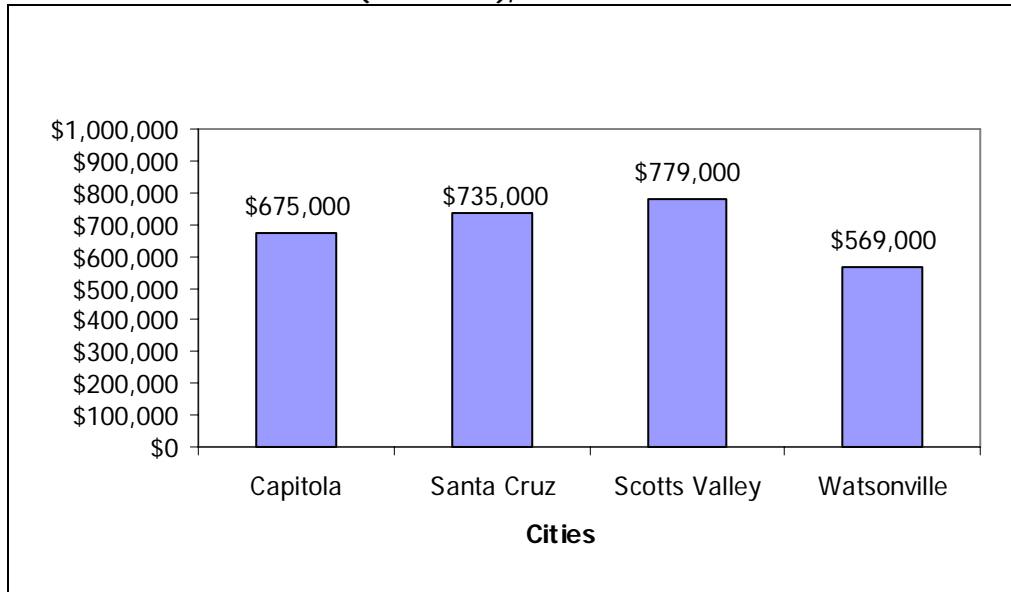
Source: ADE, data from U.S. Census

FIGURE A-33
HOUSEHOLD INCOME DISTRIBUTION, CAPITOLA AND COASTAL COMPARISON CITIES (2000)



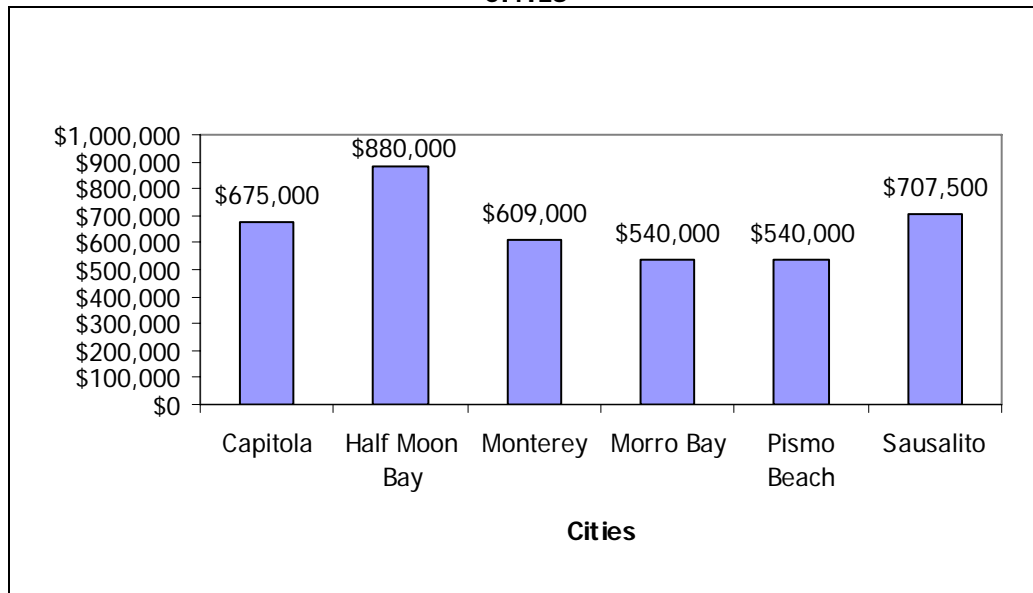
Source: ADE, data from U.S. Census

FIGURE A-34
MEDIAN HOUSING PRICE (JULY 2006), CAPITOLA AND NEIGHBORING CITIES



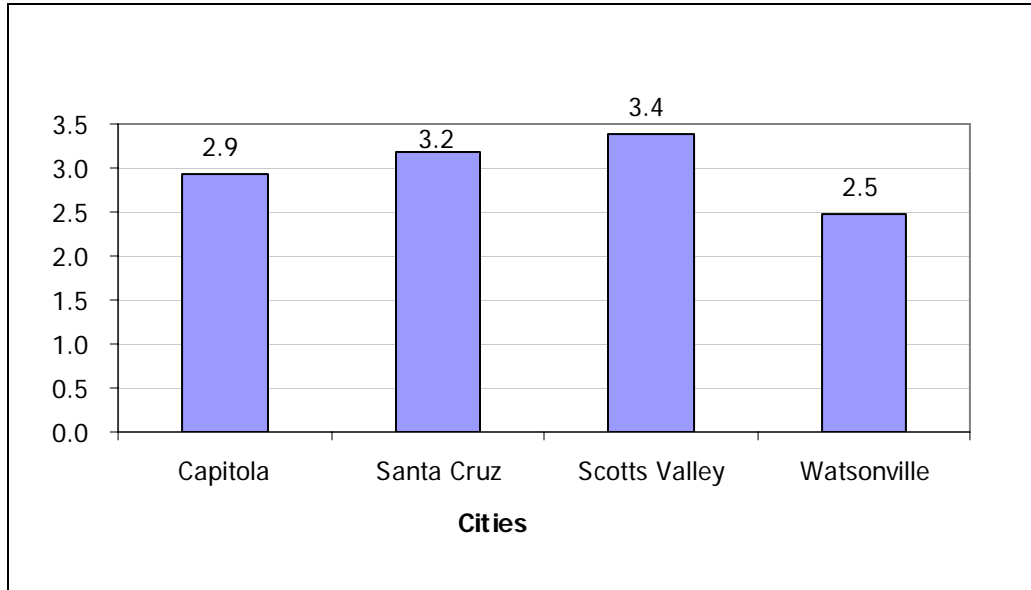
Source: ADE, data from California Association of Realtors

FIGURE A-35
MEDIAN HOUSING PRICE (JULY 2006), CAPITOLA AND REGIONAL COMPARISON CITIES



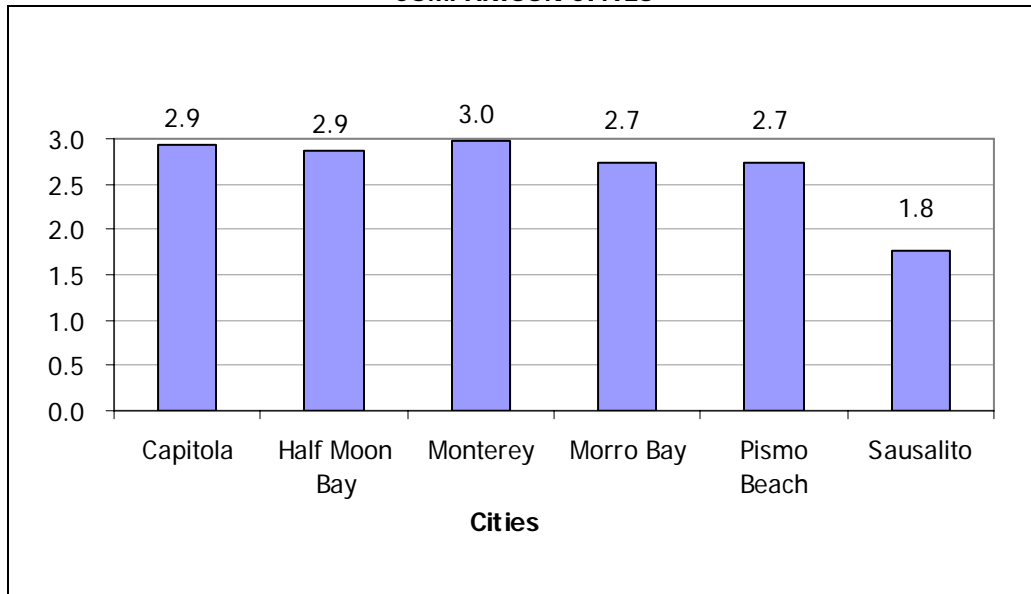
Source: ADE, data from California Association of Realtors

FIGURE A-36
WAGE HOUSING AFFORDABILITY (JULY 2006), CAPITOLA AND NEIGHBORING
CITIES



Source: ADE, data from California Association of Realtors; Bureau of Economic Analysis
 Note: The wage housing affordability index is based on housing prices and per capita income.

FIGURE A-37
WAGE HOUSING AFFORDABILITY (JULY 2006), CAPITOLA AND REGIONAL
COMPARISON CITIES



Source: ADE, data from California Association of Realtors; Bureau of Economic Analysis
 Note: The wage housing affordability index is based on housing prices and per capita income.

APPENDIX B: RETAIL MARKET ANALYSIS

Capitola has served as a regional shopping destination for Santa Cruz County residents since the 1970s when Capitola Mall and the auto center were developed. Overall, the 41st Avenue corridor has anchored Capitola's retail market. While Capitola Village provides the image for the community and the most prominent visitor attraction for Capitola, the regional retail centers located along 41st Avenue attract the most retail spending.

With Capitola mostly built out, the community lacks the land needed to develop a large-scale "power center" or other regional shopping centers on top of what already exists.

Capitola's population has shown relatively limited growth since 1990, which is similar to the growth trends across Santa Cruz County as a whole. As surrounding communities have developed their own regional retail centers, the market capture for Capitola's retail centers has decreased during this time. Yet, even with a relatively stable population base and decreasing market capture by Capitola's retail sector, the community has other market opportunities. This is due to Capitola's strong tourism base, and the number of retail niches that do not currently exist in Santa Cruz County.

1. CAPITOLA'S RETAIL SETTING

Capitola has a diverse base of retail stores that serves not only local residents, but the entire Santa Cruz County regional market and tourism spending as well. The City of Capitola has a population of just under 10,000 residents, with 4,748 households. The estimated average (mean) household income for Capitola households was about \$70,600 in 2005.

2. METHODOLOGY OVERVIEW

The retail market analysis consists of two main parts -- an estimate of household retail spending, and a comparison of overall spending potential and sales by Capitola retail establishments.

The household retail spending totals are calculated from an analytical model that estimates spending for 40 different store types and 100 product categories. The model was developed using data from the Economic Census and the Bureau of Labor Statistics Consumer Expenditure Surveys. The taxable sales data is an annual total listed by retail category. The businesses listed in the analysis encompass all of the retail businesses operating in the City of Capitola.

The retail sales data comes from the California State Board of Equalization sales tax allocation records, and ADE audited this data. Because certain retail items, such as food and prescription drugs, are not taxable, the analysis includes a conversion that calculates nontaxable sales.

Retail leakage represents the gap between household spending by Capitola households and retail sales by local retail establishments. This leakage represents an existing shortfall, as well as an opportunity for both retail expansion and possible attraction.

3. LOCAL HOUSEHOLD SPENDING

Based on data from ADE's retail demand model, the analysis estimates that the annual retail spending by Capitola residents totals about \$95 million. It should be noted that not all of this spending will occur in Capitola because residents might choose to shop closer to where they work or at retail centers that offer a different variety of goods than the local stores.

Household spending among market area residents is distributed across a wide variety of retail store categories. The two largest retail spending categories are food stores and eating places, and automotive. Together, these two retail groups account for over half of the total retail spending among local residents, with each of them accounting for over \$24 million of annual household spending. Among the individual store categories within these broad groups, new car dealerships and grocery stores each account for over \$9 million of annual household spending.

**FIGURE B-1
HOUSEHOLD RETAIL DEMAND,
CAPITOLA HOUSEHOLDS 2005**

| Retail Group | Household Retail Demand |
|---|--|
| Apparel Store Group | \$5,198,632 |
| Women's and Men's Apparel ¹ | \$1,568,957 |
| Family Clothing | \$2,584,720 |
| Shoe Stores | \$1,044,955 |
| General Merchandise Group | \$17,784,548 |
| Department Stores/Other General Merch. | \$9,485,636 |
| Other General Merchandise | \$4,762,793 |
| Drug & Proprietary Stores | \$3,536,119 |
| Specialty Retail Group | \$5,889,026 |
| Gifts & Novelties | \$439,412 |
| Sporting Goods | \$700,026 |
| Florists and Photographic Equipment ² | \$263,857 |
| Records, Music, Books, & Stationery ³ | \$857,193 |
| Jewelry | \$472,324 |
| Misc. Specialty Retail ⁴ | \$3,156,214 |
| Food, Eating and Drinking Group | \$24,459,685 |
| Grocery Stores | \$15,484,987 |
| Specialty Food and Liquor Stores | \$1,227,259 |
| Eating Places | \$7,747,440 |
| Building Materials And Homefurnishings Group | \$9,123,365 |
| Furniture & Home Furnishings | \$3,452,315 |
| Household Appliances & Electronics ⁵ | \$1,859,749 |
| Home Centers and Hardware Stores ⁶ | \$3,811,301 |
| Automotive Group | \$32,453,429 |
| New Cars & RVs ⁷ | \$21,495,128 |
| Used Car Dealers | \$1,555,196 |
| Gasoline Service Stations | \$8,201,884 |
| Auto Parts & Accessories ⁸ | \$1,201,222 |
| TOTAL | \$94,908,686 |

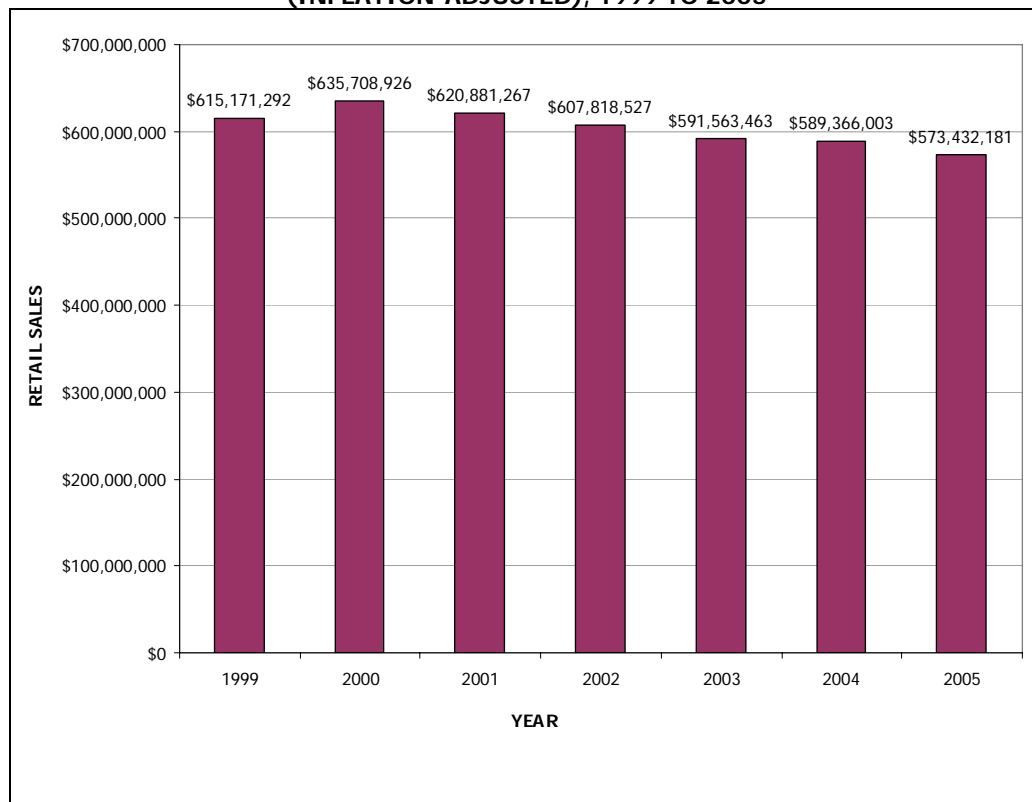
Source: ADE, retail model developed from Economic Census, and the Bureau of Labor Statistics Household Expenditure Surveys. Data Adjusted for inflation using CPI.

4. CAPITOLA RETAIL SALES

OVERALL RETAIL SALES TRENDS

Capitola's total retail sales have shown a gradual decline since its 2000 peak (in inflation-adjusted dollars). The retail sales in Capitola, including estimated sales from nontaxable items, totaled \$573 million in 2005, while the inflation-adjusted retail sales in 2000 totaled \$636 million. (Figure B-2)

FIGURE B-2
TOTAL ANNUAL CAPITOLA RETAIL SALES
(INFLATION-ADJUSTED), 1999 TO 2005



Source: ADE, data from Board of Equalization and MBIA. Data adjusted for inflation using CPI.

COMPOSITION OF RETAIL SALES BY STORE TYPE

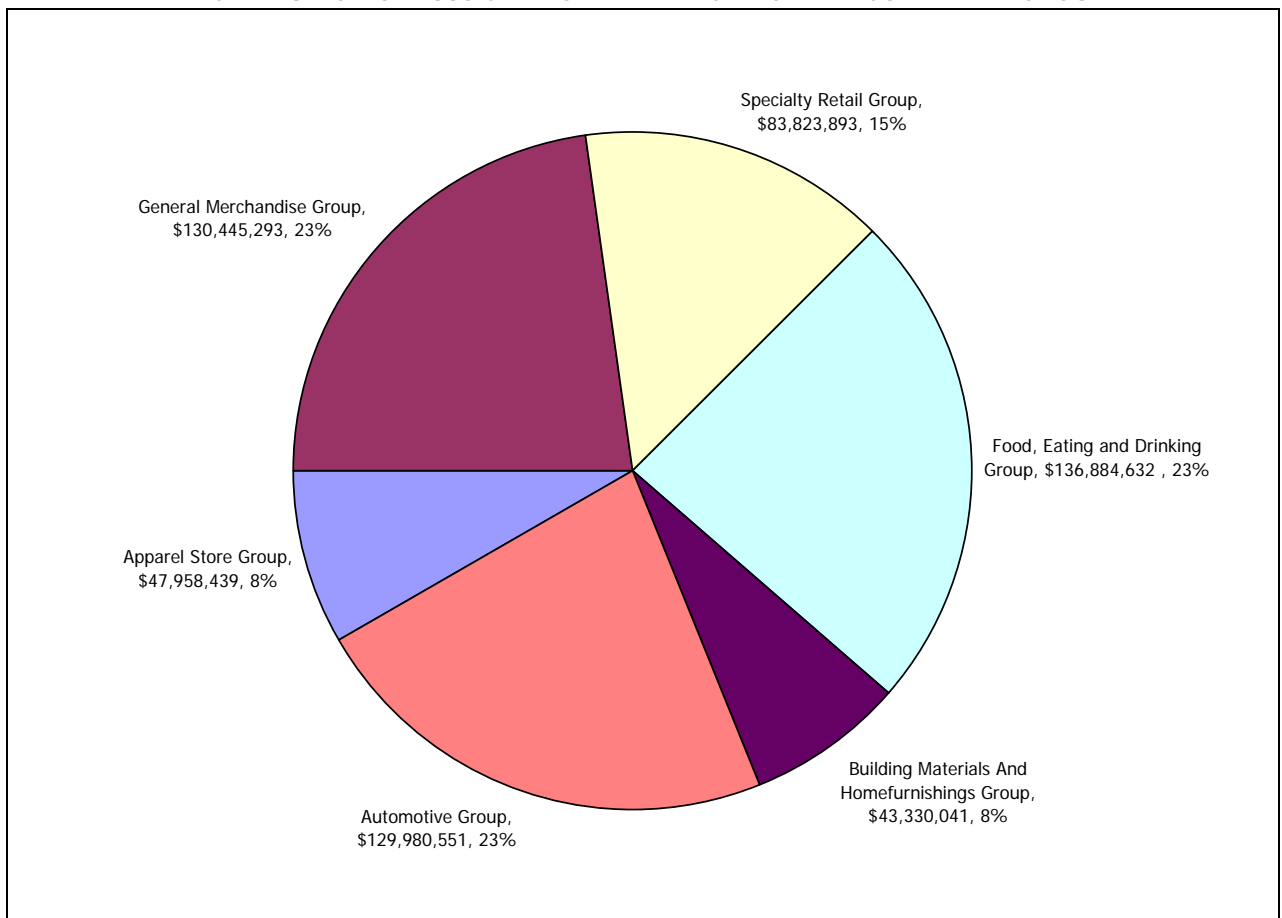
Capitola's retail sales primarily fall into one of three major retail groups -- general merchandise, food stores and eating places, and automotive. Together, these retail groups represent nearly three-fourths of Capitola's total retail sales. (Figure B-3)

