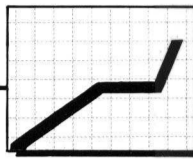


CENTRAL COAST BUSINESS REVIEW AND FORECAST

SANTA CRUZ C O U N T Y



Aside from a few clouds on the horizon, Santa Cruz's economic forecast looks sunny.

by Donna Maurillo

What's the state of the economy in California's second smallest county? How do things fare in a beachfront county that has no real industry, that has a large commuter population, and that hasn't even been able to attract a major department store?

More often than not, the answer depends on recent weather conditions, how well things are moving in Silicon Valley, the market price of imported farm products, and even the voting patterns on the state and federal level.

But sometimes the answer depends on whom you're talking to, what aspect of the economy you're talking about, and whether the subject of discussion is Santa Cruz County or the handful of cities within its territory.

Take tourism, for example. After a period of virtual inactivity during the '50s and '60s, the influx of visitors has regained the importance it held decades ago, when Santa Cruz beaches attracted swarms of sunbathers between June and September. Those were the days of promoters and entrepreneurs — when names like Fred Swanton, Skip Littlefield, and Malio Stagnaro were linked to the annual boom-and-bust cycle of the tourist market. The winter season may have been dead, but oh, those summer days were gussied up and milked for all they could give!

Today, there may be a lot less splash, but all indicators point to a much more sophisticated approach and a more even-keeled tourist economy.

According to Robert Shepherd, finance director for the City of Santa Cruz, tourism has enjoyed enough growth to make a significant contribution to the economic base. "Our transient occupancy tax (TOT) was up by 30 percent last year, which probably makes tourism the biggest industry here," he says. (The TOT is a local tax levied on hotel and motel rooms.)

Because of a year-round approach to marketing the attractions of Santa Cruz County, this particular industry has begun to produce revenue with a more steady pattern than the traditional hills and valleys associated with a tourist-based economy. And, although 1985 did

show a dip, the latest figures signal a return to an upward trend.

Ted Whiting, director of planning and special projects for the Seaside Company, says factors leading to that dip were beyond anyone's control. "This was the first year in some time where we saw a downturn. Mainly, I think, it was because of a cooler summer and because of the forest fires. People were afraid to drive over Highway 17, and we noticed an immediate drop in attendance at the Boardwalk."

Joseph Flood, executive director of the Santa Cruz County Convention Bureau, expects a slow, well-managed growth over the next five to seven years, which would continue a movement begun a few years ago. According to Flood, TOT in fiscal year 1981 came to \$1,300,000; by next June 30, the figure is expected to reach almost \$2,500,000.

"We've opened 13 traditional visitor information outlets throughout the county," says Flood. "These will direct visitors to attractions and provide more information on where to shop and where to enjoy themselves. We expect to do a tremendous business this year."

However, there are problems associated even with what is generally regarded as a clean industry that makes a minimum impact on public services while providing a lucrative source of income. Thousands of visitors must be transported throughout the county each year, and this can impact severely on neighborhoods and the quality of life for local residents. As Santa Cruz Mayor Mike Rotkin put it, nobody wants to smother in their own success.

"These are serious challenges that must be dealt with in a way that benefits everyone," says Rotkin. "Right now we have problems with traffic on Ocean Street, and we have a question with construction of a new bridge over the river into the beach area. Development of the beach flats is another consideration we have to face, and we're still looking at the expansion of the Dream Inn. Right now the Seaside Company is playing close to the vest, especially with their plans for the Casa del Rey and La Bahia. But (the beach) is an appropriate area for development, and I think their intent is to keep their properties tourist-related."

Retail sales, while a little slow toward the end of the year, picked up again around Christmas. "Overall, we had a sales growth of 10 percent," says Shepherd. "Inflation was anywhere from two to three percent, so we stayed well ahead of it. There was a boom year in 1984,

which we couldn't match in 1985, but you can't expect that kind of performance every year."

