

# SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors  
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**Agenda Number:**  
**Prepared on:** 8/7/03  
**Department Name:** Housing & Community Dev  
**Department No.:** 055  
**Agenda Date:** 8/19/03  
**Placement:** Departmental  
**Estimate Time:** 30 minutes  
**Continued Item:** NO  
**If Yes, date from:**

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**TO:** Board of Supervisors

**FROM:** Edward Moses, Director  
Housing and Community Development

**STAFF CONTACT:** Jim Claybaugh, Economic Development Coordinator, 560-1093  
Richard Morgantini, Economic Development Assistant, 560-1092

**SUBJECT:** Business Retention Projects

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## Recommendation(s):

1. Receive the Economic Development Program's proposed projects to address business retention in the County.
2. Approve the recommendations of the Economic Development Program staff regarding the proposed projects to address business retention in Santa Barbara County
  - a. Online Business Database Directory
  - b. Business Intelligence Program
  - c. Red Team and Retention Interviews
  - d. Industry Cluster Development Projects
  - e. Annual "Health of the Economy" Report

## Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with Goal No. 4. A Community that is Economically Vital and Sustainable and with actions required by law or by routine business necessity.

## Executive Summary

Currently, the County Economic Development Advisory Committee (EDAC) and program staff are in the process of completing the County's Comprehensive Economic Development Strategy (CEDS), which will address several approaches to maintaining and developing economic vitality of the County, including facilitating economic development in urbanized areas and addressing the jobs-housing imbalance in the county. The strategy will focus on maximizing the many assets for economic

development in the county, and will attempt to create opportunities for all levels of the socio-economic spectrum.

Given the recent departures from the County of businesses such as Erickson, Fidelity, and Computer Motion, it is apparent that more immediate action should be taken on the part of the Economic Development Program to retain existing businesses. The recommendations submitted below will complement the final draft of the CEDS, with the objective to create more economic value to doing business in Santa Barbara County.

## **Discussion**

The current economic climate holds high amounts of uncertainty, and Business Sentiment surveys from the UCSB Economic Forecast Project confirm this assertion. These surveys indicate that a negative trend has been recurring since the first quarter of 2001.

At the international level, volatility combined with stagnancy exists in various regions of the world, including nations in the Pacific Rim, which do extensive business with California and the United States.

At the national level, despite the most favorable interest rates in decades, and a tax policy that supposedly intends to spur the economy, economic growth has been stagnant at best, bordering on recession for the last nine quarters. Only recently have economic indicators begun a slight turnaround.

At the State level, a state fiscal crisis, combined with the residual effects of a power deregulation that created scarcity and extensive uncertainty, and current state policies regarding workers compensation and unemployment insurance, that are among the most expensive in the nation, have contributed to numerous businesses looking outside the state to do business. Other regions of the nation are exploiting that case, and are more actively recruiting California-based businesses, especially since the Power Crisis of 2001. States such as Ohio, Kentucky, Texas, and Virginia initiated aggressive marketing of California businesses as a result of the power crisis.

One of the most common concern identified by local employers at the CEDS focus group meetings is the cost and availability of housing for mid-level and line workers. This sentiment is confirmed by data from the UCSB Economic Forecast Project, which states that the Median Home Price in the county increased 153% from 1996-2002, and the Housing Affordability index dropped from 32% in 1996 to 17% in 2002, which means that roughly 1 in 6 people in the county can afford to buy a home.

For the reasons described above, a significant number of private sector employers have left the County. All these pressures combine to create a local and regional economic environment that not only makes attracting new business and expanding existing business a serious challenge, but makes retaining existing business the primary economic development challenge in Santa Barbara County, especially on the South Coast.

Recent departures include the recruitment of Fidelity National Financial, a Forbes 500 Company, to Jacksonville, Florida – a loss of potentially 400 jobs. Erickson also recently downsized, losing a total of 235 jobs. Computer Motion, a medical device manufacturer, recently merged with a larger firm and is consolidating its operations in Sunnyvale, California. According to data from the Workforce Investment Board, the county suffered a loss of 1800 jobs in 2002, and more than 700 in 2003, to date. The job

losses in previous years were slightly mitigated by the increase of jobs in the public sector, but hiring in that sector has slowed considerably with the state's budget crisis.

Nonetheless, the county possesses a number of unique amenities and a natural environment conducive to economic development – including strong higher education institutions, strong entrepreneurial drivers, knowledge networks and intellectual capital that can serve as elements to a robust local economy.

### **The Factors Affecting Economic Growth in the County**

The field of economic development has become much a more sophisticated field in the last two decades. Industry publications survey business owners, site selection consultants, and corporate real estate executives to determine the most important factors that make localities attractive to businesses, and local economies conducive to business growth. The similarity of the lists confirms some common primary criteria businesses consider – physical inventory and cost, workforce composition and cost, and financial and tax incentives – among several other criteria mentioned.

