

COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY FOR THE SAN FRANCISCO BAY AREA: EXECUTIVE SUMMARY

WITH A STRONGLY COMPETITIVE GLOBAL ECONOMY, DIVERSE RANGE OF INNOVATIVE, KNOWLEDGE-BASED INDUSTRIES, A WELL-EDUCATED LABOR FORCE, LOW UNEMPLOYMENT, AND COMPARATIVELY HIGH HOUSEHOLD INCOMES, THE NINE-COUNTY BAY AREA HAS AN ECONOMY THAT MANY OTHER REGIONS ENVY. YET THIS PROSPERITY HAS CREATED CHALLENGES THAT THE REGION IS STRUGGLING TO ADDRESS. HOUSING PRICES THAT RANK AMONG THE HIGHEST IN THE NATION AND TRAFFIC CONGESTION THAT RANKS SECOND, CRITICAL INFRASTRUCTURE THAT IS IN NEED OF REPAIR, VULNERABILITY TO NATURAL HAZARDS, AND TENS OF THOUSANDS OF PEOPLE LIVING IN IMPOVERISHED COMMUNITIES WITH LIMITED OPPORTUNITIES, PUT THE CONTINUED PROSPERITY OF THE BAY AREA AND THE REGION'S CONTRIBUTIONS TO THE GLOBAL ECONOMY AT RISK.

BAY AREA LEADERS IN BUSINESS, ECONOMIC AND WORKFORCE DEVELOPMENT, GOVERNMENT, AND COMMUNITY ORGANIZATIONS HAVE RECOGNIZED THE NEED TO WORK COLLABORATIVELY TO MEET THE REGION'S CHALLENGES HEAD ON. FORMING A REGIONAL ECONOMIC DEVELOPMENT DISTRICT (EDD) SHAPED BY A COMPREHENSIVE ECONOMIC DEVELOPMENT STRATEGY (CEDS) THAT BUILDS ON RELATED REGIONAL, COUNTY AND LOCAL PLANS IS A FIRST STEP IN THIS DIRECTION TO MAINTAIN, AND IMPROVE UPON, THE REGION'S ECONOMIC PROSPERITY AND QUALITY OF LIFE IN A MORE RESILIENT, SUSTAINABLE, AND EQUITABLE FASHION.

INTRODUCTION

This report is part of a larger process in becoming the Bay Area Economic Development District (EDD) as recognized by the US Economic Development Administration (US EDA). The Bay Area EDD is more than an organization through which applications can be submitted for funding from the US EDA. The EDD organization and the process of producing and regularly updating a Comprehensive Economic Development Strategy (CEDS) will support cooperation and collaboration among organizations and local jurisdictions to address shared problems, realize mutual goals and leverage resources across the region. Improving our understanding of the regional economy can support broader initiatives within a wide range of federal, state, foundation and local partners. This report was prepared under the guidance of a region-wide Economic Strategy Committee and draws on the work of many organizations within the region.

WHAT IS AN EDD?

An Economic Development District (EDD) is a regional designation by the US Economic Development Administration (US EDA) that provides a flexible framework for crafting a regional economic strategy and a platform for public and private collaboration that address regional issues that no single jurisdiction, organization or business can solve alone. It supports local economic efforts and also improves access to grants and technical assistance from multiple federal and state agencies, as well as private foundations. Having a regional strategy, and a clear implementation action plan, enables local jurisdictions and potential funders to understand how the different parts of the region interact and affect one another.

WHAT IS THE CEDS?

The purpose of the Comprehensive Economic Development Strategy (CEDS) is to strengthen the foundation, performance and inclusiveness of the region's economy through collaboratively developed strategies addressing mutually identified challenges. The CEDS report describes the region's economy and the actions that could improve it and is a living

document that will be updated regularly. The CEDS is the regional economic and workforce development strategy, which also reflects local priorities, that identifies the region's strengths and challenges and provides an action plan to achieve our economic goals. It includes the following sections:

1. Economic profile of the Bay Area, which provides the background information necessary to craft a strategy response
2. Strengths, Weaknesses, Opportunities and Threats analysis that identifies the region's major assets and challenges
3. Vision, Goals and Objectives that provide a strategic framework that recognizes the unique strengths and challenges of the Bay Area and
4. Economic Action Plan to address the region's strengths and challenges to build a stronger more resilient Bay Area Economy

The CEDS builds on the strong analytic work of earlier Bay Area planning efforts, and incorporates elements of earlier regional, subregional and local economic strategies and plans. An Economic Strategy Committee of representatives from cities and counties, economic and workforce development organizations, and equity and business organizations has overseen and shaped the Vision, Goals, Objectives and the Economic Action Plan.