Lionel Stoloff, executive director of the Santa Cruz Chamber of Commerce, points out that not many years ago nearly two-thirds of local residents received non-salary income, generally in the form

of pensions or Social Security. "Now only about 15 percent receive that kind of income," he says. "With the university moving in, we've seen a younger crowd, and the stores have reacted to their purchasing power. Without that market, there would have been no changes."

And the changes have been dramatic, especially on the Pacific Garden Mall, which holds 25 percent of the city's retail activity at a time when most downtown areas are dying out. "There's a cohesive group of merchants there, and they've really promoted themselves," adds Shepherd. "Now their association has a full-time director, and they've doubled the promotion tax they've assessed themselves. The Mall is almost always crowded with shoppers."

According to Rotkin, there's only a 15 percent vacancy rate downtown at a time when the rate is 35 percent statewide. "We're losing durable goods," he says, "but they're being replaced by good sales in soft goods, and food and beverage."

Even the city's least obvious retail area, the Santa Cruz Wharf, is beginning to move forward. Last year the city invested \$3 million to renovate the structure, adding more parking spaces and replacing many of the old buildings with modern facilities. Many wharf businesses are in their first year of operation and, thus, have experienced a bumpy start. However, Shepherd cites a 50 percent increase in wharf activity, and Rotkin claims the wharf is doing better than was expected at this point. "The wharf is doing incredibly well, and we're making lots of money on it," he says. "But right now, it's all going back into repairing the pilings."

Agriculture, generally regarded as one of the two most important industries in the county (tourism being the other), has had a spotty record of late. Leonard Craft, agricultural commissioner, says that some growers did very well, while others were hit with problems.

"Lettuce is up and down in prices," he says. "This is a very unpredictable crop because it depends on the number of acres planted each year, which then depends on what the growers anticipate the market to be worth each year. It's like going to Reno because of the gamble; what you plant is what you live with for the season. Sometimes all they can hope for is to break even."

Brussels sprouts prices were affected by the cannery strike; growers had to dump them on the less-lucrative fresh market, which pushed the price down. Even with a strike settlement, says Craft, it will take a while for a recovery.

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Jess Brown of the Santa Cruz County Farm Bureau says that 1985 was a bumper crop year for apples, and it looks as if this year will be another winner, though not quite so bountiful. "But a lot of what the market will bear depends on the crop from Washington," he says. "Last year their crop wasn't good, so we did well."

Strawberries were the top crop for the county in 1984, but the most recent figures aren't yet available. The upcoming year is uncertain, according to Brown, because Santa Maria growers have increased their acreage of berries, and they have an earlier harvest than Monterey Bay growers. "Because they come into season earlier, they may go out earlier. That won't affect us. But in their season competition, we'll be in direct competition," he says,

In spite of the uncertainties, local growers don't have some of the major financial problems of the San Joaquin Valley. There, according to Craft, land prices became inflated, which prompted many growers to borrow against their equity and reinvest in more land. When prices fell, many farmers lost money. Some analysts predict that as many as 25 percent of them may go out of business this year.

However, Craft adds that conditions are more stable here. "We have the best farmers I've seen anywhere. I've been very impressed with the level of production and with the precision farming methods."

The city of Watsonville, long associated with agriculture, has begun to diversify into light industry and is experiencing a boomlet, of sorts. John Radin, city manager, says that two industrial subdivisions were approved — one with 18 acres, and the other with 106 acres. "They'll be light industrial," he explains, "with mainly warehouses, distributors, and some electronics."

Orchard Supply Hardware will open a 75,000-square-foot building in the spring, and Watkins-Johnson plans to move part of its Scotts Valley operations into the old Seagate building near the airport. That facility contains 200,000 square feet, though the company does not plan to utilize all of it at this time.

In addition, 600 residential units will begin construction in the spring; these will meet a pressing need for housing in Watsonville, where it's estimated that as many as 1,000 families are doubled up.