Physical inventory refers to the availability commercial and industrial space, and available land to add more commercial-industrial capacity. Workforce refers to the availability of labor for businesses, the cumulative skill levels of that available labor, the wage demands and union representation, and similar factors businesses look at. Financial incentives refer to the various types of financial assistance available to desired businesses, including tax credits, land write-downs, planning and impact fee waivers and/or reductions, low-interest loans, etc.

Regarding those three factors, Santa Barbara County has mixed results. In the area of physical capacity, there is minimal commercial-industrial capacity, mostly in Lompoc, Santa Maria and Carpinteria, although vacancies have recently increased in the Santa Barbara and Goleta areas.

In the area of workforce, Santa Barbara County is slightly ahead of the curve. For a variety of reasons, including the overall high quality of life throughout the county, cumulatively, the county possesses a workforce that has a relative competitive advantage over other regions of the state and nation. This is an asset that, if taken alone, would make the county attractive to business. An high-quality school system and strong higher education system contribute to this.

Nearby counties, including Kern and Los Angeles County, offer several financial and tax incentives to induce businesses to locate there. In this third category, financial incentives, the County trails other jurisdictions, including neighboring counties. This is due primarily to the overall affluence in the region. State and federal tax credit programs are generally only available to regions with high unemployment and low median and/or per capita incomes, in comparison to state or national averages.

Santa Barbara County also possesses amenities that make it appealing to businesses and CEO's, including strong natural resource assets – excellent climate, air quality, etc. – and local citizen and policy commitment to maintaining environmental quality.

### **Program Objectives**

There are a variety of initiatives that Santa Barbara County could undertake to mitigate the pressures placed on existing local businesses to move elsewhere. Some of these initiatives are more difficult to take on than others, but could still be studied to assess feasibility.

- 1. Develop Programs to Assist Local Business Development**
- 2. Research the feasibility of tax incentives**

- 1. Develop Programs to Assist Local Business Development**

The Department of Housing and Community Development is currently developing a number of programs intended to provide value to doing business in the county, by increasing business-to-business (B2B) activity within the county. The following five items constitute the business retention program staff is recommending.

- a. Online Database and Directory

The first project is a countywide business database and directory that will allow businesses to access an online directory to search for local businesses and employees. HCD staff is partnering with County IT staff, the Pacific Media Initiative, the Economic Forecast Project, and a local tech firm to develop the project that is targeted for completion in August. The firm, Mixed Grill, developed a software called Intro©, that it is modifying to serve businesses. The cost of developing this program will be utilized within the department's existing budget, and will not require any additional funding.

- b. Business Intelligence Program

A second project staff is developing is a business intelligence program, often called "Economic Gardening." This type of program was first developed in Littleton, Colorado, and the city has had great economic development success with it. The program provides market data, customer lists, competitor information, and other business intelligence to businesses located in the county at a very low cost. This is a project that could add significant value to doing business within the county. In Littleton, this program has become so successful that it attracts dozens of businesses each year without having to conduct any type of marketing.

- c. Red Team and Retention Interviews

Staff will also begin conducting retention interviews with businesses throughout the South County, similar to the Continuing Prosperity Program utilized successfully by the Santa Maria Valley Economic Development Association. Interview programs like this are very useful at identifying specific barriers individual businesses face, and can provide an opportunity for local officials to make "Red Team" visits to businesses for retention purposes. Information obtained from these interviews will be used towards identifying strategies and updating the County's Comprehensive Economic Development Strategy. Staff is collaborating with the cities of Carpinteria, Goleta, and Santa Barbara, and their respective Chambers of Commerce, to facilitate these meetings, which will consist of one-on-one meetings with individual businesses, and when appropriate, visits by local officials to encourage retention.

- d. Industry Cluster Development Projects

Last year, the Pacific Media Initiative was launched, to promote the industry clusters relating to communications, entertainment, publishing, and multi-media sectors. The success of this initiative motivated staff to begin collaborating with other industry groups in the region, including those

related to tech hardware and software, biotech and medical devices, and value-added ag. Upon completion and approval by the Board of Supervisors of the CEDS, staff will initiate this project.

e. Annual “Health of the Economy” report to the Board of Supervisors

An annual report to the Board of Supervisors could be developed with recommendations on how to maintain the viability of the county’s economy. This report would coincide with the end-of-year CEDS progress report that will be brought to the Board of Supervisors annually, would describe the overall health of businesses in the county, and could recommend possible actions related to the county’s business and economic climate. Likewise, this type of report could also be presented on an as-needed basis, should the Board request a study of the impact of a particular issue, project, or program.