Among the individual store categories, new vehicle sales constituted the largest retail category with over \$105 million in retail sales. Other large categories with

more than \$75 million in annual sales include department stores and grocery stores. (Figure B-4)

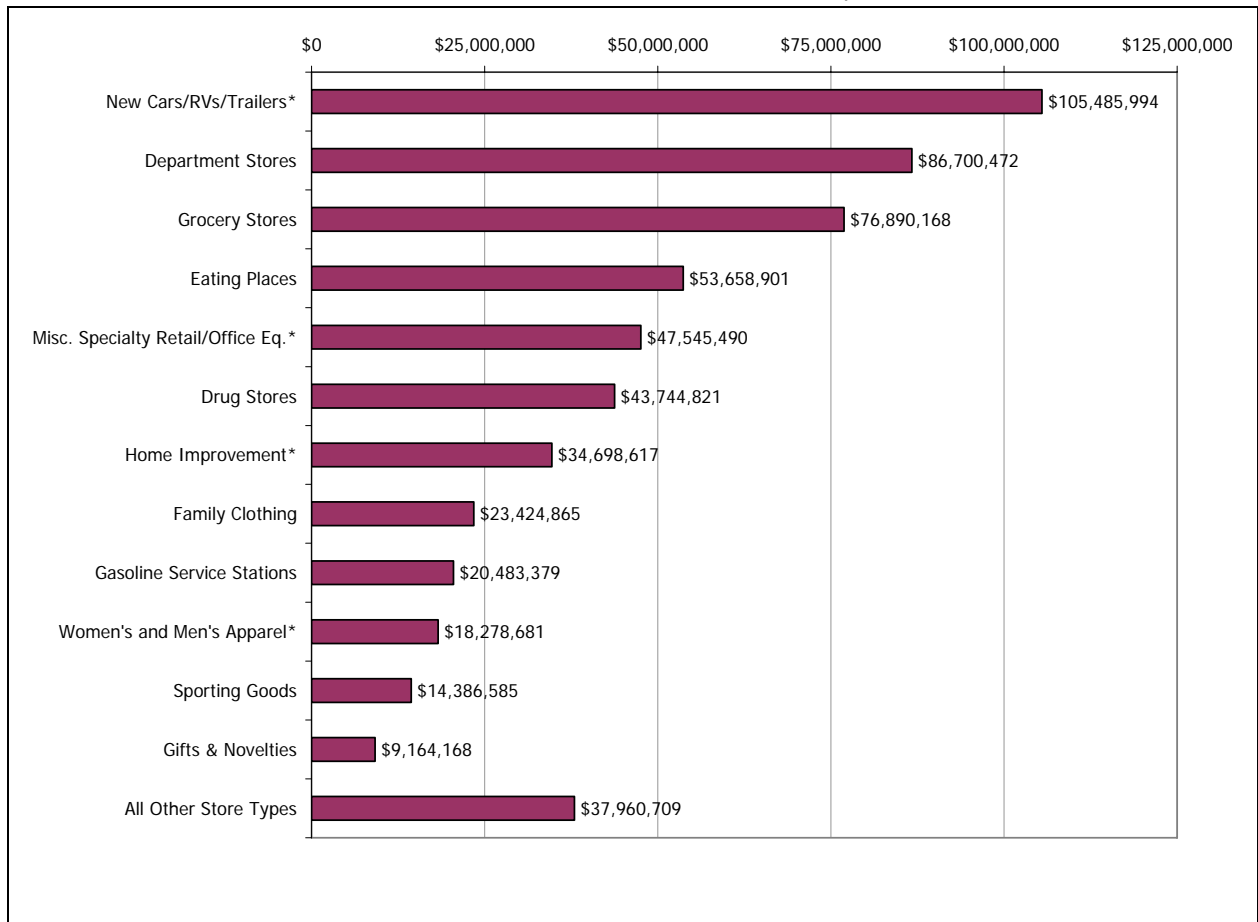
As shown in Figure B-5, the sales trends between 1999 and 2005 for different store types have varied. General merchandise stores as a group had the largest percentage decline with a 16 percent decline during this time in constant dollars. Specialty retail also had a substantial decline, with a 9.7 percent sales reduction. This is important to note because those store groups represent two of Capitola's largest retail sales producers.

FIGURE B-3
DISTRIBUTION OF 2005 CAPITOLA RETAIL SALES BY MAJOR RETAIL GROUP



Source: Source: ADE, data from Board of Equalization and MBIA.

**FIGURE B-4
CAPITOLA RETAIL SALES BY STORE TYPE, 2005**



Source: ADE, data from Board of Equalization and MBIA.

FIGURE B-5
CAPITOLA TAXABLE SALES TREND (INFLATION-ADJUSTED), 1999 TO 2005

| Store Type Description | 1999 | 2005 | % Change (1999 - 2005) | Annual Growth Rate |
|--|----------------------|----------------------|---|-----------------------------------|
| Apparel Store Group | \$51,986,727 | \$47,958,435 | -7.75% | -1.34% |
| Women's and Men's Apparel* | \$21,633,865 | \$18,278,679 | -15.51% | -2.77% |
| Family Clothing | \$23,954,029 | \$23,424,865 | -2.21% | -0.37% |
| Shoe Stores | \$6,398,833 | \$6,254,891 | -2.25% | -0.38% |
| General Merchandise Group | \$116,976,521 | \$97,772,304 | -16.42% | -2.94% |
| Department Stores/Other General Merchandise * | \$95,469,785 | \$81,411,743 | -14.73% | -2.62% |
| Other General Merchandise Stores | \$312,029 | \$0 | -100.00% | -100.00% |
| Drug & Proprietary Stores | \$21,194,706 | \$16,360,561 | -22.81% | -4.22% |
| Specialty Retail Group | \$92,060,250 | \$83,117,763 | -9.71% | -1.69% |
| Gifts & Novelties | \$11,294,503 | \$9,045,034 | -19.92% | -3.63% |
| Sporting Goods | \$14,931,473 | \$14,372,198 | -3.75% | -0.63% |
| Florists and Photographic Equipment* | \$5,342,354 | \$1,999,621 | -62.57% | -15.11% |
| Records, Music, Books, & Stationery* | \$9,672,621 | \$6,420,274 | -33.62% | -6.60% |
| Jewelry | \$4,383,538 | \$4,301,347 | -1.87% | -0.31% |
| Misc. Specialty Retail/Office Supplies* | \$46,435,761 | \$46,979,289 | 1.17% | 0.19% |
| Food, Eating, and Drinking Group | \$76,432,114 | \$75,201,953 | -1.61% | -0.27% |
| Grocery Stores | \$23,886,993 | \$21,591,292 | -9.61% | -1.67% |
| Specialty Food Stores | \$4,711,397 | \$5,317,650 | 12.87% | 2.04% |
| Eating Places | \$47,833,723 | \$48,293,011 | 0.96% | 0.16% |
| Building Materials and Home Furnishings Group | \$41,290,491 | \$43,290,453 | 4.84% | 0.79% |
| Furniture & Home Furnishings | \$4,341,295 | \$5,060,948 | 16.58% | 2.59% |
| Household Appliances & Electronics/Used Merchandise* | \$2,713,092 | \$3,560,334 | 31.23% | 4.63% |
| Home Centers and Hardware Stores* | \$34,236,104 | \$34,669,171 | 1.26% | 0.21% |
| Automotive Group | \$123,889,367 | \$128,423,814 | 3.66% | 0.60% |
| New Cars & RVs* | \$103,257,352 | \$105,485,994 | 2.16% | 0.36% |
| Used Car Dealers | | \$0 | | |
| Auto Parts & Accessories | \$5,160,034 | \$4,011,178 | -22.26% | -4.11% |
| Gasoline Service Stations | \$15,471,981 | \$18,926,642 | 22.33% | 3.42% |
| Other Sources | \$17,371,089 | \$8,410,840 | -51.58% | -11.39% |
| GRAND TOTAL | \$520,006,558 | \$484,175,562 | -6.89% | -1.18% |

Source: ADE, data from City of Capitola, State Board of Equalization, and MBIA.

Notes: All sales figures adjusted to 2005 dollars using the Consumer Price Index.

All store categories indicated with asterisks ("*") are aggregate due to confidentiality restrictions with reporting sales tax data.

Other Sources includes non-store retailers; part-time businesses; closed account adjustments; hotel food sales; vehicle repair; rental/other repair; portrait studios; club food/bar sales; personal services; health services; leasing; gov't/non-profit organizations; business services; food processing/equipment; heavy industry; and, light industry.

SEASONALITY

Even though Capitola attracts a significant number of visitors, the peak period for retail sales is during the 4th Quarter when retailers traditionally attract their highest sales totals. As shown in Table 3, the seasonality does vary by store category with some retail store types, such as automobile dealerships and eating places generating most of their sales during the summer months. (Figure B-6)

FIGURE B-6
CAPITOLA QUARTERLY TAXABLE SALES, 2005 (INFLATION-ADJUSTED)

| Store Type Description | 1 st Quarter | 2 nd Quarter | 3 rd Quarter | 4 th Quarter | Total Year |
|---|-------------------------|-------------------------|-------------------------|-------------------------|----------------------|
| Apparel Store Group | \$9,964,105 | \$11,543,577 | \$12,683,794 | \$13,766,963 | \$47,958,439 |
| Women's and Men's Apparel* | \$3,939,288 | \$4,646,396 | \$4,761,363 | \$4,931,634 | \$18,278,681 |
| Family Clothing | \$4,772,643 | \$5,459,975 | \$6,272,444 | \$6,919,803 | \$23,424,865 |
| Shoe Stores | \$1,252,174 | \$1,437,206 | \$1,649,987 | \$1,915,526 | \$6,254,893 |
| General Merchandise Group | \$21,606,527 | \$22,028,235 | \$23,134,527 | \$31,003,017 | \$97,772,306 |
| Department Stores/Other General Merchandise * | \$17,734,117 | \$17,918,290 | \$19,152,086 | \$26,607,250 | \$81,411,743 |
| Other General Merchandise Stores | \$0 | \$0 | \$0 | \$0 | \$0 |
| Drug & Proprietary Stores | \$3,872,410 | \$4,109,945 | \$3,982,441 | \$4,395,767 | \$16,360,563 |
| Specialty Retail Group | \$17,762,883 | \$20,536,266 | \$21,102,556 | \$23,716,065 | \$83,117,770 |
| Gifts & Novelties | \$1,942,175 | \$2,124,786 | \$2,243,352 | \$2,734,721 | \$9,045,034 |
| Sporting Goods | \$2,747,337 | \$3,917,869 | \$4,167,489 | \$3,539,503 | \$14,372,198 |
| Florists and Photographic Equipment* | \$420,088 | \$530,066 | \$523,216 | \$526,251 | \$1,999,621 |
| Records, Music, Books, & Stationery* | \$1,437,499 | \$1,405,279 | \$1,407,874 | \$2,169,622 | \$6,420,274 |
| Jewelry | \$1,329,290 | \$850,641 | \$779,099 | \$1,342,317 | \$4,301,347 |
| Misc. Specialty Retail/Office Supplies* | \$9,886,494 | \$11,707,625 | \$11,981,526 | \$13,403,651 | \$46,979,296 |
| Food, Eating, and Drinking Group | \$16,946,771 | \$18,973,765 | \$20,624,871 | \$18,656,546 | \$75,201,953 |
| Grocery Stores | \$5,206,933 | \$5,356,864 | \$5,230,208 | \$5,797,287 | \$21,591,292 |
| Specialty Food Stores | \$1,154,429 | \$1,282,565 | \$1,349,988 | \$1,530,668 | \$5,317,650 |
| Eating Places | \$10,585,409 | \$12,334,336 | \$14,044,675 | \$11,328,591 | \$48,293,011 |
| Building Materials and Home Furnishings Group | \$9,352,679 | \$10,737,071 | \$10,668,265 | \$12,532,438 | \$43,290,453 |
| Furniture & Home Furnishings | \$877,309 | \$852,775 | \$888,927 | \$2,441,937 | \$5,060,948 |
| Household Appliances & Electronics/ Used Merchandise* | \$766,333 | \$854,197 | \$880,337 | \$1,059,467 | \$3,560,334 |
| Home Centers and Hardware Stores* | \$7,709,037 | \$9,030,099 | \$8,899,001 | \$9,031,034 | \$34,669,171 |
| Automotive Group | \$30,622,582 | \$32,916,019 | \$36,063,547 | \$28,821,666 | \$128,423,814 |
| New Cars & RVs* | \$26,089,269 | \$27,446,369 | \$29,078,606 | \$22,871,750 | \$105,485,994 |
| Used Car Dealers | \$0 | \$0 | \$0 | \$0 | \$0 |
| Auto Parts & Accessories | \$870,317 | \$1,019,621 | \$1,087,073 | \$1,034,167 | \$4,011,178 |
| Gasoline Service Stations | \$3,662,996 | \$4,450,029 | \$5,897,868 | \$4,915,749 | \$18,926,642 |
| Other Sources | \$1,752,707 | \$2,195,163 | \$2,390,669 | \$2,072,307 | \$8,410,846 |
| GRAND TOTAL | \$108,008,254 | \$118,930,096 | \$126,668,229 | \$130,569,002 | \$484,175,581 |

Source: ADE, data from City of Capitola, State Board of Equalization, and MBIA.

Notes: All store categories indicated with asterisks ("*") are aggregate due to confidentiality restrictions with reporting sales tax data.

Other Sources includes non-store retailers; part-time businesses; closed account adjustments; hotel food sales; vehicle repair; rental/other repair; portrait studios; club food/bar sales; personal services; health services; leasing; gov't/non-profit organizations; business services; food processing/equipment; heavy industry; and, light industry.

RETAIL SALES BY LOCATION

As shown in Figure B-7, Capitola's retail sales largely concentrated in Capitola Mall, Brown Ranch Marketplace, the Auto Plaza, and other retail centers located along 41st Avenue. Together, 41st Avenue retailers account for over 80 percent of the retail sales in Capitola. (Figure B-8) Even though much of Capitola's image to outside visitors is defined by the Village, that shopping district accounts for only about five percent of the citywide retail sales.

CAPITOLA VILLAGE RETAIL TRENDS

Capitola Village is primarily a destination for eating out, with restaurants and take-out establishments. Other well represented store types include apparel stores and specialty retail. In general, Capitola Village followed the overall citywide sales trends in Capitola between 1999 and 2005, with a gradual decline in sales since 2000. The retail sales in the Village totaled about \$30 million in 2005, which represents a decline from the inflation-adjusted peak of \$35 million in 2000. (Figure B-9)

UPPER VILLAGE RETAIL SALES TRENDS

The Upper Village serves as a destination for local-serving retail uses such as grocery stores and drug stores. The area also includes some unique specialty food stores and specialty retail establishments that attract shoppers from outside of Capitola. The Upper Village generally went against the overall retail trends in Capitola, with sales that have gradually increased between 2000 and 2005. (Figure B-10) The Upper Village retail sales in 2005 totaled \$57.5 million. Even though this represented a slight decrease from 2004, it is still significantly higher than the inflation-adjusted sales total of \$45 million generated in 2000, when retail sales elsewhere in Capitola were at their peak.

CAPITOLA MALL RETAIL SALES TRENDS

Capitola Mall is a large-scale regional shopping center with four anchor department stores. Even though national trends have moved away from mall-based retailing, Capitola Mall remains the only enclosed shopping mall in Santa Cruz County, and continues to attract shoppers from well outside of Capitola. Nationally, power center developments anchored by large-scale discount stores and other "big box" uses have eroded sales from mall-based stores, but power center developments have generally stayed out of Santa Cruz County.

The mall remains Capitola's single largest revenue generating retail center, however it has followed the citywide trend of declining retail sales (in inflation-adjusted dollars) in recent years. In 2000, Capitola Mall generated \$186 million in retail sales, and sales at the mall declined to \$159 million by 2005. (Figure B-11)

BROWN RANCH MARKETPLACE RETAIL SALES TRENDS

Brown Ranch Marketplace is anchored by a Trader Joe's grocery store and combines several different types of retailers into one development, some of which primarily serve a local market area and others that can attract customers from throughout the region.

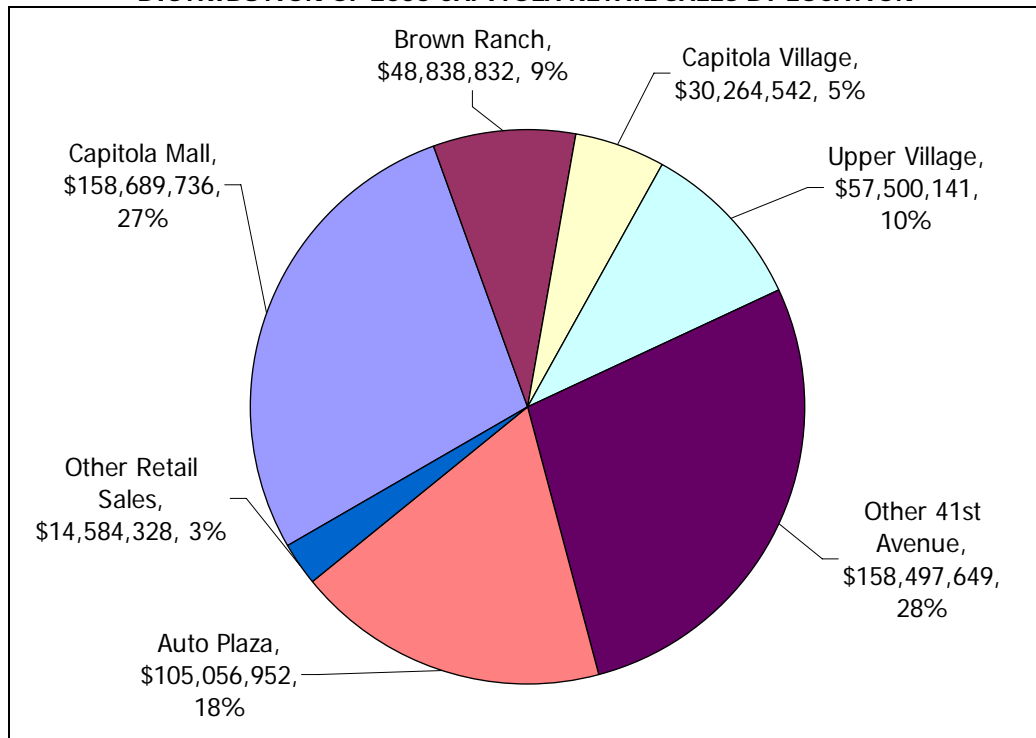
Compared to the citywide retail sales, Brown Ranch Marketplace has generally gone against the prevailing trends in recent years, but saw a large drop in sales between 2004 and 2005. The center generated about \$49 million in retail sales in 2005, which is more than a \$9 million sales decline from 2004. (Figure B-12) Much of this is likely due to the Trader Joe's chain opening a new location in downtown Santa Cruz and diverting customers away from its Brown Ranch Marketplace store. Brown Ranch management has indicated that the 2006 sales trends will likely show a recovery as some former shoppers return to their previous shopping patterns.

OTHER 41ST AVENUE RETAIL SALES TRENDS

The other 41st Avenue retail centers encompass several different shopping centers and standalone retail stores. These retail centers primarily include typical community-level shopping center uses such as supermarkets, drug stores, and personal services. But, the corridor's proximity to Capitola Mall and Brown Ranch Marketplace generates additional market potential for these other retail stores along 41st Avenue.