TOWARD A RESILIENT, PROSPEROUS AND EQUITABLE ECONOMY

The report highlights agreement on several overarching themes:

- A strong economy and economic growth is necessary to create the environment for greater shared economic prosperity
- The creative forces that generate innovation in the region are driven by a different set of dynamics than the equally critical local services that support the region's population; these differences lead to unique stresses that must be solved for the survival of the Bay Area's unique economic advantages.
- Economic growth and opportunity are integrally tied to regional housing production, which in recent years has not matched regional economic growth, either numerically or spatially
- The region's economic prosperity has not been shared by all communities, with the North Bay and East Bay lagging behind the West Bay and South Bay
- Economic strengths and barriers do not stop at jurisdictional borders and actions taken for one part of the region affect rich and poor areas alike
- To maintain competitiveness of industries and employers, higher skill levels are needed in many new and replacement jobs.
- Career paths to middle wage jobs will require improved skills for lower wage workers, while retaining middle wage earners in the region requires a broader housing base
- Transportation, goods movement, water systems, broadband, and other infrastructure investments are needed to make the region more resilient to economic downturns and natural hazards
- Planning funding and regulatory reform at the regional, state and federal levels are required to improve comprehensive planning to address our challenges

1. ECONOMIC PROFILE - HIGHLIGHTS EXISTING CONDITIONS IN THE BAY AREA

The region's economy, population, and physical assets have made it a global model for innovation and growth. Yet the position is not a secure one, and this growth raises challenges for the environment, housing and circulation, fixed infrastructure, and especially for residents and communities least equipped to compete.

INDUSTRY AND EMPLOYMENT

Strong growth and volatility are two sides of the region's economy.

1. Bay Area economic output exceeded \$720 billion in 2015 and growth outpaced the nation.
2. Most job growth is attributable to local firms starting and growing, and small and mid-sized firms (fewer than 250 employees) employ the most workers.

3. The region's wage and salary employment exceeded 3.8 million in 2016. Growth was led by professional and business services, education and healthcare, construction, and information, which accounted for almost two-thirds of jobs gained between 1990 and 2016. Professional and business services and education and healthcare have replaced manufacturing and government as the region's two largest employment sectors.
4. Yet, while the region has outpaced the state and nation since 2010, it also outpaced both in job loss during the previous two recessions. Volatility in the region's key sectors and barriers to development strain the region as a whole in periods of downturn.
5. Between 1990 and 2010, manufacturing employment dropped by one-third, but has seen a recovery in employment since 2010.
6. The Bay Area has more than twice the share of employment in the information sector than the nation as a whole, and 40 percent more employment in professional and business services. The surge in the information sector has been concentrated almost exclusively in the West Bay and South Bay around Silicon Valley.
7. The top five export related clusters – Business Services, Distribution of Electronic Commerce, Information Technology and Analytical Instruments, Education and Knowledge Creation, and Hospitality and Tourism-- had almost 800,000 jobs in 2014.
8. Between 2010 and 2015 major occupations categories that pay high wages grew the most, but low-wage major occupation categories had the largest number of jobs in total (nearly 1.5 million jobs). Regionally, Computer and Mathematical Occupations grew by the greatest amount, over 85,000 jobs, followed by Food Preparation and Serving Related Occupations (57,530 jobs), and Management Occupations (50,720 jobs).

POPULATION AND THE COMMUNITY

The Bay Area's population is one of the region's strong assets, yet at times one of the most challenged.

9. The Bay Area had 7.7 million people at the beginning of 2017, or an increase of over 500,000 from 2010, and is projected to grow to 9.5 million people according to *Plan Bay Area 2040*. This level of growth is dependent on in-migration, which is fueled by the economy.
10. The region's labor force is highly educated and diverse. In 2015, 45 percent of the Bay Area population 25 and older had attained a bachelor's degree or higher, compared to 30.6 percent nationwide and 30.9 percent in California.
11. Yet a significant share lack the skills necessary to improve their career opportunities and incomes over time. Over 300,000 adults aged 25 or older do not speak English well—more than 170,000 of these adults have less than a high-school education.
12. High income and low poverty characterize the region as a whole, but not all of its parts. Every county in the region has neighborhoods where incomes fall below 80 percent of US per capita levels, a US EDA threshold point for distress.
13. Household income has not kept up over time and all Bay Area Counties except San Francisco, had household median incomes in 2015 below 1989, 1999 and 2005 levels when adjusted for inflation.