## **2. Research the feasibility of tax incentives**

a. Federal Programs – Empowerment Zones, Renewal Communities, Enterprise Communities

The first round of federal tax incentives came in 1994 when legislation initiated by President Clinton and House Speaker Gingrich sponsored legislation to create Empowerment Zones and Enterprise Communities. With this designation, businesses within designated local jurisdictions could receive various tax credits. Also, local jurisdictions receiving designation also received substantial funding for economic development activities. In order to qualify, a city had to prove, at minimum, that it have worse unemployment and median household incomes than the national average.

At that time, a total of 40 urban and rural cities received this designation. In 2000, the federal Community Renewal Act, sponsored by Representative J.C. Watts of Oklahoma, created a new Empowerment Zone designation, and similar designation called Renewal Communities. Similar to the earlier program, this designation allowed any and all businesses within a designated city to receive several types of federal tax credits. A total of eight urban and 2 rural cities received these new designations, but no funding was available this round for local communities. The City of Santa Maria applied for this designation in 2001, but was not approved. It is not known if this type of federal program will ever be offered again, but given the current and near-term projected fiscal climate, as well as the current administration’s policy toward economic development funding, it is unlikely this program will be revived anytime in the near future.

Cities such as Los Angeles, Santa Ana, Fresno, and Jacksonville, Florida have received this designation.

b. State Programs – Enterprise Zone, Targeted Tax Area

At the state level, the California Enterprise Zone program was initiated about the same time as the federal programs. Forty jurisdictions throughout the state received designation as a state Enterprise Zone, including Santa Ana, Los Angeles, and Fresno. This designation allowed for businesses within the zone to receive several forms of state tax credits, and designation was contingent upon evidence of unemployment, poverty, and media household income criteria similar to the Empowerment Zone program. Communities who did not receive this designation lobbied for a

Targeted Tax Area designation, which would have allowed for the ability to offer similar tax credits to local businesses without having to meet the poverty and unemployment criteria.

In a more positive fiscal climate, it may have been possible to obtain a Targeted Tax Area designation for the less affluent areas of the county, including Carpinteria and areas of the North County. Given the current fiscal crisis at the state level, it's unlikely such a designation could occur for any region of the county. The window of opportunity to create tax incentives is fairly closed for now, but department staff will continue to monitor state and federal programs to be ready if any tax credit programs become available in the future.

c. Local Incentives – Use of local incentives to encourage development

Currently, the County does not require any kind of business tax, although certain types of business are required to pay a business license fee. Given the current fiscal climate, it seems unrealistic to propose any kind of county tax incentive at this time. Staff can, however, conduct initial cost-benefit analysis to identify potential incentives that would have a sufficient return on investment for the County. One possible incentive to consider is some type of fee waiver or discount to encourage a business to expand to a site within the County.

**Other Possible Business Assistance Activities**

a. Renew the Business Assistance Team

The County Planning and Development Department in 1998 created the Business Assistance Team (BAT), to provide specialized guidance to businesses to expedite the permit process for projects that qualify for assistance (i.e. high wage, employment generating, projects, and other project the meet BAT guidelines). Businesses targeted for assistance were identified by several criteria, including type of business, number of jobs to be created/retained, and average wages paid.

According to documentation regarding BAT, businesses would be assigned a project coordinator, and would facilitate meetings with relevant Planning Department divisions, then encourage concurrent review of the applications. BAT projects were considered high-priority and processed as quickly as possible. County Economic Development Program staff could act as coordinators for a new BAT process, if these procedures are not already in place by Planning & Development.

b. Joint Task Force

A joint task force could be formed incorporating various County departments and other local, regional, state and federal agencies to address the regulatory process and it's impact on business. The objective of the task force could be to create a consolidated permit streamlining process at best, and/or create a "one-stop" center where a business could meet with necessary regulatory agencies, and initiate the permit process at one location. Again, there are numerous examples of other jurisdictions that have initiated similar programs, and staff could present this info to the Board at their request.

c. Analyze Feasibility of Online Permitting

Online permitting is one possible opportunity that, while not directly economic development, has been utilized by other jurisdictions to add convenience, certainty, and expedience to the permitting process.

Online permitting allows a business to process online permit applications, electronic permit fee payment, and online inspection scheduling. Several jurisdictions in California allow online permitting, including the Cities of Long Beach, Sunnyvale, Santa Rosa, and Mountain View.

**Mandates and Service Levels:**

The Economic Development Program is not a mandated activity.

**Fiscal and Facilities Impacts:**

Funding for any of the proposed projects would come from existing Economic Development Program funding. Where possible, grant funding would be pursued in place of utilizing existing program funds.

**Special Instructions:**

None.

**Concurrence:**

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Planning & Development Department