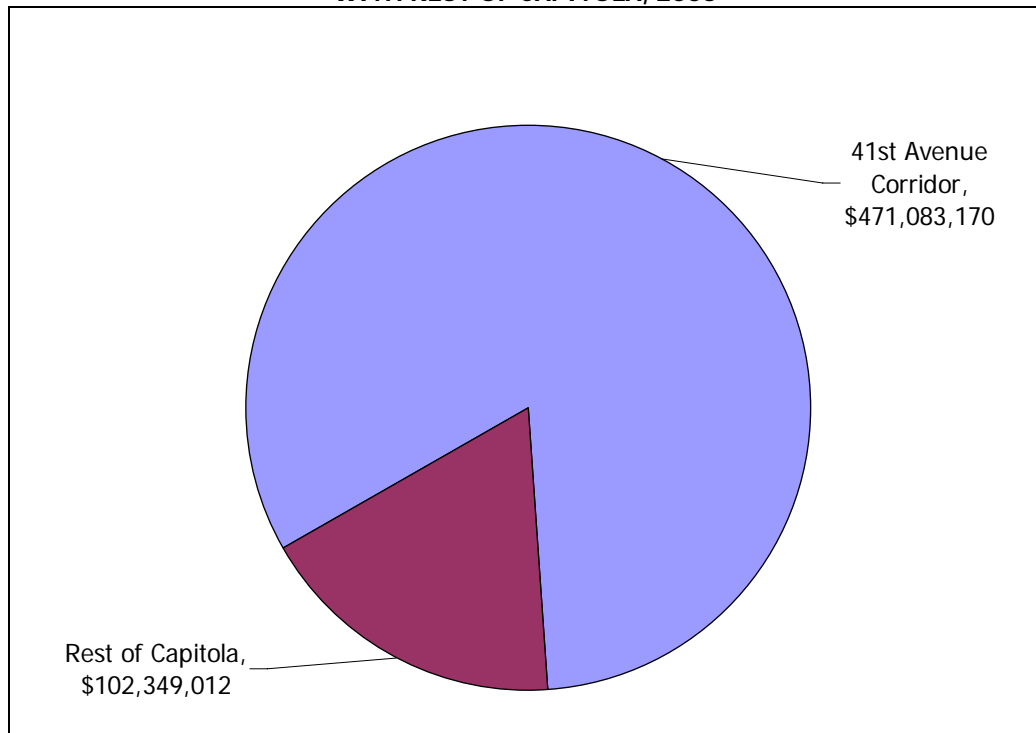
The other retail centers along 41st Avenue generated over \$158 million in retail sales in 2005. In inflation-adjusted dollars, this follows a similar pattern as the citywide sales trend, with a sales peak in 2000 followed by a gradual sales decline. (Figure B-13)

**FIGURE B-7
DISTRIBUTION OF 2005 CAPITOLA RETAIL SALES BY LOCATION**



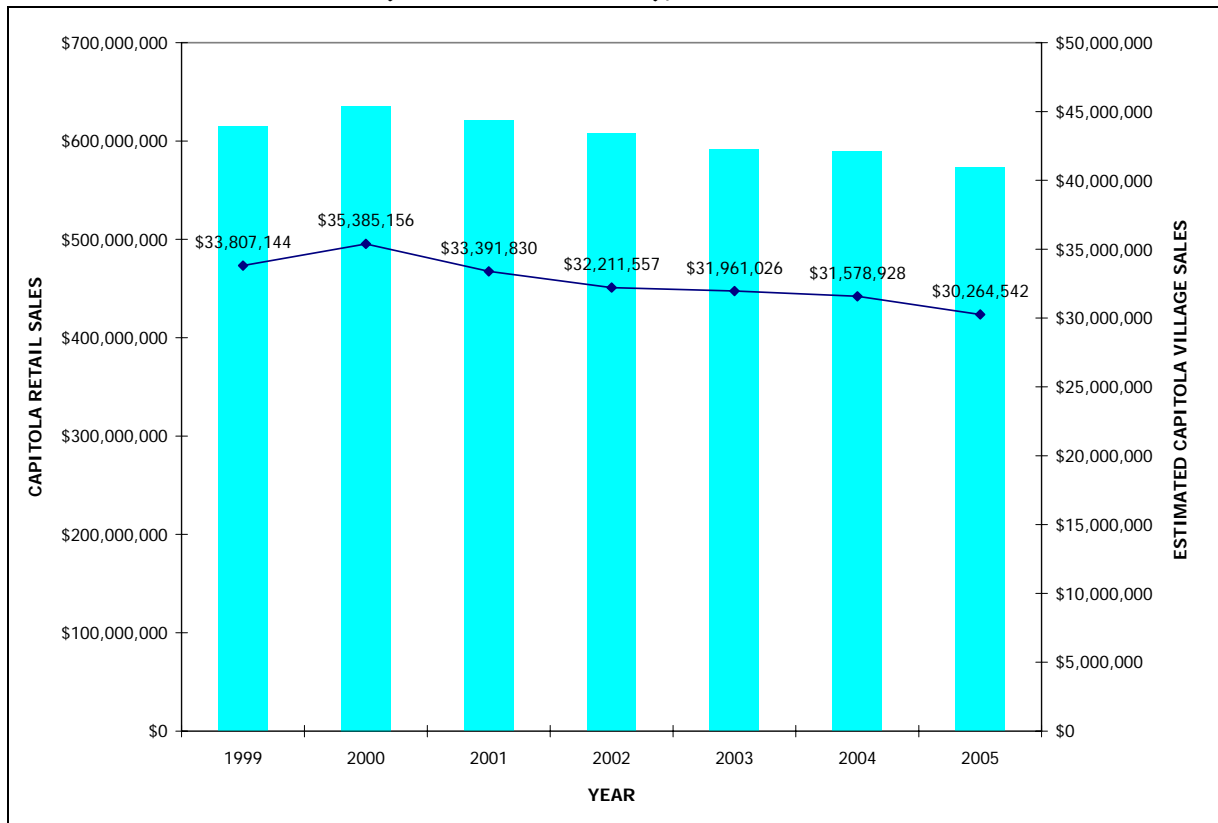
Source: ADE, data from Board of Equalization and MBIA.

**FIGURE B-8
COMPARISON OF 41ST AVENUE CORRIDOR RETAIL SALES (INC. AUTO PLAZA)
WITH REST OF CAPITOLA, 2005**



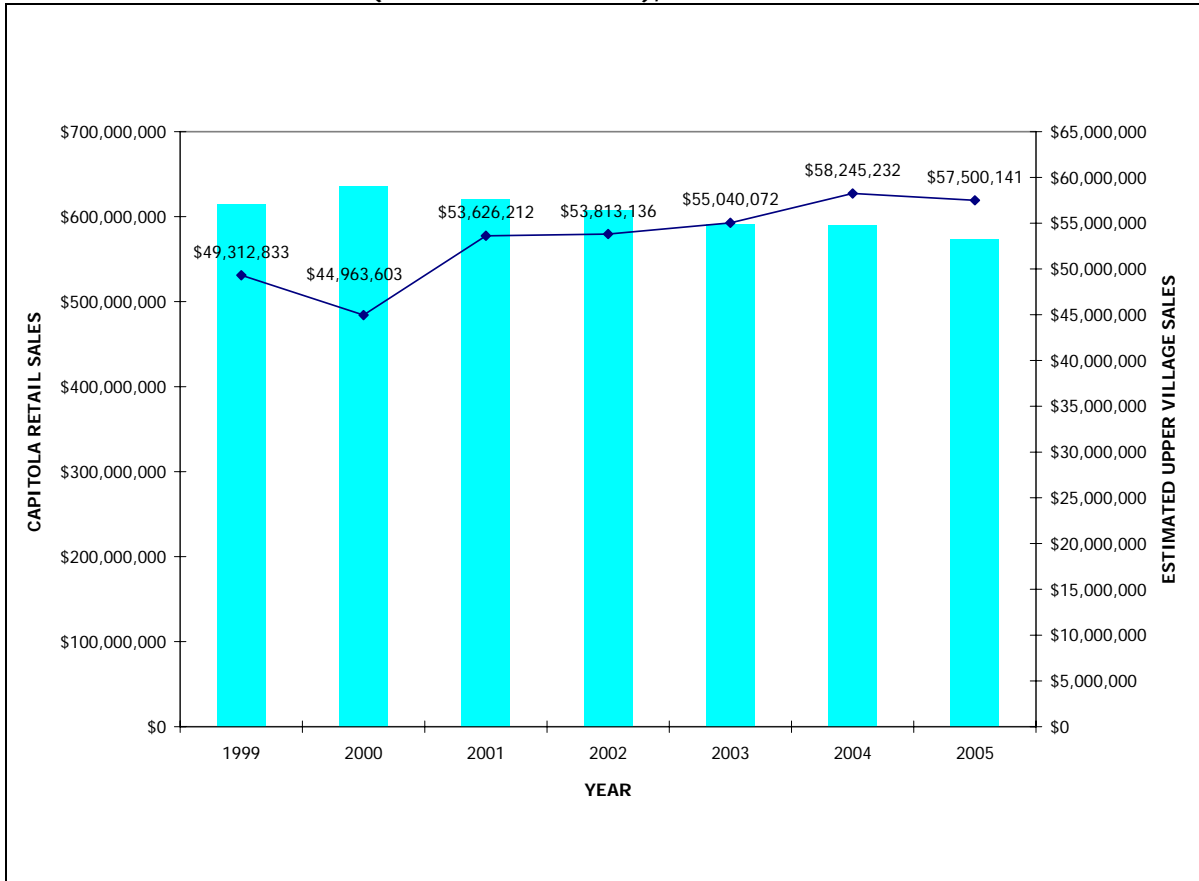
Source: ADE, data from Board of Equalization and MBIA.

**FIGURE B-9
COMPARISON OF CAPITOLA VILLAGE SALES TREND WITH CITYWIDE RETAIL TREND
(INFLATION-ADJUSTED), 1999 TO 2005**



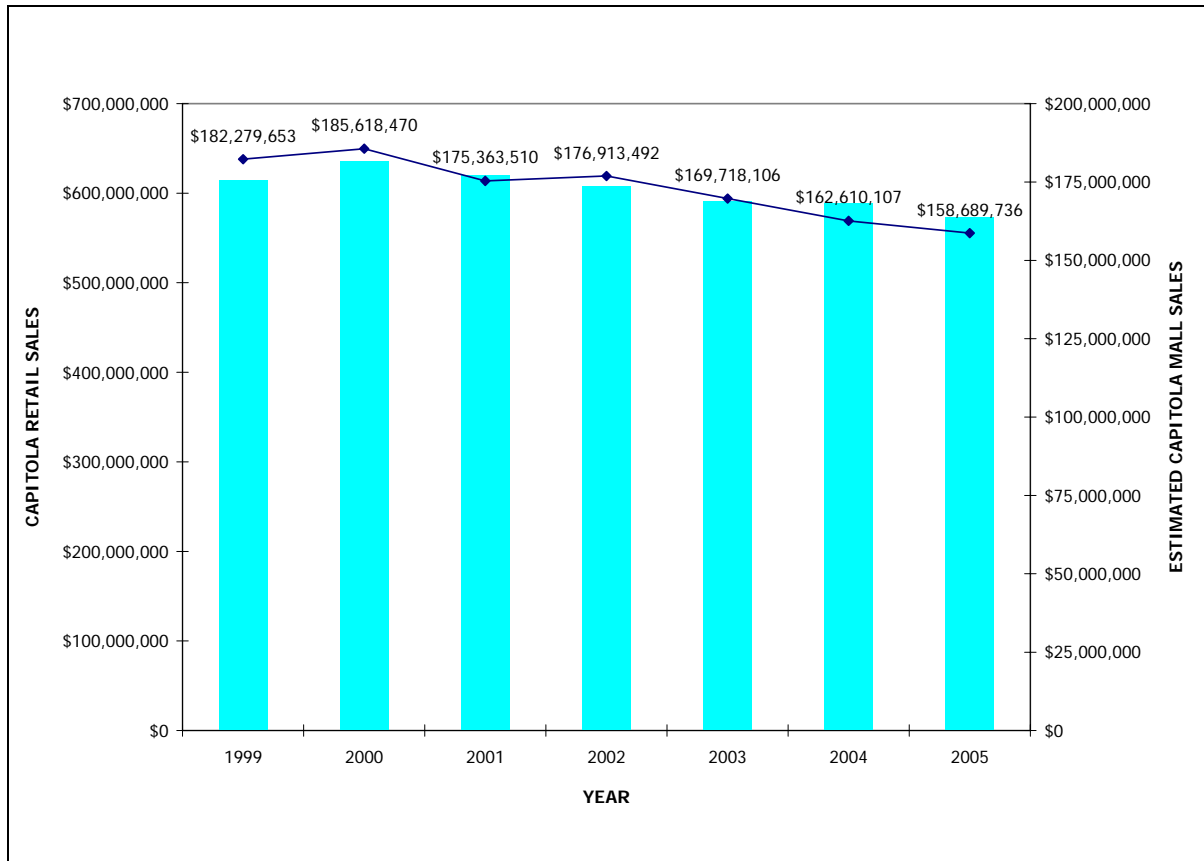
Source: ADE, data from Board of Equalization and MBIA. Data adjusted for inflation using CPI.

FIGURE B-10
COMPARISON OF UPPER VILLAGE RETAIL SALES TREND WITH CITYWIDE RETAIL TREND
(INFLATION-ADJUSTED), 1999 TO 2005



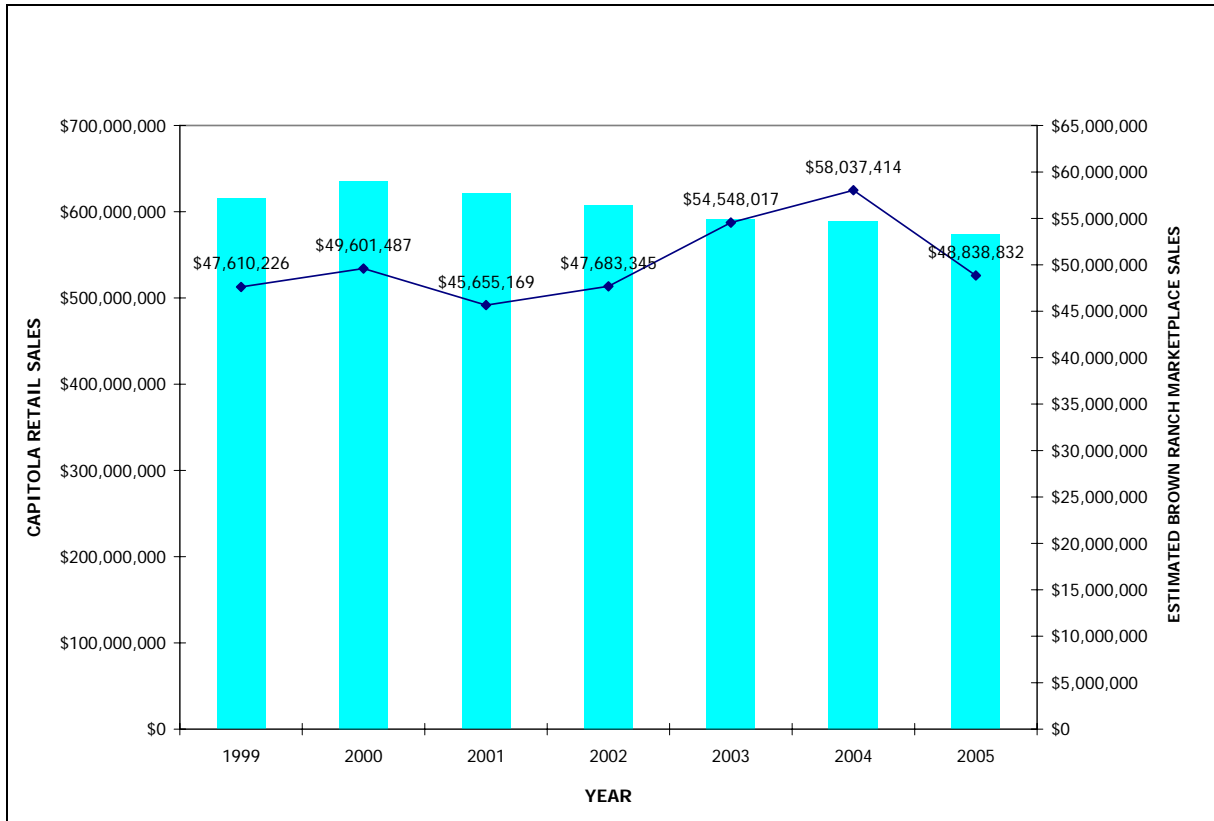
Source: ADE, data from Board of Equalization and MBIA. Data adjusted for inflation using CPI.

FIGURE B-11
COMPARISON OF CAPITOLA MALL SALES TREND WITH CITYWIDE RETAIL TREND
(INFATION-ADJUSTED), 1999 TO 2005



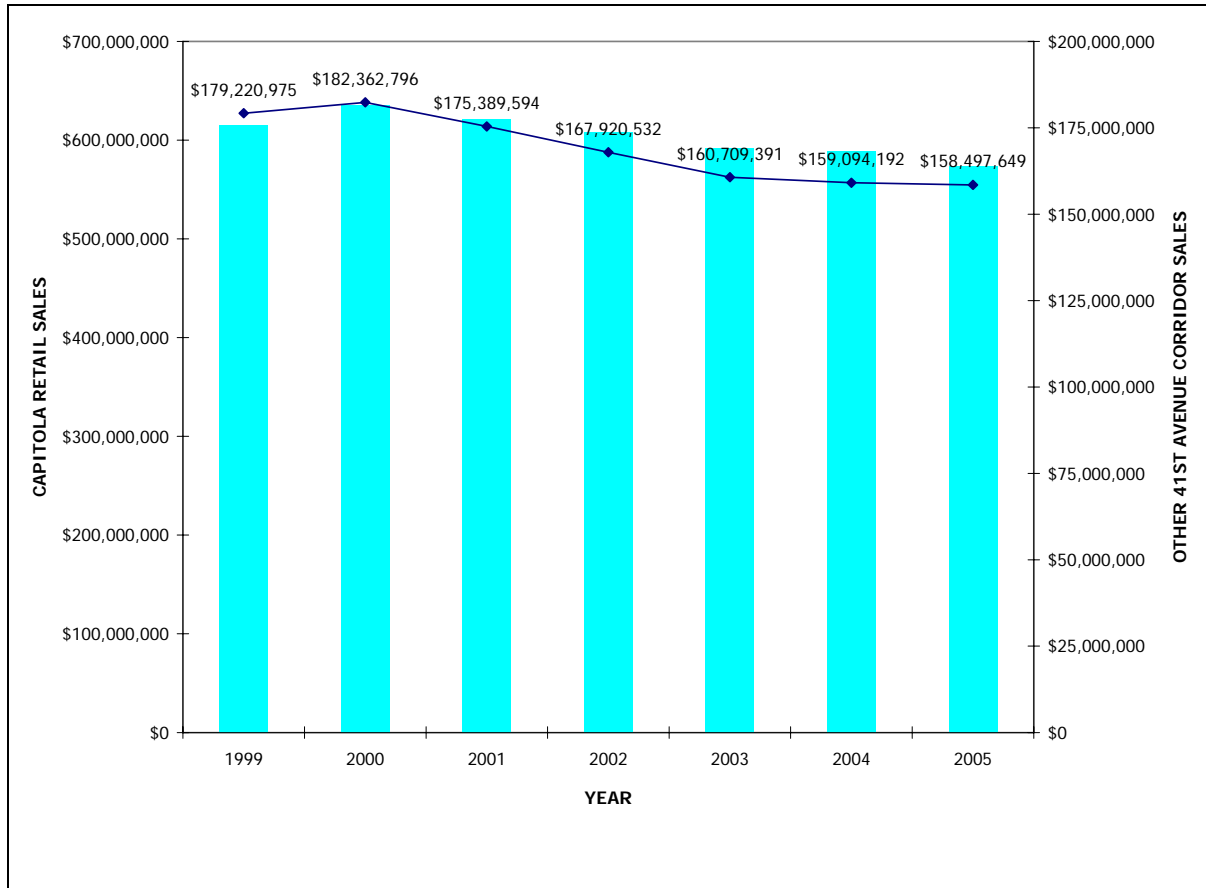
Source: ADE, data from Board of Equalization and MBIA. Data adjusted for inflation using CPI.

FIGURE B-12
COMPARISON OF BROWN RANCH MARKETPLACE SALES TREND WITH CITYWIDE RETAIL TREND
(INFATION-ADJUSTED), 1999 TO 2005



Source: ADE, data from Board of Equalization and MBIA. Data adjusted for inflation using CPI.

FIGURE B-13
COMPARISON OF 41ST AVENUE CORRIDOR (OTHER RETAIL CENTERS) SALES TREND
WITH CITYWIDE RETAIL TREND (INFLATION-ADJUSTED), 1999 TO 2005



Source: ADE, data from Board of Equalization and MBIA. Data adjusted for inflation using CPI.