SHELTER, MOBILITY AND RESILIENCE

The strength of the economy and high levels of wealth juxtaposed with poverty have challenged the region to keep up with the demands of a diversity of businesses and individuals. Housing is the number one concern listed by many business and economic development organizations, while transportation comes in a close second. Aging infrastructure and the underlying risks from the natural environment raise questions around the long term resilience of the region's built spaces and connecting networks.

14. High prices and low production levels characterize the Bay Area's housing market. In 2015 almost half of all renters paid 30 percent or more of their income towards housing, with 24 percent paying half or more of their income on rent, while homeowners have generally benefited from rapid price appreciation and low interest rates on mortgages.
15. As many as 150,000 housing units, largely in distressed communities, could be unusable after a major regional earthquake.
16. Maintenance costs absorb almost 90 percent of discretionary capital funding for transportation. These expenditures have improved road conditions and bridge safety, but leave little to meet new demands.

17. As the economy strengthens, so does Bay Area roadway and transit demand. Congestion delays increased by 28 percent between the previous peak in 2006 and the most recent period measured in 2015.
18. The region's infrastructure is aging, our energy infrastructure has not kept pace with demand, and our water supply is challenged in years of drought.

2. STRENGTHS, WEAKNESSES, OPPORTUNITIES, THREATS

The characteristics illustrated in the profile highlight the region's major strengths and weaknesses, as well as opportunities for actions and challenges from within and outside.

Summary Strengths include

- Diverse, educated labor force
- Employment and GDP growth outpacing nation
- Innovative culture & venture capital spur new industries
- Historic industries that generate innovation spillover opportunities
- Natural and built environment and quality of life attracts talent and investment
- Cluster of leading higher education institutions
- Infrastructure networks that tie together a nine-county region and beyond

The region faces challenges such as:

- Housing affordability gap affects many income groups
- Traffic congestion that impedes regional mobility
- Retirement of skilled baby boomers
- Groups with language limitations, skill deficits
- Funding gaps for transportation projects, housing, and workforce development programs
- Technological change that will alter or eliminate occupations
- History of volatility, periods of high unemployment
- Aging Infrastructure, shortfall in funding , and natural hazards
- Fragmented governance structure and complex regulations impede growth

The willingness of voters to take on the costs of transportation and housing is an opportunity to address some of the region's weaknesses, but further channels of funding and successful land use management on the part of local jurisdictions and the region will also be needed. The region also needs a strong framework to address possible challenges to the economy that are beyond local control, from cyclical and technological changes to the hazards that would be posed by a seismic event.

3. **VISION, GOALS AND OBJECTIVES** THE MAJORITY OF BAY AREA COUNTIES HAVE ENDORSED THE VISION, GOALS AND OBJECTIVES DEVELOPED BY THE ECONOMIC STRATEGY COMMITTEE IN A COLLABORATIVE PROCESS THAT INCORPORATED FEEDBACK FROM DIVERSE STAKEHOLDERS, ORGANIZATIONS, AND GEOGRAPHIES WITHIN THE BAY AREA.

Vision: A dynamic and resilient economy, spurred by a culture of innovation and inclusion, providing opportunities, shared prosperity, and a sustainable quality of life for all residents and workers.

Goal 1 BUSINESS CLIMATE. Develop policies to improve the business climate to retain and expand our strong economic base and culture of innovation.

Objective 1.1 Support key industry clusters that drive the economy and improve the capacity for new clusters to develop throughout the region.

Objective 1.2 Retain and expand the region's culture of innovation and enable companies to start, grow and thrive here.

Objective 1.3 Improve the business climate for middle wage industries, small and medium sized firms, and entrepreneurship, especially within disadvantaged communities.

Objective 1.4 Strengthen economic resilience across business cycles and within vulnerable parts of the region.

Objective 1.5 Strengthen the economic development capacity of local jurisdictions by sharing best practices and data.

Goal 2 WORKFORCE. Improve workforce training and provide pathways to better jobs by improving the alignment between workforce skills, business and employer needs, and working conditions and earnings in low wage occupations.

Objective 2.1 Enhance the quality and access of pre-K through High School education to better prepare children and young adults for future success.