"Santa Cruz County has a one percent growth limit," says Radin. "The natural growth rate is between two and three percent. Because there isn't that much industrial property in the county or in Santa Cruz, industry is looking at Watsonville. We're experiencing a growth rate of nearly four percent."

In Scotts Valley, the city came very close to hitching its wagon to the high tech star not long ago. "That was until early 1984," says Richard Hsia, community development director. "Then, with the pendulum swings of the industry, we began to have other thoughts. We were hurt, but only a bit. It wasn't as severe as in the Silicon Valley."

From his personal observation, Hsia feels very optimistic about the economic future of Scotts Valley. "I don't foresee a rapid growth in our economy, but that's because we are planning for a slow, well-managed growth. Our approach is to diversify the economic base so we don't rely on one industry. That way, we

won't be hurt if one sector slows down."

Scotts Valley is just completing a two-year development of a general plan, which proposes to maintain a rural atmosphere with a good quality of life and attention to the environment. "We're looking for commercial and industrial growth," adds Hsia, "but we haven't determined exactly what kinds of businesses we want to attract. We plan to take these on a project-by-project basis and give serious consideration to any impact on our economy, our diversity, and our way of life."

While the cities are faring well, the county has its own brand of headaches. And though these are problems shared by nearly every county in California, it doesn't make them any more palatable to George Newell, county administrative officer.

"Counties lost power with the passage of Proposition 13," says Newell, "and that left us unable to raise revenue through property taxes. Cities here have utilities taxes, license fees and other sources, but essentially, the county has only the TOT. And nearly all the hotel rooms are within city limits."

Comparing counties to senior citizens living on fixed incomes, Newell believes that counties have to provide many services to both cities and unincorporated areas as well as to the county itself. "More than half the population lives outside the cities, but almost all sales taxes are generated in the cities and kept there. It would be great if we could redistribute taxes based on where people live rather than where they made purchases," he says.

Adding to county financial problems, the federal revenue sharing program will expire in August, and there are no indications that it will be reinstated. "Santa Cruz County alone will lose \$1.6 million, but Los Angeles will lose \$70 million. That's the only federal money the counties get that has no strings; how it's spent is determined on the local level. We've used it to provide many necessary services like meals for seniors, stroke rehabilitation, and counseling for low-income families. I'd hate to think that many of our seniors won't be getting that one hot meal a day anymore."

Newell doesn't foresee any state bailouts until after the gubernatorial election, at least. In the meantime, he fears that some of the less affluent counties will go over the financial brink before the State takes action. "I don't expect Santa Cruz County to be one of them," he adds.

With such a mixed bag of economic conditions, what will the future hold in the long run? While they are hesitant to bank on a one-note economy, most people are willing to bet on the tourist industry as the most important source

of revenue for both cities and county.

Rotkin points out that, even when the national economy is tight, there's a huge market of visitors from the Silicon Valley and San Francisco who come to Santa Cruz County for vacations rather than going to Hawaii or the Caribbean.

Shepherd agrees, adding that Santa Cruz is an affordable area even in a bad economy. "In places like San Francisco, you have to pay \$10 just to park your car, and the hotel rates are much higher. When people have to economize, Santa Cruz is that much more attractive."

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Development of more overnight facilities in the county would please Newell because the TOT would help to provide much needed services outside the cities. "A convention center at the Santa Cruz beach wouldn't do the county much good, except that it would improve the general economic base."

For Whiting, there's no question that tourism could be a major focus for any area of the county. "Tourism is here to stay because we're carrying on a 100-year-old tradition. The good thing is that we haven't locked ourselves into any one development plan yet. Now we're ready to move, and there are a lot of good ideas to consider, like tour boats between here and Monterey, and developing the San Lorenzo River area into something really attractive. Tourism was our best bet in the past, and I think it's our best bet for the future."