LEAKAGE OF SPENDING BY LOCAL RESIDENTS

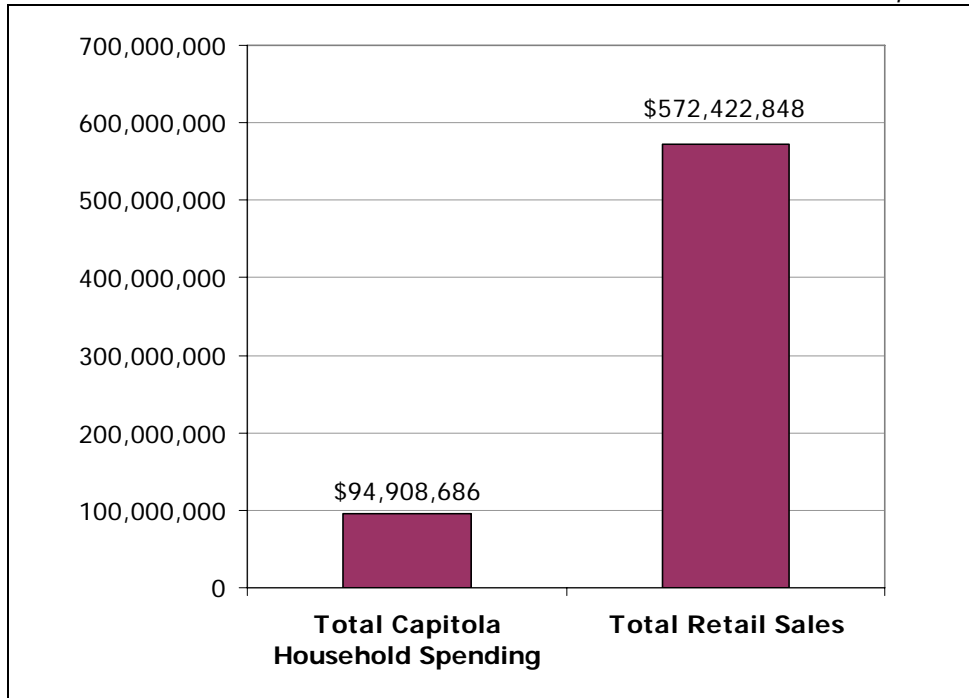
Retail leakage represents the household spending by market area residents that is not spent at retailers in Capitola. However, as shown in Figure B-14 and Figure B-17, Capitola is a net regional retail provider because it attracts far higher sales than the local household population can support by itself. By comparing the \$572 million in retail sales with the \$95 million in local household retail spending, Capitola has a total net regional capture of \$477 million. Because Capitola already attracts a sizable spending base from a variety of different consumers (such as residents from surrounding communities, commuters who work in Capitola, and tourists), the retail attraction opportunities will more likely come through diversifying the City's retail niche and expanding upon existing strengths than on finding underserved markets.

As shown in Figure B-15, the store categories with the largest regional capture of sales are primarily the new vehicle dealerships, department stores, and grocery stores. It should be noted though that even though Capitola has a large net capture of department store sales, the community also does not have any large discount stores. The community will continue to capture significant spending in the department store category, primarily because department stores typically locate in traditional regional malls, and Capitola Mall is the only shopping center of its kind in Santa Cruz County.

As shown in Figure B-16, Capitola has a very limited number of retail categories where the local household spending exceeds the existing retail sales. The largest retail category with leakage of retail spending is Other General Merchandise. This category includes both variety stores and warehouse clubs. The other retail categories with more than \$1 million of retail leakage are home improvement and used car dealerships.

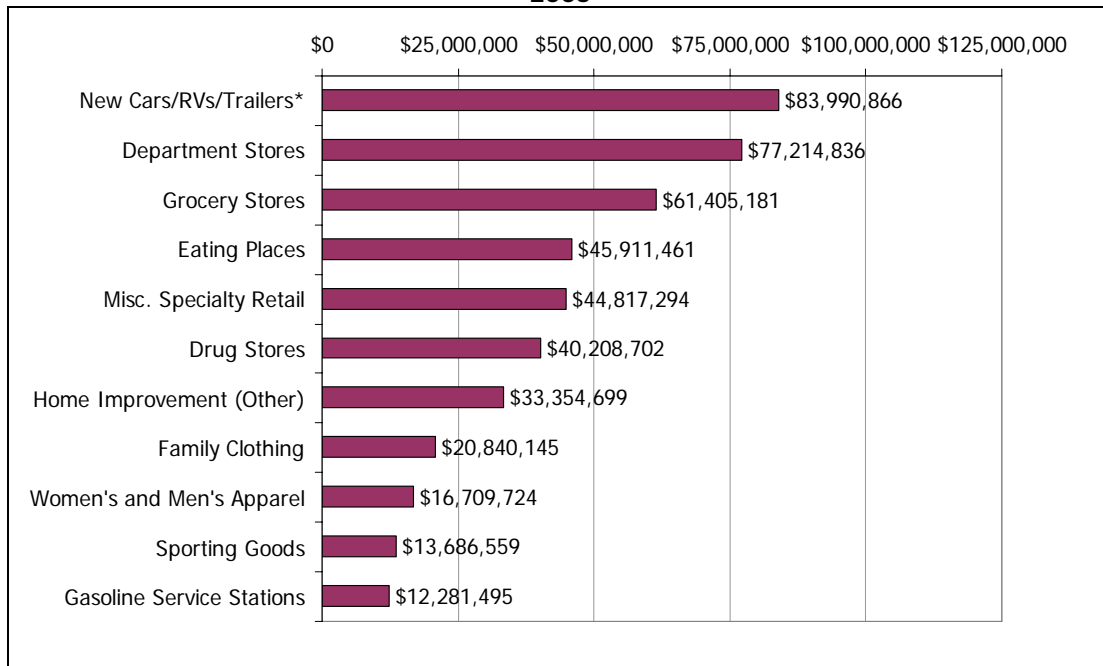
It should be noted that store categories with retail leakage represent both an existing shortfall, as well as a short-term opportunity for new retail store attraction. However, in order for leakage to translate into potential for new stores, the leakage has to be large enough to support a viable establishment. For these categories where Capitola has more than \$1 million in existing household retail spending leakage, the leakage occurs in categories that typically require significant market support. For example, warehouse clubs can generate more than \$50 million in revenue.

FIGURE B-14
COMPARISON OF CAPITOLA HOUSEHOLD SPENDING AND RETAIL SALES, 2005



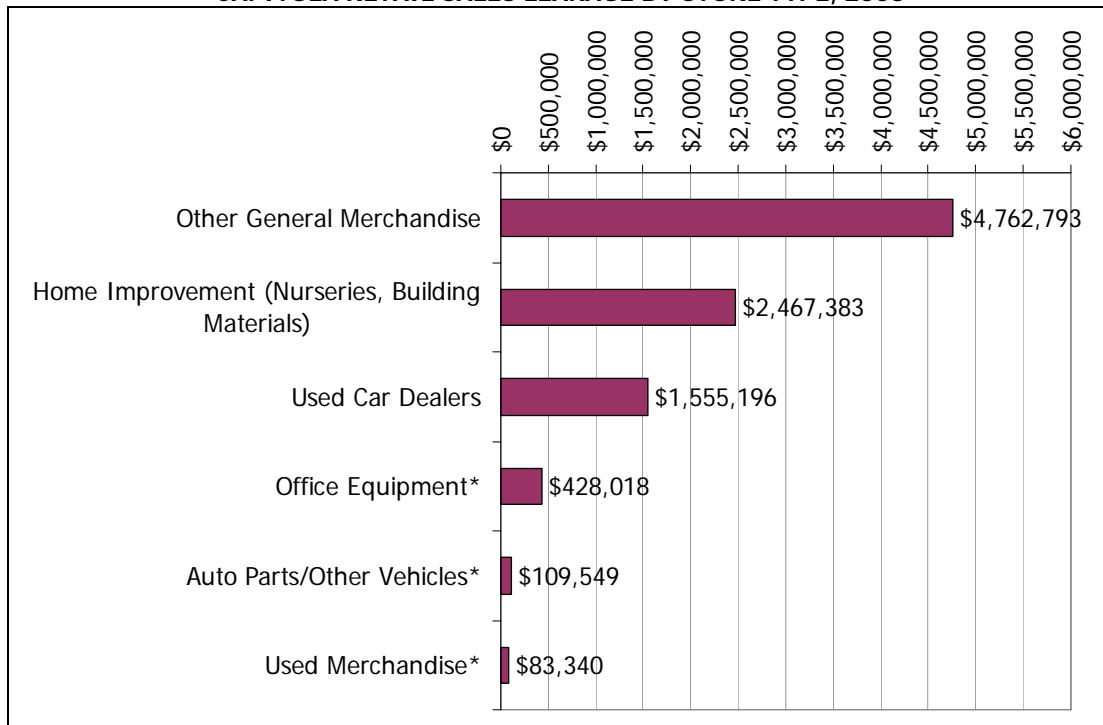
Source: ADE, data from Board of Equalization and MBIA. Retail model developed from Economic Census, and the Bureau of Labor Statistics Household Expenditure Surveys.

FIGURE B-15
CAPITOLA RETAIL STORE CATEGORIES WITH LARGEST NET CAPTURE OF REGIONAL SALES, 2005



Source: ADE, data from Board of Equalization and MBIA. Retail model developed from Economic Census, and the Bureau of Labor Statistics Household Expenditure Surveys.

FIGURE B-16
CAPITOLA RETAIL SALES LEAKAGE BY STORE TYPE, 2005



Source: ADE, data from Board of Equalization and MBIA. Retail model developed from Economic Census, and the Bureau of Labor Statistics Household Expenditure Surveys.

FIGURE B-17
RETAIL SALES, LEAKAGE, AND REGIONAL SALES CAPTURE IN THE CITY OF
CAPITOLA, 2005

| Retail Group | Household Retail Demand | Total Retail Sales | Sales Leakages | Net Capture of Regional Sales |
|---|--|-------------------------------|---------------------------|--|
| Apparel Store Group | \$5,198,632 | \$47,958,439 | \$0 | \$42,759,807 |
| Women's and Men's Apparel* | \$1,568,957 | \$18,278,681 | \$0 | \$16,709,724 |
| Family Clothing | \$2,584,720 | \$23,424,865 | \$0 | \$20,840,145 |
| Shoe Stores | \$1,044,955 | \$6,254,893 | \$0 | \$5,209,938 |
| General Merchandise Group | \$17,784,548 | \$130,445,293 | \$4,762,793 | \$117,423,538 |
| Department Stores/Other General Merch. | \$9,485,636 | \$86,700,472 | \$0 | \$77,214,836 |
| Other General Merchandise | \$4,762,793 | \$0 | \$4,762,793 | \$0 |
| Drug & Proprietary Stores | \$3,536,119 | \$43,744,821 | \$0 | \$40,208,702 |
| Specialty Retail Group | \$5,889,026 | \$83,823,893 | \$428,018 | \$78,362,884 |
| Gifts & Novelties | \$439,412 | \$9,164,168 | \$0 | \$8,724,756 |
| Sporting Goods | \$700,026 | \$14,386,585 | \$0 | \$13,686,559 |
| Florists and Photographic Equipment* | \$263,857 | \$2,001,724 | \$0 | \$1,737,867 |
| Records, Music, Books, & Stationery* | \$857,193 | \$6,420,274 | \$0 | \$5,563,081 |
| Jewelry | \$472,324 | \$4,305,653 | \$0 | \$3,833,328 |
| Misc. Specialty Retail | \$3,156,214 | \$47,545,490 | \$428,018 | \$44,817,294 |
| Food, Eating and Drinking Group | \$24,459,685 | \$136,884,632 | \$0 | \$112,424,946 |
| Grocery Stores | \$15,484,987 | \$76,890,168 | \$0 | \$61,405,181 |
| Specialty Food and Liquor Stores | \$1,227,259 | \$6,335,563 | \$0 | \$5,108,305 |
| Eating Places | \$7,747,440 | \$53,658,901 | \$0 | \$45,911,461 |
| Building Materials And Homefurnishings Group | \$9,123,365 | \$43,330,041 | \$2,550,723 | \$36,757,399 |
| Furniture & Home Furnishings | \$3,452,315 | \$5,071,090 | \$0 | \$1,618,775 |
| Household Appliances & Electronics* | \$1,859,749 | \$3,560,334 | \$83,340 | \$1,783,925 |
| Home Centers and Hardware Stores* | \$3,811,301 | \$34,698,617 | \$2,467,383 | \$33,354,699 |
| Automotive Group | \$32,453,429 | \$129,980,551 | \$1,664,744 | \$99,191,866 |
| New Cars & RVs* | \$21,495,128 | \$105,485,994 | \$0 | \$83,990,866 |
| Used Car Dealers | \$1,555,196 | \$0 | \$1,555,196 | \$0 |
| Gasoline Service Stations | \$8,201,884 | \$20,483,379 | \$0 | \$12,281,495 |
| Auto Parts & Accessories* | \$1,201,222 | \$4,011,178 | \$109,549 | \$2,919,505 |
| TOTAL | \$94,908,686 | \$572,422,848 | \$9,406,278 | \$486,920,440 |

Source: ADE, retail model developed from 1997 US Retail Census, and the 2002 Bureau of Labor Statistics Household Expenditure Surveys. Data Adjusted for inflation using CPI.

Notes: All store categories indicated with asterisks ("*") are aggregate due to confidentiality restrictions with reporting sales tax data.

Other Sources includes non-store retailers; part-time businesses; closed account adjustments; hotel food sales; vehicle repair; rental/other repair; portrait studios; club food/bar sales; personal services; health services; leasing; govt./non-profit organizations; business services; food processing/equipment; heavy industry; and, light industry.

APPENDIX C: ECONOMIC BASE ANALYSIS

This section examines how the Capitola job base is structured and evaluates the city's role within the Santa Cruz County economy. In addition, the Economic Base Analysis assesses the roles of different industries within the region in order to identify opportunities for Capitola. Identifying these roles is important because many of Capitola's best economic growth and diversification opportunities come first from those industries that have shown the best growth potential elsewhere in the region.

1. CAPITOLA EMPLOYMENT BASE

Capitola's employment distribution provides a context for comparison with the rest of the region, and a basis from which to identify potential sectors for business attraction and expansion. Overall, Capitola has very strong concentrations of businesses and jobs in retail trade, and visitor-serving industries such as accommodations and food service. Based on available data at the city level, the estimated 2004 employment in Capitola totals 6,871 jobs, as shown in Figure C-1.

FIGURE C-1
TOTAL EMPLOYMENT BY INDUSTRY GROUP IN CAPITOLA AND SANTA CRUZ COUNTY, 2004

| Industry Group Description | Capitola Employment | Percent of Total | Santa Cruz County | Percent of Total |
|---|------------------------|---------------------|----------------------|---------------------|
| Forestry, fishing, hunting, and agriculture | 0 | 0.0% | 7,679 | 9.7% |
| Mining | 4 | 0.1% | 28 | 0.0% |
| Utilities | 6 | 0.1% | 133 | 0.2% |
| Construction | 143 | 2.1% | 5,368 | 6.8% |
| Manufacturing | 52 | 0.8% | 7,053 | 8.9% |
| Wholesale trade | 60 | 0.9% | 3,567 | 4.5% |
| Retail trade | 2,692 | 39.2% | 12,993 | 16.4% |
| Transportation & warehousing | 15 | 0.2% | 1,312 | 1.7% |
| Information | 63 | 0.9% | 1,812 | 2.3% |
| Finance & insurance | 639 | 9.3% | 2,228 | 2.8% |
| Real estate & rental & leasing | 249 | 3.6% | 1,483 | 1.9% |
| Professional, scientific & technical services | 267 | 3.9% | 4,133 | 5.2% |
| Management of companies & enterprises | 10 | 0.2% | 1,628 | 2.1% |
| Administrative services | 286 | 4.2% | 3,298 | 4.2% |
| Educational services | 42 | 0.6% | 1,300 | 1.6% |
| Health care and social assistance | 549 | 8.0% | 10,138 | 12.8% |
| Arts, entertainment & recreation | 177 | 2.6% | 1,870 | 2.4% |
| Accommodation & food services | 1,298 | 18.9% | 9,278 | 11.7% |
| Other services (except public sector) | 323 | 4.7% | 3,947 | 5.0% |
| Total | 6,871 | 100.0% | 79,248 | 100.0% |

Source: ADE, data from IMPLAN CEW county employment database, and U.S. Census ZIP Business Patterns.

2. REGIONAL EMPLOYMENT TRENDS

Between 1992 and 2004, the job growth in Santa Cruz County did not keep pace with statewide trends, as shown in Figure C-2. During this time, California's job base expanded by 20 percent, while it largely remained unchanged in Santa Cruz County. The strongest performing industry groups were primarily related to tourism, construction, health care, and professional services. During this time, the job gains in these industry groups were offset by large losses in sectors such as agriculture, manufacturing, information, and management.

A more recent trend between 2001 and 2004 indicates that Santa Cruz County had a notable job decline of 7.6 percent, while the rest of California had minimal net change in employment. Most industry groups in Santa Cruz County lost employment during this time, while health care, construction, wholesale trade, finance, and educational services continued to grow.

FIGURE C-2
COMPARISON OF EMPLOYMENT TRENDS IN SANTA CRUZ COUNTY AND CALIFORNIA, 1992-2004

| Industry Group | Santa Cruz County | | | | California | | | |
|--|-------------------|---------------|------------------------------|--------------------|-------------------|-------------------|------------------------------|--------------------|
| | 1992 | 2004 | Percent Change (1992 - 2003) | Annual Growth Rate | 1992 | 2004 | Percent Change (1992 - 2003) | Annual Growth Rate |
| Agriculture, forestry, fishing and hunting | 10,950 | 7,679 | -29.9% | -2.9% | 353,845 | 371,486 | 5.0% | 0.4% |
| Mining | 165 | 28 | -83.0% | -13.7% | 32,642 | 21,245 | -34.9% | -3.5% |
| Utilities | 184 | 133 | -27.7% | -2.7% | 67,033 | 55,972 | -16.5% | -1.5% |
| Construction | 3,368 | 5,368 | 59.4% | 4.0% | 497,358 | 845,061 | 69.9% | 4.5% |
| Manufacturing | 11,059 | 7,053 | -36.2% | -3.7% | 1,794,077 | 1,517,905 | -15.4% | -1.4% |
| Wholesale trade | 3,240 | 3,567 | 10.1% | 0.8% | 551,881 | 650,255 | 17.8% | 1.4% |
| Retail Trade | 11,343 | 12,993 | 14.5% | 1.1% | 1,376,968 | 1,614,073 | 17.2% | 1.3% |
| Transportation and Warehousing | 1,342 | 1,312 | -2.2% | -0.2% | 357,468 | 409,541 | 14.6% | 1.1% |
| Information | 2,820 | 1,812 | -35.7% | -3.6% | 399,404 | 483,291 | 21.0% | 1.6% |
| Finance and insurance | 2,050 | 2,228 | 8.7% | 0.7% | 555,393 | 619,643 | 11.6% | 0.9% |
| Real estate and rental and leasing | 1,372 | 1,483 | 8.1% | 0.7% | 239,505 | 276,645 | 15.5% | 1.2% |
| Professional and technical services | 3,464 | 4,133 | 19.3% | 1.5% | 681,717 | 911,512 | 33.7% | 2.5% |
| Management of companies and enterprises | 2,739 | 1,628 | -40.6% | -4.2% | 222,758 | 233,487 | 4.8% | 0.4% |
| Administrative and waste services | 2,901 | 3,298 | 13.7% | 1.1% | 607,205 | 939,127 | 54.7% | 3.7% |
| Educational services | 685 | 1,300 | 89.8% | 5.5% | 151,773 | 232,583 | 53.2% | 3.6% |
| Health care and social assistance | 8,661 | 10,138 | 17.1% | 1.3% | 989,256 | 1,284,479 | 29.8% | 2.2% |
| Arts, entertainment, and recreation | 1,820 | 1,870 | 2.7% | 0.2% | 178,185 | 236,658 | 32.8% | 2.4% |
| Accommodation and food services | 7,847 | 9,278 | 18.2% | 1.4% | 942,624 | 1,192,888 | 26.5% | 2.0% |
| Other services, except public administration | 2,964 | 3,947 | 33.2% | 2.4% | 457,272 | 665,942 | 45.6% | 3.2% |
| TOTAL | 78,974 | 79,248 | 0.3% | 0.0% | 10,456,364 | 12,561,793 | 20.1% | 1.5% |

Source: ADE, data from U.S. Census ZIP Code Business Patterns, and IMPLAN CEW county employment database. Data does not include public sector and self-employment.