Objective 2.2 Improve the Bay Area and California's higher education and other post-secondary systems to generate a globally competitive workforce.

Objective 2.3 Support economic growth and economic mobility in employment and wages for all workers at all stages of life, particularly low- and moderate-wage workers.

Objective 2.4 Strengthen the local economy by supporting the role of immigrants in the region's labor market.

Goal 3 HOUSING AND WORK PLACES. House the labor force needed to fill the low, middle and high wage jobs required by our economy as well as the nonworking population, while providing flexibility for timely expansion of work places.

Objective 3.1 Enhance Plan Bay Area (PBA) to ensure a land use pattern with space for all activities, particularly the "fit" between jobs and housing at the subregional level, that contribute to the regional economy.

Objective 3.2 Work toward providing enough housing to meet the affordability needs at wage and salary levels that exist in the Bay Area's current and future population.

Objective 3.3 Encourage local regulations and permitting processes that support retention and expansion of local business and infill development.

Objective 3.4 Advocate for changes to state regulations that impede local infill development, and strengthen the region's ability to provide related infrastructure and services.

Goal 4 INFRASTRUCTURE. Prioritize investments to address the growing strains on public services transportation, water, energy and communications.

Objective 4.1 Improve Regional Mobility through transportation system enhancements and investments.

Objective 4.2 Increase access to jobs and economic opportunity for all workers, particularly low income workers, by expanding access to transportation.

Objective 4.3 Prepare for the future by expanding investment in communications and sustainable energy infrastructure, and ensure the existing regulatory framework supports these developments.

Objective 4.4 Reduce the impact of natural hazards on community infrastructure, particularly in distressed or disadvantaged communities that are most at risk.

Objective 4.5 Improve the management of existing resources, increase funding to rebuild and expand infrastructure, and develop infrastructure to be compatible with anticipated technological changes.

Objective 4.6 Recognize the natural environment as "green-infrastructure" that underlies some of the region's key economic activities, attracts and retains workers, and could potentially generate new green-industries, clusters and economic activity.

4. ECONOMIC ACTION PLAN - IMPLEMENTATION

The framework for action presented in the CEDS is a consolidation of ideas and proposals from the past five years of efforts throughout the region and from economic development, workforce, business, and equity organizations that have participated in the CEDS process to date. The Economic Action Plan focuses on broad consensus, high priority actions. In

addition to the 20 actions listed below, the Economic Action Plan also describes the steps regional actors, with their local public and private, state and federal partners, can take to maintain the resilience of the Bay Area economy while extending its benefits to a wider range of workers and residents.

Goal One: Business Climate

1. Identify the business, economic, workforce and community organizations within the region and establish a communication framework among them.
2. Share organization best practices and knowledge of the most effective ways to protect and improve the economy.
3. Prioritize programs to expand entrepreneurship and business ownership opportunities particularly in distressed communities.
4. Support clusters and related industries that drive innovation and serve our communities.
5. Enhance the Bay Area's innovation and entrepreneurship ecosystem.
6. Document the changing structure of employment and its implications

Goal Two: Workforce

7. Improve the primary, secondary and higher education systems to create a globally competitive workforce.
8. Target middle, high school and community college education and training opportunities to disadvantaged students and districts to improve the home-grown workforce.
9. Expand economic opportunity and upward mobility in employment and wages at all life stages.
10. Enhance apprenticeship opportunities throughout the region.
11. Expand sector-specific paid internship programs for high school students.

Goal Three: Housing and Work Places

12. Identify and implement best practices to support housing production, preservation and affordability.
13. Encourage employment growth around transit, transportation improvements near employment centers, and employment growth adjacent to workforce housing.
14. Support and strengthen the Production, Goods Movement and Repair Cluster.

Goal Four: Infrastructure

15. Identify existing and develop new infrastructure funding resources and ways of augmenting availability at the regional level.
16. Improve and coordinate transportation systems and regional mobility.
17. Improve travel access to economic opportunity for low income workers.
18. Enhance and strengthen communications, energy and water systems.
19. Reduce vulnerability to climate change and natural hazards.
20. Recognize the region's agricultural land, bay lands and open space as an economic asset.

The Economic Action Plan describes a five-year agenda for supporting the Bay Area economy, workforce, residents and communities. As needed, objectives and actions may be modified in recognition of changing conditions. The Economic Development District staff and board will monitor and evaluate the effectiveness of actions over time.