Notes: A positive relative growth value indicates that Santa Cruz County added employment in a particular industry at a higher rate than at the state level, or the employment declined at a slower rate. A negative value indicates that an industry in the comparison region declined faster than the industry did statewide, or that it grew at a slower rate.

FIGURE C-3
COMPARISON OF EMPLOYMENT TRENDS IN SANTA CRUZ COUNTY AND CALIFORNIA, 2001-2004

| Industry | Santa Cruz County | | | | California | | | |
|--|-------------------|---------------|------------------------------|--------------------|-------------------|-------------------|------------------------------|--------------------|
| | 2001 | 2004 | Percent Change (1992 - 2003) | Annual Growth Rate | 2001 | 2004 | Percent Change (1992 - 2003) | Annual Growth Rate |
| Agriculture, forestry, fishing and hunting | 8,074 | 7,679 | -4.9% | -1.2% | 383,789 | 371,486 | -3.2% | -0.8% |
| Mining | 40 | 28 | -30.0% | -8.5% | 23,601 | 21,245 | -10.0% | -2.6% |
| Utilities | 114 | 133 | 16.7% | 3.9% | 54,440 | 55,972 | 2.8% | 0.7% |
| Construction | 4,804 | 5,368 | 11.7% | 2.8% | 774,010 | 845,061 | 9.2% | 2.2% |
| Manufacturing | 8,988 | 7,053 | -21.5% | -5.9% | 1,780,544 | 1,517,905 | -14.8% | -3.9% |
| Wholesale trade | 3,374 | 3,567 | 5.7% | 1.4% | 652,986 | 650,255 | -0.4% | -0.1% |
| Retail Trade | 14,001 | 12,993 | -7.2% | -1.9% | 1,572,113 | 1,614,073 | 2.7% | 0.7% |
| Transportation and Warehousing | 1,562 | 1,312 | -16.0% | -4.3% | 440,071 | 409,541 | -6.9% | -1.8% |
| Information | 2,534 | 1,812 | -28.5% | -8.0% | 527,212 | 483,291 | -8.3% | -2.2% |
| Finance and insurance | 2,101 | 2,228 | 6.0% | 1.5% | 565,644 | 619,643 | 9.5% | 2.3% |
| Real estate and rental and leasing | 1,946 | 1,483 | -23.8% | -6.6% | 266,402 | 276,645 | 3.8% | 0.9% |
| Professional and technical services | 5,283 | 4,133 | -21.8% | -6.0% | 968,088 | 911,512 | -5.8% | -1.5% |
| Management of companies and enterprises | 2,154 | 1,628 | -24.4% | -6.8% | 291,905 | 233,487 | -20.0% | -5.4% |
| Administrative and waste services | 4,043 | 3,298 | -18.4% | -5.0% | 950,395 | 939,127 | -1.2% | -0.3% |
| Educational services | 1,179 | 1,300 | 10.3% | 2.5% | 211,427 | 232,583 | 10.0% | 2.4% |
| Health care and social assistance | 9,432 | 10,138 | 7.5% | 1.8% | 1,201,549 | 1,284,479 | 6.9% | 1.7% |
| Arts, entertainment, and recreation | 1,903 | 1,870 | -1.7% | -0.4% | 225,490 | 236,658 | 5.0% | 1.2% |
| Accommodation and food services | 10,213 | 9,278 | -9.2% | -2.4% | 1,134,613 | 1,192,888 | 5.1% | 1.3% |
| Other services, except public administration | 4,008 | 3,947 | -1.5% | -0.4% | 586,913 | 665,942 | 13.5% | 3.2% |
| TOTAL | 85,753 | 79,248 | -7.6% | -2.0% | 12,611,192 | 12,561,793 | -0.4% | -0.1% |

Source: ADE, data from U.S. Census ZIP Code Business Patterns, and IMPLAN CEW county employment database. Data does not include public sector and self-employment.

Notes: A positive relative growth value indicates that Santa Cruz County added employment in a particular industry at a higher rate than at the state level, or the employment declined at a slower rate. A negative value indicates that an industry in the comparison region declined faster than the industry did statewide, or that it grew at a slower rate.

3. ASSESSING REGIONAL ECONOMIC ROLES

To assess the roles that different economic sectors have within the regional economy, ADE ranked the industries in Santa Cruz County on the basis of two key economic indicators—job growth and employment concentration relative to the State of California. Noting the recent performance and economic roles for specific industries within the region will help identify potential target industries for Capitola’s business attraction efforts, as well as potentially vulnerable industries that might require outreach and retention resources. These industries are shown at a more detailed three-digit NAICS code level in Figures C-4 and C-5. The economic roles based on these indicators fall into four categories, which are described as follows:

- **Growing Economic Base Industries:** These industries have shown recent job growth and have an above-average employment concentration. They constitute the strength of the economy and represent opportunities for growth in other areas such as supplier industries.
- **Emerging Industries:** These sectors have shown recent job growth, but still have a below-average employment concentration. These industries represent potential future growth opportunities because they have not yet accumulated a high concentration of employment. Industries in this category could be considered attractive business attraction targets.
- **Declining Economic Base Industries:** These industries have an above-average concentration of employment, but have shown recent job losses. They represent strong industries in a region that have shown some recent vulnerability and could be considered business retention targets.
- **Declining Non-Base Industries:** These industries have shown recent job losses and have below-average employment concentration. They do not have an especially notable regional presence and do not have growth prospects as strong as the industries in the other categories.

Table C-4 shows the economic roles that various industries had between 1992 and 2004, while Table C-5 shows these roles using a shorter growth interval between 2001 and 2004. The detailed trend and employment concentration data is shown in Tables C-6 and C-7.

GROWING ECONOMIC BASE INDUSTRIES

For the period between 1992 and 2004, the growing economic base industries were generally in visitor-serving sectors such as accommodations, recreation services, and food service. Other growing base industries included construction, health care industries, some agricultural sectors, and some manufacturing.

Because the overall employment base declined between 2001 and 2004, the range of growing economic base industries during this period was narrower. Most of the tourism related industries lost employment during this time, as the number of visitors to Santa Cruz County declined. Other highly concentrated industries such as construction, health care, and some limited sectors in agriculture and manufacturing continued to grow during this period despite the overall employment decline.

Typically, growing economic base industries represent the starting point from which a comprehensive economic development program should begin, because these industries not only lead the regional economy but also provide opportunities for suppliers and allied industries.

EMERGING INDUSTRIES

Emerging industries are considered good business attraction and expansion targets because they represent future potential and could eventually transition into the leading economic base industries for a locality or region.

The industries in Santa Cruz County that showed employment growth between 1992 and 2004, but had not yet generated a high employment concentration by 2004 include a variety of manufacturing, transportation, information services, financial services, and professional services sectors. This represents a diverse group of potential industry targets for Capitola, based on the longer-term growth trends. When looking at the period between 2001 and 2004, the emerging industries comprise a narrower range that are mostly in manufacturing, financial services, and some transportation sectors.

DECLINING ECONOMIC BASE INDUSTRIES

The declining economic base industries with above-average employment concentrations and job losses between 1992 and 2004 comprised a relatively short list. These vulnerable sectors include food processing, management services, and crop production. This indicates that during that time, most of the industries in Santa Cruz County that had a high employment concentration also added jobs. However, the more recent short-term trend between 2001 and 2004 shows that several tourism-oriented industries lost employment and should be considered potentially vulnerable.

It should be noted that tourism has seen a recent upsurge, and has generally recovered from its severe declines in 2001 and 2002. These industries remain highly concentrated in Santa Cruz County, and a very important part of the Capitola economy. As the tourism sector continues its recovery, it will likely remain a significant leading driver of the economy in Santa Cruz County.

While declining economic base industries have shown signs of vulnerability at a regional level, this does not necessarily mean that specific businesses in these industries are in imminent danger of closure. Well managed companies that are competitive within their market can continue to succeed and grow even under otherwise declining market

conditions. The issue for the City is to be aware of which prominent businesses in Capitola might be affected by larger economic trends and market declines. Often, business retention efforts will focus on these types of businesses and seek to address any competitiveness issues that can be addressed at the local level. Depending on the importance of these industries to Capitola's employment base, the City can proactively address these issues as needed.

DECLINING NON-BASE INDUSTRIES

The range of industries in the region with lower concentrations of employment and declining employment between 1992 and 2004 are generally in utilities, manufacturing, transportation, and information services industries. Between 2001 and 2004, the declining industries also included sectors in professional services, and management services.

This is an important consideration for Capitola, in assessing the areas with the best opportunities for diversification. The job losses at the regional level have cut across several different manufacturing and information services sectors. The lower-than-average concentrations of these industries throughout Santa Cruz County indicate that pursuing these types of businesses might not work for Capitola as a long-term economic development strategy. However, the more recent economic recovery in Silicon Valley's information technology sector might point to growth in those sectors in Santa Cruz County once the updated employment data becomes available.

For those businesses in Capitola that are in this category, the City needs to be aware of which ones are important to the local economy and also successfully compete in their markets. This process of getting to know the important businesses in Capitola is an integral part of a comprehensive Business Retention and Expansion (BRE) program, and an important process in deciding how to allocate economic development resources. Important local businesses might be worth targeting for business retention activities despite what the regional indicators might show.

FIGURE C-4
ECONOMIC ROLES OF INDUSTRIES IN SANTA CRUZ COUNTY, 1992-2004

| Declining Economic Base Industries | | Growing Economic Base Industries | |
|---|--|---|--|
| 111 | <i>Crop production</i> | 112 | Animal production |
| 311 | <i>Food manufacturing</i> | 113 | Forestry and logging |
| 327 | <i>Nonmetallic mineral product manufacturing</i> | 23 | <i>Construction</i> |
| 511 | <i>Publishing industries, except Internet</i> | 325 | Chemical manufacturing |
| 551 | <i>Management of companies and enterprises</i> | 331 | Primary metal manufacturing |
| | | 525 | Funds, trusts, and other financial vehicles |
| | | 621 | <i>Ambulatory health care services</i> |
| | | 622 | Hospitals |
| | | 623 | <i>Nursing and residential care facilities</i> |
| | | 624 | <i>Social assistance</i> |
| | | 713 | <i>Amusements, gambling, and recreation</i> |
| | | 721 | Accommodation |
| | | 722 | <i>Food services and drinking places</i> |
| | | 813 | Membership associations and organizations |
| Declining Non-Base Industries | | Emerging Industries | |
| 115 | <i>Agriculture and forestry support activities</i> | 313 | Textile mills |
| 212 | <i>Mining, except oil and gas</i> | 314 | Textile product mills |
| 213 | <i>Support activities for mining</i> | 315 | Apparel manufacturing |
| 221 | <i>Utilities</i> | 322 | Paper manufacturing |
| 312 | <i>Beverage and tobacco product manufacturing</i> | 333 | Machinery manufacturing |
| 316 | <i>Leather and allied product manufacturing</i> | 335 | Electrical equipment and appliance mfg. |
| 321 | <i>Wood product manufacturing</i> | 481 | Air transportation |
| 323 | <i>Printing and related support activities</i> | 485 | <i>Transit and ground passenger transportation</i> |
| 324 | <i>Petroleum and coal products manufacturing</i> | 488 | Support activities for transportation |
| 326 | <i>Plastics and rubber products manufacturing</i> | 492 | <i>Couriers and messengers</i> |
| 332 | <i>Fabricated metal product manufacturing</i> | 493 | <i>Warehousing and storage</i> |
| 334 | <i>Computer and electronic product manufacturing</i> | 512 | Motion picture and sound recording industries |
| 336 | <i>Transportation equipment manufacturing</i> | 515 | Broadcasting, except Internet |
| 337 | <i>Furniture and related product manufacturing</i> | 518 | ISPs, search portals, and data processing |
| 339 | <i>Miscellaneous manufacturing</i> | 523 | Securities, commodity contracts, investments |
| 484 | <i>Truck transportation</i> | 524 | Insurance carriers and related activities |
| 487 | <i>Scenic and sightseeing transportation</i> | 531 | Real estate |
| 516 | <i>Internet publishing and broadcasting</i> | 541 | <i>Professional and technical services</i> |
| 517 | <i>Telecommunications</i> | 561 | <i>Administrative and support services</i> |
| 522 | <i>Credit intermediation and related activities</i> | 562 | <i>Waste management and remediation services</i> |
| 532 | <i>Rental and leasing services</i> | 611 | Educational services |
| 533 | <i>Lessors of nonfinancial intangible assets</i> | 712 | Museums, historical sites, zoos, and parks |
| 711 | <i>Performing arts and spectator sports</i> | 811 | <i>Repair and maintenance</i> |

Source: ADE, data from IMPLAN CEW county employment database

Notes: The comparison region for Santa Cruz County is California.

Industries identified with *italics* represent those industries with positive relative job growth rates (i.e., these industries either grew faster than the State or declined at a lower rate).

FIGURE C-5
ECONOMIC ROLES OF INDUSTRIES IN SANTA CRUZ COUNTY, 2001-2004

| Declining Economic Base Industries | | Growing Economic Base Industries | |
|---|--|---|--|
| 111 | Crop production | 112 | Animal production |
| 113 | Forestry and logging | 23 | Construction |
| 311 | <i>Food manufacturing</i> | 325 | Chemical manufacturing |
| 327 | Nonmetallic mineral product manufacturing | 331 | Primary metal manufacturing |
| 491 | <i>Postal service</i> | 525 | Funds, trusts, and other financial vehicles |
| 511 | <i>Publishing industries, except Internet</i> | 621 | Ambulatory health care services |
| 551 | <i>Management of companies and enterprises</i> | 622 | Hospitals |
| 624 | <i>Social assistance</i> | 623 | Nursing and residential care facilities |
| 713 | <i>Amusements, gambling, and recreation</i> | | |
| 721 | <i>Accommodation</i> | | |
| 722 | <i>Food services and drinking places</i> | | |
| 813 | <i>Membership associations and organizations</i> | | |
| Declining Non-Base Industries | | Emerging Industries | |
| 114 | <i>Fishing, hunting and trapping</i> | 221 | Utilities |
| 115 | <i>Agriculture and forestry support activities</i> | 314 | Textile product mills |
| 211 | <i>Oil and gas extraction</i> | 333 | Machinery manufacturing |
| 212 | <i>Mining, except oil and gas</i> | 335 | Electrical equipment and appliance mfg. |
| 312 | <i>Beverage and tobacco product manufacturing</i> | 337 | Furniture and related product manufacturing |
| 313 | Textile mills | 339 | Miscellaneous manufacturing |
| 315 | <i>Apparel manufacturing</i> | 481 | Air transportation |
| 316 | <i>Leather and allied product manufacturing</i> | 487 | Scenic and sightseeing transportation |
| 321 | <i>Wood product manufacturing</i> | 493 | Warehousing and storage |
| 322 | <i>Paper manufacturing</i> | 512 | <i>Motion picture and sound recording industries</i> |
| 323 | <i>Printing and related support activities</i> | 519 | <i>Other information services</i> |
| 324 | <i>Petroleum and coal products manufacturing</i> | 522 | <i>Credit intermediation and related activities</i> |
| 326 | <i>Plastics and rubber products manufacturing</i> | 523 | Securities, commodity contracts, investments |
| 332 | <i>Fabricated metal product manufacturing</i> | 524 | <i>Insurance carriers and related activities</i> |
| 334 | <i>Computer and electronic product manufacturing</i> | 611 | Educational services |
| 336 | Transportation equipment manufacturing | 712 | Museums, historical sites, zoos, and parks |
| 484 | <i>Truck transportation</i> | | |
| 485 | <i>Transit and ground passenger transportation</i> | | |
| 488 | <i>Support activities for transportation</i> | | |
| 492 | <i>Couriers and messengers</i> | | |
| 515 | <i>Broadcasting, except Internet</i> | | |
| 516 | <i>Internet publishing and broadcasting</i> | | |
| 517 | <i>Telecommunications</i> | | |
| 518 | <i>ISPs, search portals, and data processing</i> | | |
| 531 | <i>Real estate</i> | | |
| 532 | <i>Rental and leasing services</i> | | |
| 533 | <i>Lessors of nonfinancial intangible assets</i> | | |
| 541 | <i>Professional and technical services</i> | | |
| 561 | <i>Administrative and support services</i> | | |
| 562 | <i>Waste management and remediation services</i> | | |
| 711 | <i>Performing arts and spectator sports</i> | | |

Source: ADE, data from IMPLAN CEW county employment database.

Notes: The comparison region for Santa Cruz County is California.

Industries identified with *italics* represent those industries with positive relative job growth rates (i.e., these industries either grew faster than the State or declined at a lower rate).

FIGURE C-6
PERFORMANCE OF SANTA CRUZ COUNTY INDUSTRIES (WITH 100 OR MORE JOBS), 1992 – 2004

| | | Santa Cruz County | | California | | Local Concentration | | | | |
|------------------------------------|---|----------------------|--------------|--------------|--------------|------------------------|------|-----------------|-------------------|--|
| NAICS | Industry Sector | 1992 Jobs | 2004 Jobs | 1992 Jobs | 2004 Jobs | 1992 | 2004 | Empl. Change | Percent Change | Relative Growth (1992 - 2004) |
| Growing Economic Base Industries | | | | | | | | | | |
| 112 | Animal production | 72 | 223 | 25,523 | 29,370 | 0.37 | 1.21 | 151 | 209.7% | 194.6% |
| 325 | Chemical manufacturing | 233 | 567 | 73,952 | 80,673 | 0.42 | 1.12 | 334 | 143.3% | 134.3% |
| 331 | Primary metal manufacturing | 101 | 213 | 29,034 | 25,057 | 0.46 | 1.35 | 112 | 110.9% | 124.6% |
| 441 | Motor vehicle and parts dealers | 1,183 | 1,877 | 155,515 | 209,158 | 1.01 | 1.43 | 694 | 58.7% | 24.2% |
| 444 | Building material and garden supply stores | 991 | 1,228 | 96,359 | 129,407 | 1.36 | 1.51 | 237 | 23.9% | -10.4% |
| 445 | Food and beverage stores | 3,166 | 3,368 | 284,839 | 318,243 | 1.47 | 1.69 | 202 | 6.4% | -5.3% |
| 446 | Health and personal care stores | 862 | 888 | 93,445 | 104,078 | 1.22 | 1.36 | 26 | 3.0% | -8.4% |
| 451 | Sporting goods, hobby, book and music stores | 667 | 957 | 81,418 | 84,463 | 1.09 | 1.80 | 290 | 43.5% | 39.7% |
| 453 | Miscellaneous store retailers | 923 | 956 | 89,709 | 103,681 | 1.36 | 1.47 | 33 | 3.6% | -12.0% |
| 621 | Ambulatory health care services | 3,423 | 3,836 | 406,551 | 507,241 | 1.12 | 1.20 | 413 | 12.1% | -12.7% |
| 622 | Hospitals | 1,935 | 2,468 | 296,454 | 370,346 | 0.86 | 1.06 | 533 | 27.5% | 2.6% |
| 623 | Nursing and residential care facilities | 1,747 | 1,987 | 166,063 | 223,512 | 1.39 | 1.42 | 240 | 13.7% | -20.9% |
| 624 | Social assistance | 1,556 | 1,847 | 120,189 | 183,381 | 1.72 | 1.60 | 291 | 18.7% | -33.9% |
| 713 | Amusements, gambling, and recreation | 1,538 | 1,655 | 110,971 | 163,141 | 1.84 | 1.62 | 117 | 7.6% | -39.4% |
| 721 | Accommodation | 957 | 1,443 | 179,048 | 197,029 | 0.71 | 1.17 | 486 | 50.8% | 40.7% |
| 722 | Food services and drinking places | 6,891 | 7,835 | 763,576 | 995,860 | 1.20 | 1.25 | 944 | 13.7% | -16.7% |
| 813 | Membership associations and organizations | 916 | 1,293 | 115,539 | 145,956 | 1.05 | 1.41 | 377 | 41.2% | 14.8% |
| Declining Economic Base Industries | | | | | | | | | | |
| 111 | Crop production | 10,448 | 7,147 | 189,808 | 179,233 | 7.29 | 6.35 | -3,301 | -31.6% | -26.0% |
| 311 | Food manufacturing | 4,491 | 2,045 | 166,240 | 153,709 | 3.58 | 2.12 | -2,446 | -54.5% | -46.9% |
| 327 | Nonmetallic mineral product manufacturing | 419 | 416 | 43,311 | 45,567 | 1.28 | 1.45 | -3 | -0.7% | -5.9% |
| 447 | Gasoline stations | 458 | 373 | 58,742 | 55,909 | 1.03 | 1.06 | -85 | -18.6% | -13.7% |
| 511 | Publishing industries, except Internet | 2,126 | 1,044 | 93,653 | 102,508 | 3.01 | 1.62 | -1,082 | -50.9% | -60.3% |
| 551 | Management of companies and enterprises | 2,739 | 1,628 | 222,758 | 233,487 | 1.63 | 1.11 | -1,111 | -40.6% | -45.4% |
| Emerging Industries | | | | | | | | | | |
| 333 | Machinery manufacturing | 145 | 424 | 91,195 | 80,949 | 0.21 | 0.83 | 279 | 192.4% | 203.6% |
| 442 | Furniture and home furnishings stores | 378 | 389 | 44,518 | 63,226 | 1.13 | 0.98 | 11 | 2.9% | -39.1% |
| 443 | Electronics and appliance stores | 250 | 270 | 59,543 | 77,783 | 0.56 | 0.55 | 20 | 8.0% | -22.6% |
| 448 | Clothing and clothing accessories stores | 961 | 1,052 | 151,619 | 175,395 | 0.84 | 0.96 | 91 | 9.5% | -6.2% |
| 452 | General merchandise stores | 1,373 | 1,480 | 234,650 | 260,616 | 0.78 | 0.90 | 107 | 7.8% | -3.3% |
| 454 | Non-store retailers | 131 | 155 | 26,611 | 32,115 | 0.65 | 0.77 | 24 | 18.3% | -2.4% |
| 485 | Transit and ground passenger transportation | 110 | 111 | 28,781 | 32,871 | 0.51 | 0.54 | 1 | 0.9% | -13.3% |

FIGURE C-6
PERFORMANCE OF SANTA CRUZ COUNTY INDUSTRIES (WITH 100 OR MORE JOBS), 1992 – 2004

| NAICS | Industry Sector | Santa Cruz County | | California | | Local Concentration | | Empl. Change | Percent Change | Relative Growth (1992 - 2004) |
|-------|---|-------------------|-----------|------------|-----------|---------------------|------|--------------|----------------|-------------------------------|
| | | 1992 Jobs | 2004 Jobs | 1992 Jobs | 2004 Jobs | 1992 | 2004 | | | |
| 488 | Support activities for transportation | 67 | 106 | 49,594 | 76,196 | 0.18 | 0.22 | 39 | 58.2% | 4.6% |
| 492 | Couriers and messengers | 247 | 312 | 52,227 | 68,178 | 0.63 | 0.73 | 65 | 26.3% | -4.2% |
| 493 | Warehousing and storage | 178 | 204 | 49,918 | 60,904 | 0.47 | 0.53 | 26 | 14.6% | -7.4% |
| 512 | Motion picture and sound recording industries | 227 | 306 | 122,318 | 160,978 | 0.25 | 0.30 | 79 | 34.8% | 3.2% |
| 523 | Securities, commodity contracts, investments | 122 | 230 | 51,460 | 83,584 | 0.31 | 0.44 | 108 | 88.5% | 26.1% |
| 524 | Insurance carriers and related activities | 596 | 711 | 201,829 | 221,870 | 0.39 | 0.51 | 115 | 19.3% | 9.4% |
| 531 | Real estate | 980 | 1,158 | 170,374 | 198,670 | 0.76 | 0.93 | 178 | 18.2% | 1.6% |
| 541 | Professional and technical services | 3,464 | 4,133 | 681,717 | 911,512 | 0.67 | 0.72 | 669 | 19.3% | -14.4% |
| 561 | Administrative and support services | 2,764 | 3,157 | 576,773 | 901,459 | 0.64 | 0.56 | 393 | 14.2% | -42.1% |
| 562 | Waste management and remediation services | 137 | 141 | 30,433 | 37,668 | 0.60 | 0.60 | 4 | 2.9% | -20.9% |
| 611 | Educational services | 685 | 1,300 | 151,773 | 232,583 | 0.60 | 0.89 | 615 | 89.8% | 36.5% |
| 811 | Repair and maintenance | 862 | 866 | 131,133 | 156,489 | 0.87 | 0.88 | 4 | 0.5% | -18.9% |
| 812 | Personal and laundry services | 706 | 819 | 125,927 | 134,378 | 0.74 | 0.97 | 113 | 16.0% | 9.3% |

Source: ADE, data from IMPLAN CEW county employment database. Data does not include public sector and self-employment.

Notes: Location quotients compare the concentration of employment in Santa Cruz County relative to California. Location quotient values above 1.00 represents an above average concentration of employment in the local region relative to the statewide distribution, while location quotients below 1.00 represent low concentrations of employment in the region.

Shift-share represents relative growth rate. A positive shift-share value indicates that Santa Cruz County added employment in a particular industry at a higher rate than at the state level, or the employment declined at a slower rate. A negative shift-share value indicates that an industry in the comparison region declined faster than the industry did statewide, or that it grew at a slower rate.

FIGURE C-7
PERFORMANCE OF SANTA CRUZ COUNTY INDUSTRIES (WITH 100 OR MORE JOBS), 2001 – 2004

| Santa Cruz County | | | | California | | Local Concentration | | | | Relative Growth (1992 - 2004) |
|------------------------------------|--|-----------|-----------|------------|-----------|---------------------|-------------|--------------|----------------|----------------------------------|
| NAICS | Industry Sector | 1992 Jobs | 2004 Jobs | 1992 Jobs | 2004 Jobs | 1992 | 2004 | Empl. Change | Percent Change | |
| Growing Economic Base Industries | | | | | | | | | | |
| 331 | Primary metal manufacturing | 196 | 213 | 29,029 | 25,057 | 0.997070868 | 1.353539656 | 17 | 9% | 22% |
| 112 | Animal production | 67 | 223 | 28,917 | 29,370 | 0.342155558 | 1.208986275 | 156 | 233% | 231% |
| 325 | Chemical manufacturing | 550 | 567 | 82,012 | 80,673 | 0.990346835 | 1.119116517 | 17 | 3% | 5% |
| 623 | Nursing and residential care facilities | 1,735 | 1,987 | 217,918 | 223,512 | 1.175732183 | 1.41552478 | 252 | 15% | 12% |
| 622 | Hospitals | 2,130 | 2,468 | 331,369 | 370,346 | 0.94922629 | 1.061103998 | 338 | 16% | 4% |
| 621 | Ambulatory health care services | 3,554 | 3,836 | 474,893 | 507,241 | 1.105156257 | 1.204161402 | 282 | 8% | 1% |
| 444 | Building material and garden supply stores | 1,188 | 1,228 | 115,220 | 129,407 | 1.522616744 | 1.510988126 | 40 | 3% | -9% |
| Declining Economic Base Industries | | | | | | | | | | |
| 327 | Nonmetallic mineral product manufacturing | 422 | 416 | 47,742 | 45,567 | 1.305310628 | 1.453661699 | -6 | -1% | 3% |
| 111 | Crop production | 7,361 | 7,147 | 189,224 | 179,233 | 5.744637522 | 6.349306057 | -214 | -3% | 2% |
| 447 | Gasoline stations | 497 | 373 | 56,564 | 55,909 | 1.297532686 | 1.062300929 | -124 | -25% | -24% |
| 446 | Health and personal care stores | 1,019 | 888 | 105,480 | 104,078 | 1.426612728 | 1.358546418 | -131 | -13% | -12% |
| 453 | Miscellaneous store retailers | 1,184 | 956 | 111,179 | 103,681 | 1.572645985 | 1.468179544 | -228 | -19% | -13% |
| 451 | Sporting goods, hobby, book and music stores | 1,050 | 957 | 89,240 | 84,463 | 1.737527829 | 1.804121943 | -93 | -9% | -4% |
| 511 | Publishing industries, except Internet | 1,314 | 1,044 | 117,355 | 102,508 | 1.653468018 | 1.62167265 | -270 | -21% | -8% |
| 813 | Membership associations and organizations | 1,606 | 1,293 | 140,439 | 145,956 | 1.688728544 | 1.41057774 | -313 | -19% | -23% |
| 721 | Accommodation | 1,662 | 1,443 | 194,221 | 197,029 | 1.263679282 | 1.166155948 | -219 | -13% | -15% |
| 551 | Management of companies and enterprises | 2,154 | 1,628 | 291,905 | 233,487 | 1.089698107 | 1.110227932 | -526 | -24% | -4% |
| 713 | Amusements, gambling, and recreation | 1,685 | 1,655 | 155,815 | 163,141 | 1.596954979 | 1.615307955 | -30 | -2% | -6% |
| 624 | Social assistance | 2,012 | 1,847 | 177,369 | 183,381 | 1.675144557 | 1.603736497 | -165 | -8% | -12% |
| 441 | Motor vehicle and parts dealers | 1,989 | 1,877 | 203,474 | 209,158 | 1.443536907 | 1.42892767 | -112 | -6% | -8% |
| 311 | Food manufacturing | 2,224 | 2,045 | 158,070 | 153,709 | 2.077721631 | 2.118431713 | -179 | -8% | -5% |

FIGURE C-7
PERFORMANCE OF SANTA CRUZ COUNTY INDUSTRIES (WITH 100 OR MORE JOBS), 2001 – 2004

| | | Santa Cruz County | | California | | Local Concentration | | | | Relative Growth (1992 - 2004) |
|----------------------------|---|-------------------|-----------|------------|-----------|---------------------|-------------|--------------|----------------|----------------------------------|
| NAICS | Industry Sector | 1992 Jobs | 2004 Jobs | 1992 Jobs | 2004 Jobs | 1992 | 2004 | Empl. Change | Percent Change | |
| 445 | Food and beverage stores | 3,563 | 3,368 | 310,808 | 318,243 | 1.692878016 | 1.685131035 | -195 | -5% | -8% |
| 722 | Food services and drinking places | 8,551 | 7,835 | 940,391 | 995,860 | 1.342797345 | 1.252740638 | -716 | -8% | -14% |
| Emerging Industries | | | | | | | | | | |
| 221 | Utilities | 114 | 133 | 54,440 | 55,972 | 0.309235088 | 0.378356561 | 19 | 17% | 14% |
| 337 | Furniture and related product manufacturing | 175 | 197 | 72,698 | 61,458 | 0.355482002 | 0.510397169 | 22 | 13% | 28% |
| 493 | Warehousing and storage | 162 | 204 | 59,742 | 60,904 | 0.400439849 | 0.533340796 | 42 | 26% | 24% |
| 523 | Securities, commodity contracts, investments | 229 | 230 | 92,496 | 83,584 | 0.36560705 | 0.438152344 | 1 | 0% | 10% |
| 339 | Miscellaneous manufacturing | 303 | 339 | 99,633 | 88,830 | 0.449098343 | 0.607659777 | 36 | 12% | 23% |
| 333 | Machinery manufacturing | 271 | 424 | 103,158 | 80,949 | 0.387943437 | 0.834016845 | 153 | 56% | 78% |
| 814 | Private households | 523 | 970 | 153,592 | 229,119 | 0.502846145 | 0.674110486 | 447 | 85% | 36% |
| 611 | Educational services | 1,179 | 1,300 | 211,427 | 232,583 | 0.823484424 | 0.889991458 | 121 | 10% | 0% |
| 512 | Motion picture and sound recording industries | 247 | 306 | 127,640 | 160,978 | 0.285767075 | 0.302674165 | 59 | 24% | -2% |
| 524 | Insurance carriers and related activities | 703 | 711 | 204,403 | 221,870 | 0.507890502 | 0.510259937 | 8 | 1% | -7% |
| 522 | Credit intermediation and related activities | 1,159 | 1,184 | 259,150 | 303,398 | 0.660441347 | 0.621383108 | 25 | 2% | -15% |
| 452 | General merchandise stores | 1,441 | 1,480 | 238,663 | 260,616 | 0.89162229 | 0.904234545 | 39 | 3% | -6% |

Source: ADE, data from IMPLAN CEW county employment database. Data does not include public sector and self-employment.

Notes: Location quotients compare the concentration of employment in Santa Cruz County relative to California. Location quotient values above 1.00 represents an above average concentration of employment in the local region relative to the statewide distribution, while location quotients below 1.00 represent low concentrations of employment in the region.

Shift-share represents relative growth rate. A positive shift-share value indicates that Santa Cruz County added employment in a particular industry at a higher rate than at the state level, or the employment declined at a slower rate. A negative shift-share value indicates that an industry in the comparison region declined faster than the industry did statewide, or that it grew at a slower rate.

APPENDIX D: VISITOR AND LODGING ANALYSIS

1. OVERVIEW OF SANTA CRUZ COUNTY VISITOR SPENDING

The tourism market in Santa Cruz County directly accounted for about \$590 million in visitor spending in 2004 (in constant 2005 dollars). This represents a slight decline from the 2000 peak of \$613 million, but a substantial recovery from the significant drop-off that occurred in 2001 and 2002, where the annual visitor spending declined to \$541 million. (Figure D-1)

FIGURE D-1
SANTA CRUZ COUNTY VISITOR SPENDING
(INFLATION-ADJUSTED),
1992 TO 2004

| Santa Cruz County Visitor Spending | |
|------------------------------------|---------|
| Year | |
| 1992 | \$505.9 |
| 1999 | \$609.6 |
| 2000 | \$613.3 |
| 2001 | \$576.7 |
| 2002 | \$541.4 |
| 2003 | \$557.1 |
| 2004 | \$587.9 |

Source: ADE, data from Dean Runyan Associates; figures adjusted to 2005 dollars using the Consumer Price Index

The visitor spending in Santa Cruz County goes into several different industry categories. The largest portion (\$156.8 million) of the visitor spending goes to food service, which includes restaurants, fast food, and drinking establishments. The other categories that attract more than \$100 million of visitor spending are accommodations and other retail stores. (Figure D-2)

FIGURE D-2
SANTA CRUZ COUNTY VISITOR SPENDING
(INFLATION-ADJUSTED)
BY SPENDING CATEGORY, 2004

| Visitor-Serving Industry Category | Santa Cruz County Visitor Spending |
|--|---|
| Accommodations | \$123.3 |
| Food Service | \$156.8 |
| Food Stores | \$29.4 |
| Ground Transportation | \$61.2 |
| Arts, Entertainment, and Recreation | \$96.0 |
| Other Retail | \$121.1 |
| Total | \$587.9 |

Source: ADE, data from Dean Runyan Associates; figures adjusted to 2005 dollars using the Consumer Price Index

2. OVERVIEW OF LODGING MARKET SEGMENTS

Even though Capitola is a major attraction and visitor destination within the regional tourism market, it currently comprises a relatively small portion of the lodging market. The lodging market in general basically consists of all types of transient accommodations outside of private residences. Capitola's lodging market consists of hotel/motel establishments, bed and breakfast facilities, and campgrounds.

- Hotel/motel establishments have a wide range of facilities, rooms, amenities, and price ranges. At the lower priced end of the market, budget hotels and motels simply provide a room with a private bathroom and basic amenities such as a TV, phone, and closet space. The middle market hotels typically have better appointed room with more amenities, while luxury resort hotels typically add conference facilities, restaurants, distinctive architecture, and/or resort amenities.
- Bed and breakfast establishments are different from hotels and motels in that they often more closely resemble a private residence. This means that the rooms are not always private or separated from the rest of the facility like they typically are in a hotel or motel. The majority of B&B owners live on the premises with very little absentee ownership. Often, B&B rooms have shared restrooms and/or a common dining area. In addition, they typically accommodate no more than 20 rooms in a single facility.
- Campgrounds are used conjunction with outdoor recreational uses. They typically provide limited site amenities, and rely on campers bringing their own shelter and other equipment.

3. SANTA CRUZ COUNTY HOTEL/MOTEL MARKET

Hotels and motels constitute the largest segment of the lodging market. In general, these facilities offer rooms with a wide range of accompanying amenities and locational options.

LOCAL SETTING

Santa Cruz County is primarily a tourist/visitor-serving destination, with a total of 71 hotel and motel establishments, comprising over 3,500 guest rooms.² The vast majority of this lodging is located in the City of Santa Cruz, with 48 establishments and nearly 2,100 guest rooms. (Figure D-3)

FIGURE D-3
SANTA CRUZ COUNTY HOTELS AND MOTELS BY
LOCATION

| City | Hotels/ Motels | Rooms |
|---------------|-------------------|-------|
| Aptos | 3 | 451 |
| Ben Lomond | 1 | 23 |
| Boulder Creek | 3 | 43 |
| Brookdale | 1 | 48 |
| Capitola | 3 | 133 |
| Santa Cruz | 48 | 2,088 |
| Scotts Valley | 2 | 235 |
| Soquel | 1 | 16 |
| Watsonville | 9 | 471 |
| Total | 71 | 3,508 |

Source: ADE, data from Smith Travel Research

Note: Data only includes hotels and motels, and excludes bed & breakfast inns and vacation rentals.

Capitola has three hotel/motel facilities with a total of 133 guest rooms. These facilities are the Capitola Venetian Hotel, Best Western Capitola-by-the-Sea Inn, and the Capitola Inn. The 12-room Inn at Depot Hill bed and breakfast also operates in Capitola.

RECENT SANTA CRUZ COUNTY HOTEL/MOTEL TRENDS

Since 1995, Santa Cruz County has added a total of eight new hotels and motels, with 531 new guest rooms. This represents an 18 percent increase in the total room inventory. (Figure D-4)

Of these facilities, the City of Santa Cruz only added three establishments with a total of 96 rooms. During this same period, Watsonville also added three new hotels/motels with a total of 201 new guest rooms. The largest new facility added to the Santa Cruz

² Smith Travel Research; does not include bed & breakfast inns.

County hotel/motel market since 1995 was the 177-room Hilton Santa Cruz in Scotts Valley. The 57-room Best Western Capitola-by-the-Sea Inn opened for business in 2000.

FIGURE D-4
HOTELS AND MOTELS CONSTRUCTED IN SANTA CRUZ COUNTY SINCE 1995

| Hotel/Motel | City | Rooms |
|--|-------------------|--------------|
| Best Western Capitola By The Sea Inn & Suites | Capitola, CA | 57 |
| Hampton Inn Santa Cruz | Santa Cruz, CA | 46 |
| Beach View Inn | Santa Cruz, CA | 22 |
| Comfort Inn Beach Boardwalk | Santa Cruz, CA | 28 |
| Hilton Santa Cruz Scotts Valley | Scotts Valley, CA | 177 |
| Comfort Inn Watsonville | Watsonville, CA | 41 |
| Holiday Inn Express Hotel & Suites Watsonville | Watsonville, CA | 65 |
| Red Roof Inn Watsonville | Watsonville, CA | 95 |
| Total | | 531 |

Source: ADE, data from Smith Travel Research

HOTEL/MOTEL MARKET SEGMENTS

In general, the hotel market fits into one of three general classifications: budget/economy, midscale, and luxury. These classifications are typically defined based on room rates, level of service, amenities, and other on-site offerings.

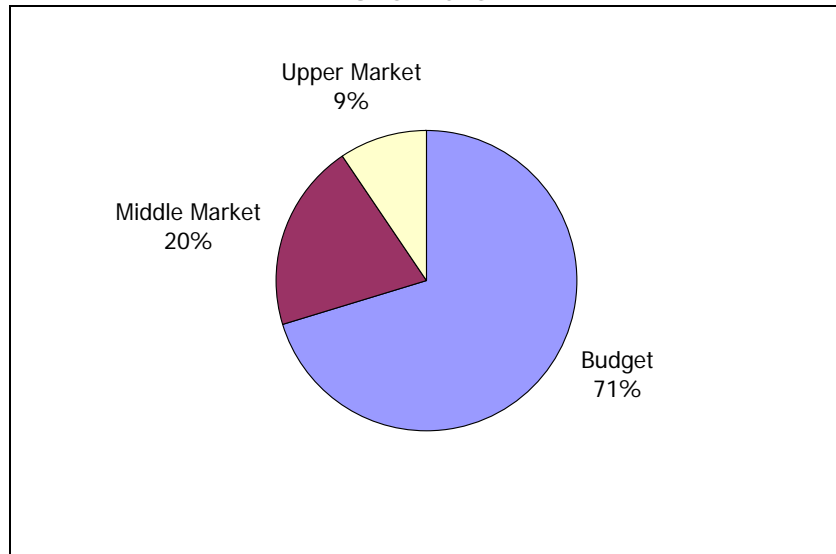
BUDGET/ECONOMY HOTELS

The largest market segment that is represented in the Santa Cruz lodging market area is Budget/Economy Hotels. These hotels are generally room-only hotels with little public space, no on-site beverage service, and few amenities. Overhead costs are kept extremely low as the profit margin for these establishments is very small, it is a highly competitive market segment, and requires high turn over of rooms and cost savings. The typical room rates for these hotels are in the under-\$75 range. About 45 (67 percent) of the hotels/motel establishments, and about half of the total rooms (1,736 rooms) in the Santa Cruz lodging market area serve this market segment.³ The only budget hotel in Capitola is the 56-room Capitola Inn, which was built in 1980. (Figures D-5 and D-6)

Among the eight facilities built in Santa Cruz County since 1995, four of them are in the budget category with about 35 percent of the rooms added during this period. This indicates that the newer facilities primarily aim towards the higher end of the market.

³ "Rack rate" information derived from price ranges listed in AAA Tourbook and hotel websites.

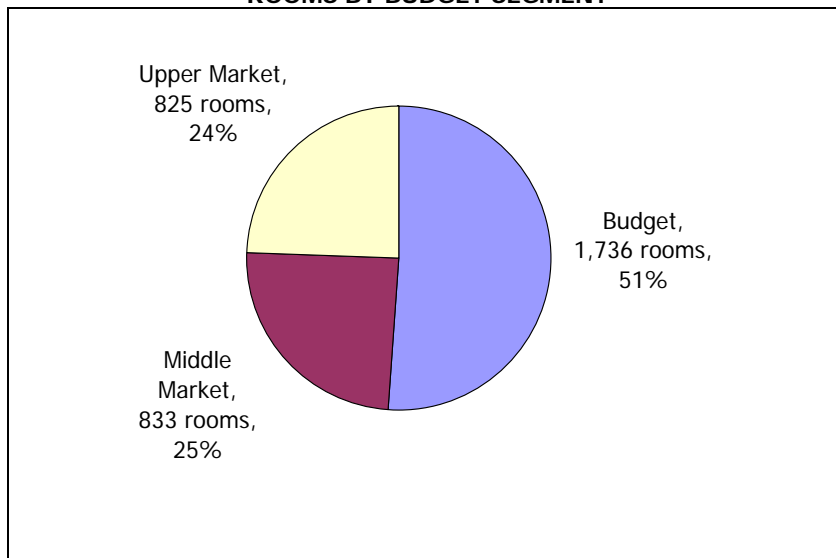
**FIGURE D-5
SANTA CRUZ COUNTY HOTELS AND MOTELS
BY BUDGET SEGMENT**



Source: ADE, data from Smith Travel Research and AAA.

Note: Data only includes hotels and motels with typical room rates posted in the AAA Travel Guide or on the establishment operator's website. Budget hotels include establishments with typical room rates under \$75. Middle market hotels include establishments with typical room rates under \$150. Upper market establishments include establishments with typical room rates \$150 and over.

**FIGURE D-6
SANTA CRUZ COUNTY HOTEL AND MOTEL
ROOMS BY BUDGET SEGMENT**



Source: ADE, data from Smith Travel Research and AAA.

Note: Data only includes hotels and motels with typical room rates posted in the AAA Travel Guide or on the establishment operator's website. Budget hotels include establishments with typical room rates under \$75. Middle market hotels include establishments with typical room rates under \$150. Upper market establishments include establishments with typical room rates \$150 and over.

MIDDLE-MARKET HOTELS

Middle-market hotels generally have more amenities than budget hotels, such as pools, restaurants, meeting rooms, better appointed rooms, and/or business services. The typical room rates for these establishments are over \$75. A total of 13 establishments in Santa Cruz County were identified as middle market establishments, including the Best Western Capitola-by-the-Sea Inn and the Capitola Venetian Hotel. These establishments account for about 24 percent of the countywide room total.

UPPER MARKET HOTELS

The upper market hotels generally provide high quality customer service, extensive room and shared amenities, and are often destination places due to their unique character or attractive location. These hotels generally include large-scale business hotels with on-site convention facilities, resort developments, historic inns, and small-scale boutique hotels. Santa Cruz County has a total of six establishments that serve the upper market, with a total of 825 rooms (about 24 percent of the countywide total). These establishments generally charge over \$150 per night, and include the Chaminade Santa Cruz, Hilton, Seascapes Resort, Boulder Creek Lodge, Coast Hotel, and Inn at Pasatiempo. Among these facilities, only the 177-room Hilton in Scotts Valley is less than 10 years old.

Despite the concentration of visitor attractions along the waterfront in Santa Cruz and Capitola, the upper market hotels in Santa Cruz County are generally located further inland, and integrated with the natural landscape. None of these establishments can accommodate large-scale conferences like the business hotels in Monterey can. In addition, none of these hotels are “boutique” hotels that attract an upscale customer base with leading edge design and theming.

4. OCCUPANCY AND REVENUE

As noted earlier, the supply of hotel rooms in Santa Cruz has grown, and the market segment for the new hotel space is more upscale than before. However, the occupancy rates in recent years have had to recover from a severe downturn in overnight tourism that began in 2001.

SANTA CRUZ COUNTY MARKET

On a countywide basis, Santa Cruz County’s lodging market reached a low point in 2003 with an annual occupancy rate of 53 percent.⁴ (Figure D-7) This is due to a combination of likely factors. First, the Bay Area economy went through a sustained economic downturn beginning in 2000 and decreased the amount of disposable income that households could apply to overnight travel. This is important given that over 75

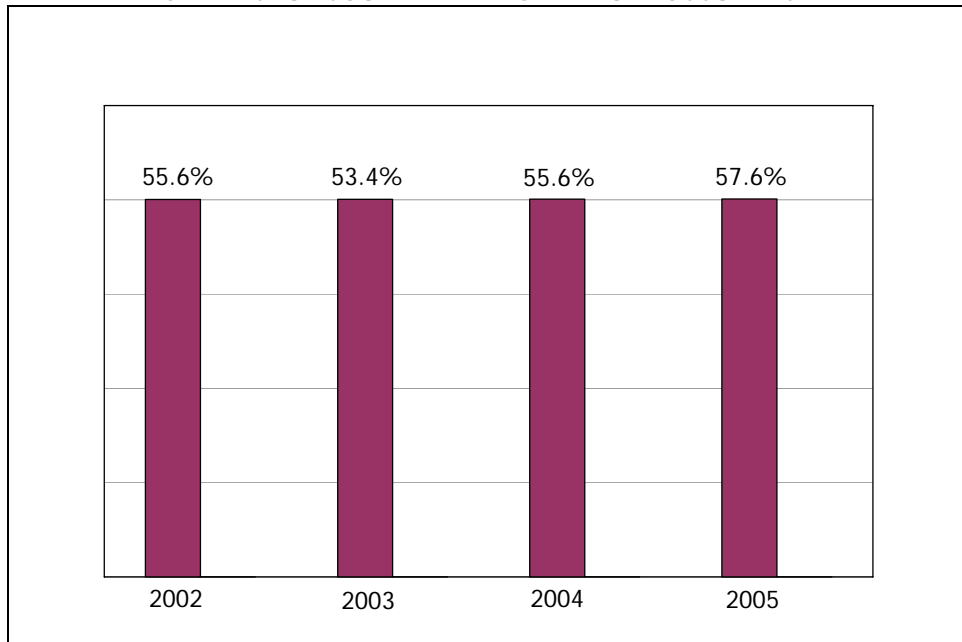
⁴ Data from Smith Travel Research; the occupancy rates are calculated from a sample of reporting hotels.

percent of visitors to Santa Cruz County come from the Bay Area. In addition, the national and international tourism markets went into sharp decline after September 11, 2001.

However, by 2005 the lodging market had recovered to a 57.6 percent occupancy rate, and interviews with business owners indicate that the recovery in the tourism market has continued through 2006. Interviews with business owners indicate that the occupancy in Capitola is higher than the rest of Santa Cruz County due to a combination of Capitola's appeal as a visitor destination and the relatively small number of hotel rooms in Capitola.

In 2005, the average room rate in Santa Cruz County was \$124 per night, which represents a 12 percent increase over the \$111 average room rate reported in 2003. Taken as a whole, this indicates that Santa Cruz hotels and motels generate over \$45,200 per room annually. This works out to approximately \$2.4 million of room revenue per hotel/motel establishment. (Figure D-8)

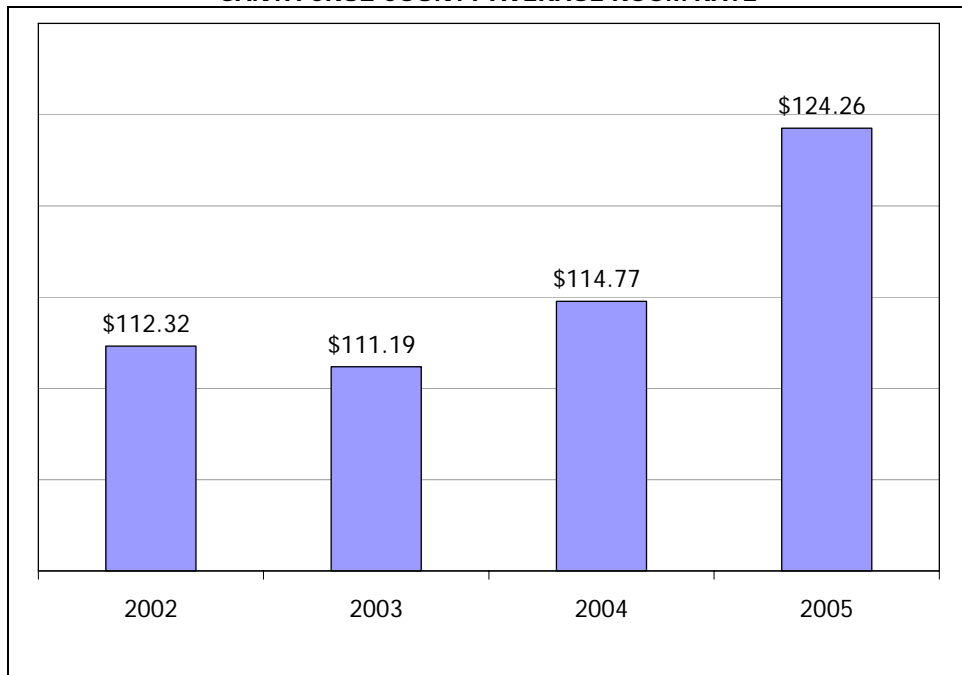
**FIGURE D-7
SANTA CRUZ COUNTY AVERAGE ANNUAL OCCUPANCY**



Source: ADE, data from Smith Travel Research

Note: Data only includes hotels and motels, and excludes bed & breakfast inns and vacation rentals.

**TABLE D-8
SANTA CRUZ COUNTY AVERAGE ROOM RATE**

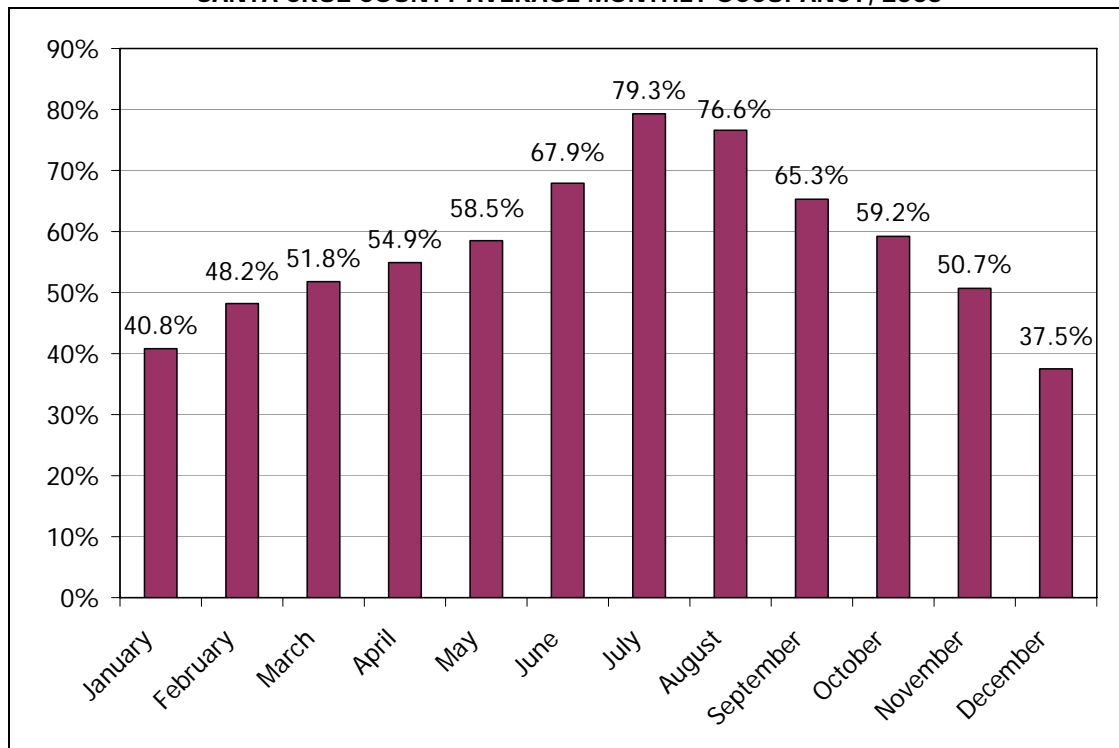


Source: ADE, data from Smith Travel Research

Note: Data only includes hotels and motels, and excludes bed & breakfast inns and vacation rentals

On a seasonal basis, the occupancy in Santa Cruz County generally peaks in July and August, with the lowest average occupancy reported in December. The peak month in 2005 was July with an average occupancy rate of 79 percent. December had an average occupancy rate of 38 percent. (Figure D-9)

FIGURE D-9
SANTA CRUZ COUNTY AVERAGE MONTHLY OCCUPANCY, 2005



Source: ADE, data from Smith Travel Research

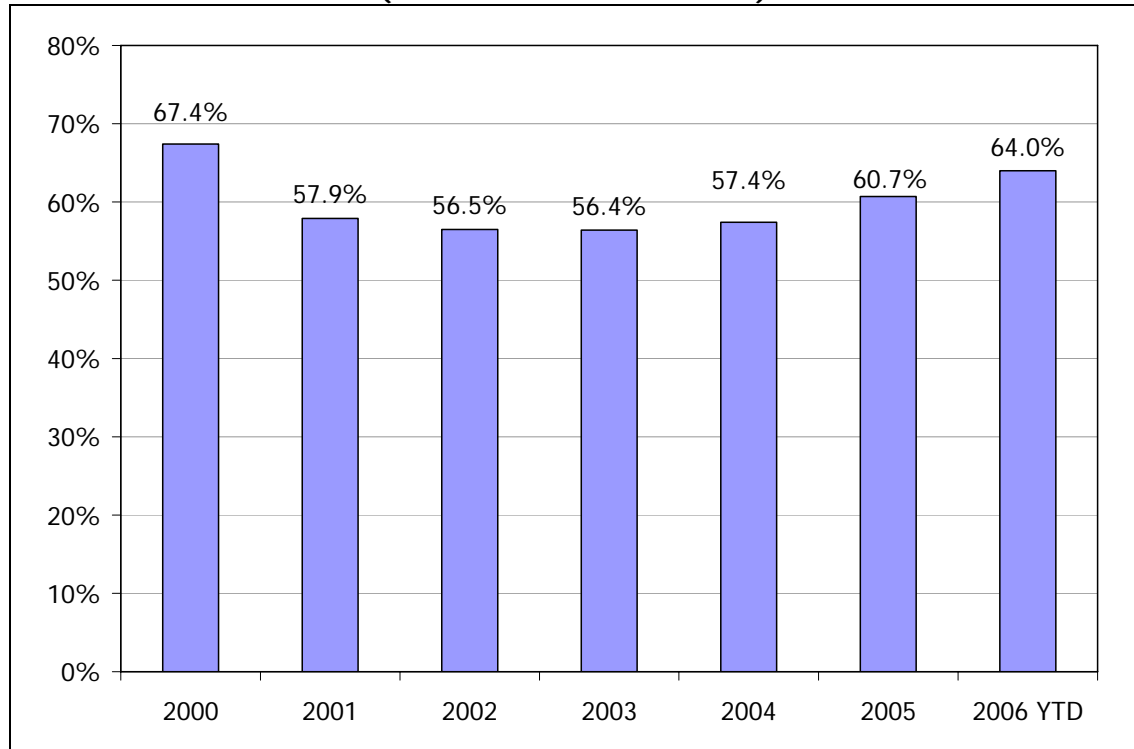
Note: Data only includes hotels and motels, and excludes bed & breakfast inns and vacation rentals.

SANTA CRUZ COUNTY UPPER MARKET

When looking only at the upper market establishments in Santa Cruz County with a typical room rate over \$150 per night, the occupancy trend overall follows a similar pattern with the occupancy trend showing a peak in 2000 and a slow recovery from the market collapse that began in 2001 and continued through 2003.⁵ However, in the upper market has shown a generally higher occupancy rate than the rest of the Santa Cruz County lodging market. In addition, the upper market generally has a higher occupancy rate during the off-peak months. (Figures D-10 and D-11)

⁵ The upper market sample also includes the Best Western Capitola-by-the-Sea Inn.

FIGURE D-10
SANTA CRUZ COUNTY AVERAGE ANNUAL OCCUPANCY
(UPPER MARKET HOTELS ONLY)



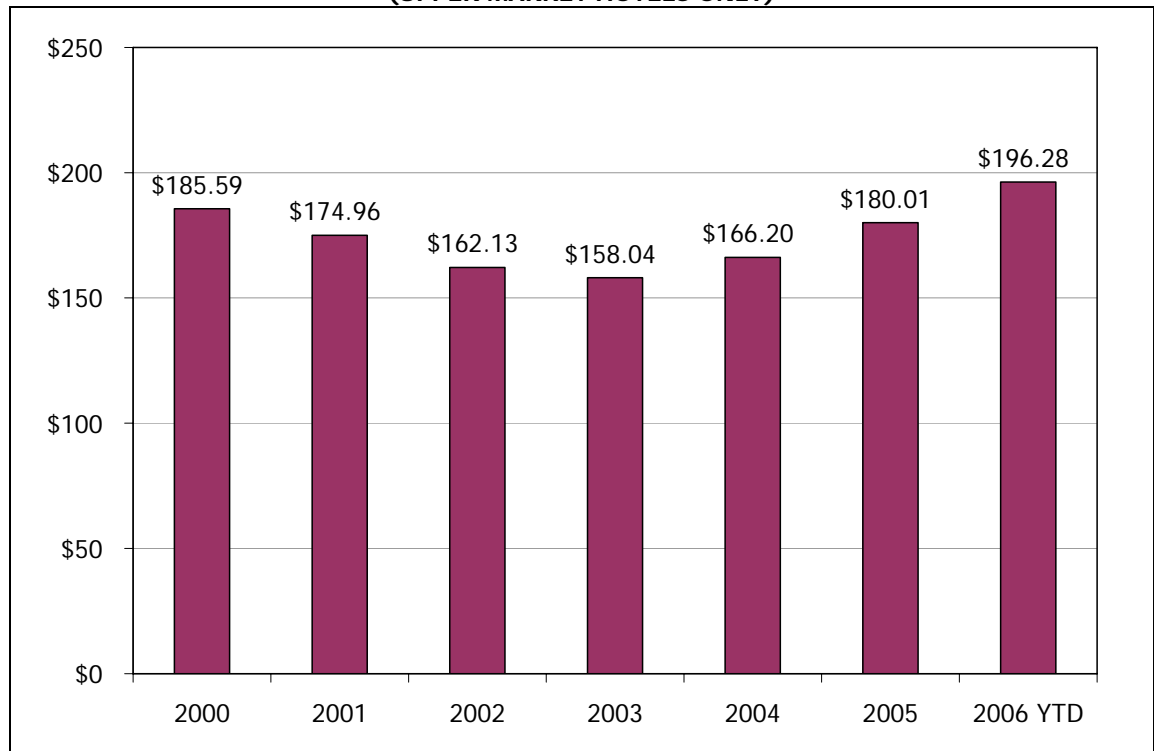
Source: ADE, data from Smith Travel Research

Note: Data only includes hotels and motels with typical room rates over \$150, and excludes bed & breakfast inns and vacation rentals. Upper market sample also includes the Best Western Capitola-by-the-Sea Inn.

In 2000, the occupancy rate for upper market hotels peaked at 67 percent, and generally stayed around 57 percent between 2001 and 2004. By 2005, the occupancy rate recovered to 61 percent, and the monthly occupancy rates compared to the previous year showed continuous growth between May 2005 and May 2006. The year-to-date occupancy rate as of September 2006 averaged 64 percent, which also represents an increase over the previous year.

In addition, the average room rates have similarly recovered from the post-2000 market downturn. In 2000, the upper market room rates averaged \$186 per night. The room rates declined to \$158 by 2003, but recovered to \$180 by 2005. The year-to-date room rate through September 2006 averages out to \$196, which represents an increase from the \$184 year-to-date average room rate through September 2005.

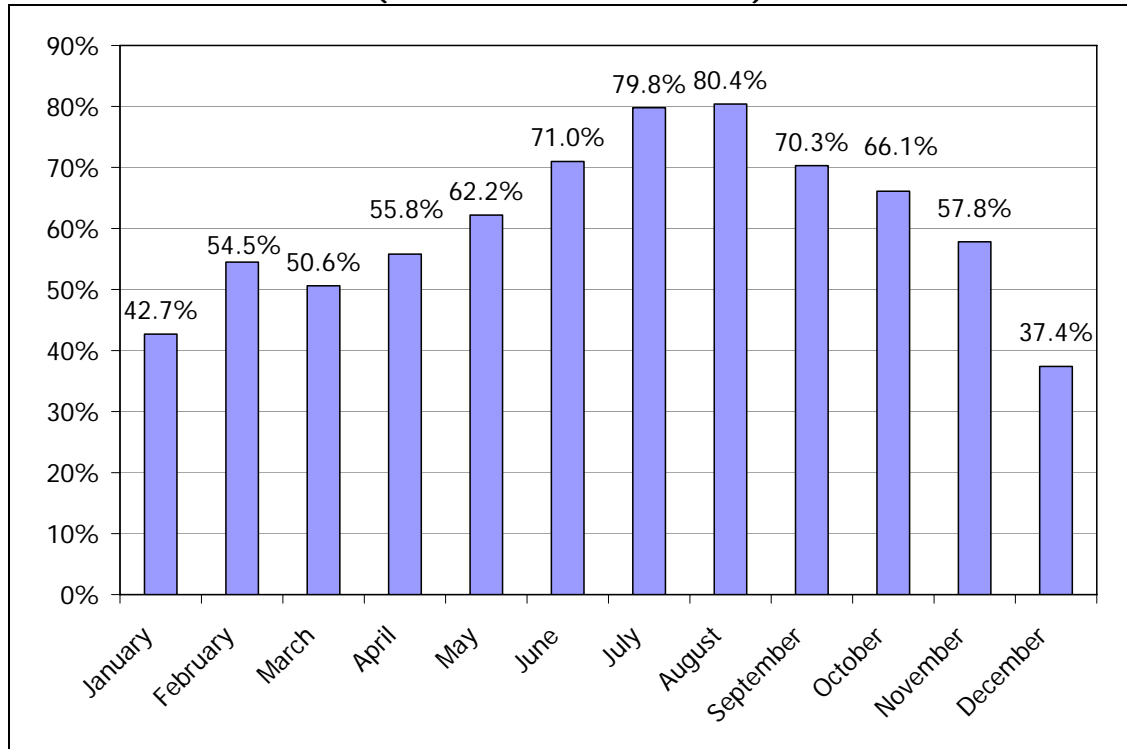
FIGURE D-11
SANTA CRUZ COUNTY AVERAGE ROOM RATES
(UPPER MARKET HOTELS ONLY)



Source: ADE, data from Smith Travel Research

Note: Note: Data only includes hotels and motels with typical room rates over \$150, and excludes bed & breakfast inns and vacation rentals. Upper market sample also includes the Best Western Capitola-by-the-Sea Inn.

FIGURE D-12
SANTA CRUZ COUNTY AVERAGE MONTHLY OCCUPANCY, 2005
(UPPER MARKET HOTELS ONLY)



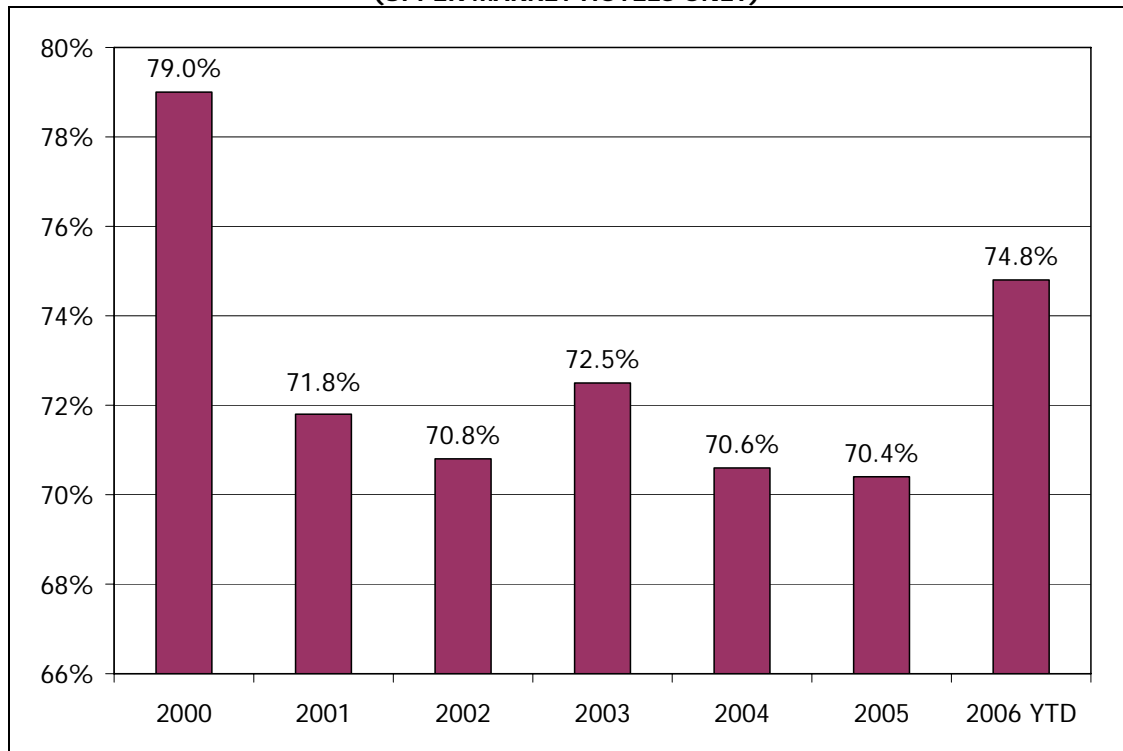
Source: ADE, data from Smith Travel Research

Note: Note: Data only includes hotels and motels with typical room rates over \$150, and excludes bed & breakfast inns and vacation rentals. Upper market sample also includes the Best Western Capitola-by-the-Sea Inn.

MONTEREY PENINSULA UPPER MARKET

By comparison, the upper market hotels in the Monterey Peninsula hotel properties have higher average annual occupancy rates. As with Santa Cruz County, the upper market hotels in the Monterey Peninsula hotels were negatively impacted by the general downturn in tourism since 2000. In 2000, the occupancy rate was 79 percent and declined to 71 percent by 2002. In 2005, the occupancy rate remained at 70 percent, but the year-to-date occupancy rate has recovered to 75 percent as of September 2006. (Figure D-13)

FIGURE D-13
MONTEREY COUNTY AVERAGE ANNUAL OCCUPANCY
(UPPER MARKET HOTELS ONLY)

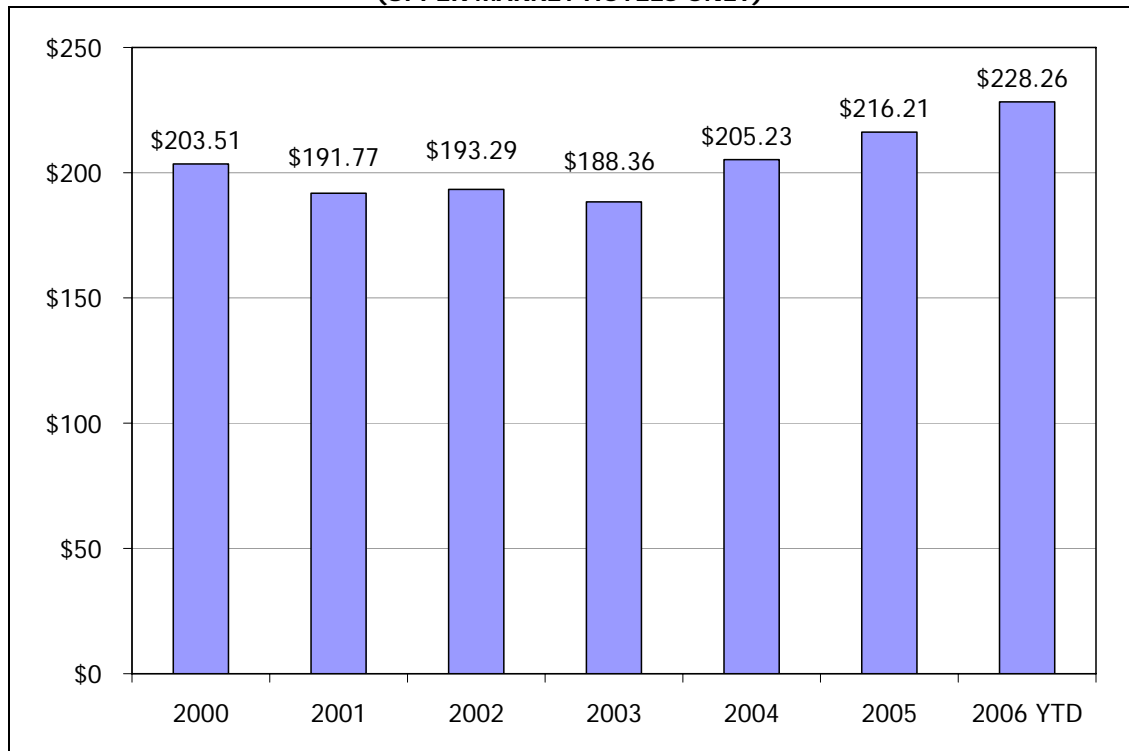


Source: ADE, data from Smith Travel Research

Note: Data only includes hotels and motels with typical room rates over \$150, and excludes bed & breakfast inns and vacation rentals.

During this same period, the average room rate decreased from \$203 in 2000 to \$188 in 2003. However, by 2005 the average room rates with the upper market establishments had increased to \$216, and the year-to-date room rate averaged \$228 as of September 2006. (Figure D-14)

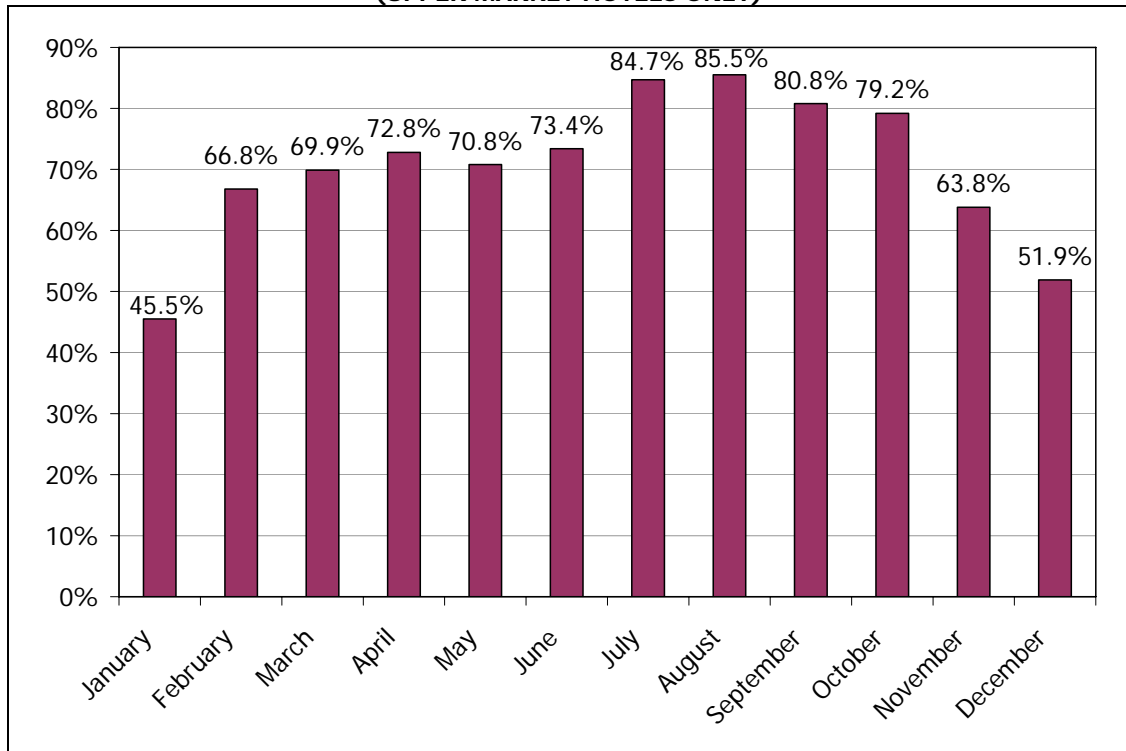
FIGURE D-14
MONTEREY COUNTY AVERAGE ROOM RATE
(UPPER MARKET HOTELS ONLY)



Source: ADE, data from Smith Travel Research

Note: Data only includes hotels and motels with typical room rates over \$150, and excludes bed & breakfast inns and vacation rentals.

**FIGURE D-15
MONTEREY COUNTY AVERAGE MONTHLY OCCUPANCY, 2005
(UPPER MARKET HOTELS ONLY)**



Source: ADE, data from Smith Travel Research

Note: Data only includes hotels and motels with typical room rates over \$150, and excludes bed & breakfast inns and vacation rentals.

5. GENERAL POTENTIAL FOR NEW HOTEL/MOTEL DEVELOPMENT

Typical rules of thumb for new hotel development require an average annual occupancy of between 60 and 70 percent in order for a project to break even. Judging by these standards, Santa Cruz County as a whole is slightly oversupplied with hotel space for the existing number of overnight visits to the area. However, the upper end of the hotel market in Santa Cruz County shows a higher occupancy rate, and a recent upward trend in both occupancy and room rates.

Moreover, the business interviews indicate that Capitola's existing lodging market has a notably higher occupancy rate than the countywide average in part because of the relatively low number of hotel rooms in Capitola. The success of the Best Western Capitola-by-the-Sea Inn, which opened for business in 2000, is a strong indicator that Capitola itself is an underserved lodging market given that the hotel has done well

despite being located along the commercially-oriented 41st Avenue rather than a more visitor-oriented area such as the Village.

Within the upper end of the market, Santa Cruz County does not currently have any modern boutique hotels that serve more upscale visitors. For Capitola, the small scale of these types of upper market hotels represent a good fit for the community, because they are often developed as infill projects that integrate within the existing scale of neighborhoods and business districts. In addition, Capitola's image as a visitor destination would be further enhanced by attracting a high end hotel to the community. Capitola does not have sufficient space to develop the large-scale convention facilities that would support additional hotels that serve the business market.

In general, opportunities with higher end lodging appear more attractive in the short-term than with the overall lodging market. The upper market hotels have maintained a consistently higher occupancy rate than other establishments in the Santa Cruz hotel market, and this end of the market is not currently represented in Capitola. Even if more hotel rooms serving the middle market are added in Capitola, the upper market remains a market opportunity that would potentially work well with an overall objective of more attracting more upscale visitors.

6. BED & BREAKFAST INN MARKET

The bed & breakfast (B&B) lodging market generally serves a more upscale market than most of the other lodging options. Rather than physical amenities such as recreation and conference facilities, B&Bs typically offer highly personalized service and location amenities such as a historic neighborhood, historic architecture, or a natural setting.

LOCAL SETTING

The California Association of Bed & Breakfast Inns (CABBI) identified a total of 11 lodging establishments in Santa Cruz County that are considered B&Bs.⁶ These establishments account for a total of 70 guest rooms, or less than two percent of the countywide total. In Capitola, the Inn at Depot Hill operates as a 12-room bed and breakfast inn.

GENERAL CHARACTERISTICS

The aspects that distinguish a B&B from a typical hotel or motel are the high level of involvement by the owners, and the small scale of typical B&B operations. In California, about 68 percent of B&B owners live on the premises, with an addition 12

⁶ This total is separate from hotels and motels.

percent that reside within one-mile.⁷ Because of this high degree of involvement by ownership, B&Bs typically maintain a small employee staff with an average of less than four full-time equivalent employees.⁸

On average, a California B&B inn generated about \$232,300 of annual revenue in 2002. This contrasts with the average of \$2.4 million in room revenue for Santa Cruz County hotels and motels.⁹ It should be noted that B&B inns average eight guest rooms throughout California, while Santa Cruz County B&B inns average about six rooms per establishment. In contrast, Santa Cruz County hotels average 52 guest rooms. Clearly, a B&B establishment represents a smaller scale operation than even a budget/economy motel, and one that generates higher revenue per room on average.

OCCUPANCY AND REVENUE

The annual occupancy rate of California B&B establishments averaged about 44 percent in 2002, which is well below the typical break even benchmark for new hotel and motel developments. However, the average daily room rate for a B&B was about \$164. In Santa Cruz County, the range of posted room rates averages between \$100 and \$295, with the Inn At Depot Hill in Capitola quoting its lowest room rate at \$185 per night.

SITE CHARACTERISTICS

In California, an average B&B occupies 6.5 acres with 7,200 square feet of total building space to accommodate eight guest rooms, common areas, and owner's residences.¹⁰ However, it should be noted that 58 percent of B&Bs sit on parcels of less than one acre, and only 18 percent of the B&B buildings were originally built as B&Bs. This illustrates the wide range of characteristics for B&Bs given that many of them are located on large rural estates, and most of them represent reuse of an existing building not originally constructed for guest lodging.

GENERAL POTENTIAL FOR NEW BED & BREAKFAST INNS

The B&B option for Capitola represents a very attractive option for reusing existing buildings, particularly for any underutilized structures that might exist in Capitola Village. A typical B&B inn would operate well within the small scale of the Village, as well as other small infill sites, in part because a B&B would not necessarily entail developing a new facility from the ground up.

⁷ Professional Association of Innkeepers International (PAII), Industry Study of Operations, Marketing, and Finances – California Report; 2002

⁸ California average is 6.3 employees working 145 total hours per week.

⁹ Calculated from PAII and Smith Travel Research occupancy and room rate data.

¹⁰ PAII.

APPENDIX E: TARGET INCOME GROUP BENEFIT

Implementation of the Economic Development Strategic Plan (EDSP) is intended to have the net effect of creating jobs, particularly those positions that benefit workers in the Target Income Group. Attraction of new lodging facilities to the Capitola Theater and MacGregor sites will create an estimated 73 new jobs. In addition, meeting all of the unmet retail market demand in Capitola can support an additional 37,625 square feet of retail space. This retail space absorption will create approximately 68 new jobs. (Figure E-1) Additional jobs would be created if implementation of the EDSP strategic goals results in expansion of existing businesses, and additional business development based on regional growth opportunities.

FIGURE E-1
TARGET INCOME BENEFIT FROM NEW BUSINESS DEVELOPMENT IN CAPITOLA

| Business Type | Total Job Potential | Managers/ Admin. | Prof./ Technical | TARGET INCOME GROUP OCCUPATIONS | | | | TIG Total |
|---------------------------|---------------------|---------------------|---------------------|---------------------------------|----------|----------|--------------------|--------------|
| | | | | Sales | Clerical | Services | Production/ Ag. | |
| Lodging | 73 | 5 | 2 | 3 | 11 | 44 | 8 | 66 |
| Retail | 68 | 4 | 3 | 40 | 8 | 4 | 10 | 62 |
| Total Job Creation | 141 | 9 | 4 | 43 | 19 | 48 | 18 | 128 |

Source: ADE, benchmark data from Urban Land Institute, U.S. Economic Census, Smith Travel Research, and the California EDD Occupational Employment Survey.

Occupations in the sales, clerical, services, or production and laborer positions are the ones that typically benefit workers in the target income group.

Out of the 141 potential new jobs created by potential new establishments, 128 of them would be in the target income group occupations. Overall, the two largest occupational categories are sales and services.