



# City of Palo Alto

Office of the City Auditor  
Economic Resiliency Review

March 15, 2022

# Executive Summary

## Purpose of the Economic Resiliency Review

The Economic Resiliency Review was a component of a broader Economic Recovery Advisory audit activity. The purpose of the Economic Recovery Advisory audit activity was to review the City of Palo Alto's ("City") long-term financial planning models and inputs, offer recommendations for improvement, identify and evaluate key revenue source categories that present long term risk to the City's financial sustainability and perform scenario analysis. The Office of the City Auditor ("OCA") also offered ad hoc advisory assistance during the FY22 budget process.

In this particular report, the OCA included economic development subject matter specialists to conduct an Economic Resiliency Review as a resource to the City and any future City employees focused on economic development initiatives. This report supplements the Revenue Trends and Models Review included in the broader Economic Recovery Advisory report.

## Results

The Economic Development SMSs produced this separate report specific to the Economic Resiliency Analysis. This report was provided as guidance as the City searches for internal economic development personnel. The report includes three high-level strategic considerations supported by the economic resiliency analysis. Recommendations focus on the following areas:

- Business/industry attraction, retention, and diversification strategies
- Housing and workforce findings impacted by Covid-19 pandemic
- Enhancements to livability for resident and business engagement and retention, which could include high quality service delivery, recommendations on placemaking or other strategies to build community, and/or business programming

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# Introduction

## Objective

The objectives of the Economic Recovery Advisory audit activity was to:

- 1) Review the City's long-term financial planning models and inputs and offer recommendations for improvement.
- 2) Identify and evaluate key revenue source categories that present long term risk to the City's financial sustainability and perform scenario analysis.
- 3) Offer ad hoc advisory assistance during the FY22 budget process.

The Economic Resiliency Review is a component of these broader objectives.

## Background

The OCA performed a citywide risk assessment that assessed a wide range of risk areas, including strategic, financial, operational, compliance, technological, and reputation risks. The purpose of the assessment was to identify and prioritize risks to develop the annual audit plan.

During the [FY2021 risk assessment](#), the OCA identified the followings risks which led to this project.

- COVID-19 Response
- Financial Performance/Revenue Generation
- Tax Revenue & Economic Recovery
- Current Planning Practices

Additionally, during the risk assessment, Baker Tilly included some examples of potential risks in the future related to this audit:

- Large businesses moving to other locations or decreasing the focus on in-person interactions at headquarters, lowering the daytime population and visitors
- Decreasing real estate values due to external factors decreases City revenues from property taxes
- Lost revenue for the City to fund City services with Prop 13 in place
- High taxation on residents due to increased property values, especially long term Palo Alto residents, in the absence of Prop 13

## Scope

To complete a review of the City's economic resiliency, the Economic Development SMSs conducted two main tasks. The first task was focused on data analysis of key economic indicators while the second task was the resiliency analysis itself.

## Methodology

The City has recently focused on economic development, given the impacts from the Covid-19 pandemic, such as the reduction in retail sales tax revenue, recent business turnover<sup>1</sup>, and resulting site and/or storefront revitalization opportunities. As there is some available data from previous studies, the Economic Development SMSs conducted a mix of data review and alignment from existing studies and additional analysis, including:

- Economic Growth & Employment
- Demographics
- Business/Industry

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<sup>1</sup> Discussed in Palo Alto Online, "Layoffs. Red tape. Anxiety. Small businesses fight to survive pandemic" 4/17/2020; <https://www.paloaltoonline.com/news/2020/04/17/as-costs-mount-small-businesses-fight-to-survive>. Accessed 01/05/22

- Visual review and locational analysis using maps and other tools

The Economic Resiliency Analysis involved calculating risk to a community's key economic assets and developing a strategy to buffer risk to minimize or avoid shocks to the economy. The OCA conducted an analysis to assess the City's economic resiliency current state and uncover opportunities for adjustment or improvement, including:

- Economic incentives scan
- Regional economic trend scan, including employment and industry location quotient
- Economic resiliency readiness check, including evaluation of steady state and responsiveness factors

## **Compliance Statement**

This audit activity was conducted in accordance with the Annual Audit Plan. The audit activity was not performed in compliance with the generally accepted government auditing standards (GAGAS). The audit activity was not performed in compliance with GAGAS for two primary reasons:

- The individuals conducting the activity did not meet the CPE requirements. As subject matter experts in construction risk, the team members are not required to obtain government audit CPE. Rather, multiple team members are required to be technically competent construction risk professionals and obtain CPE in construction risk topics.
  - Mitigating factor – City Auditor Kyle O'Rourke and Manager Chiemi Perry both adhere to CPE requirements
- The City of Palo Alto Office of the City Auditor has not undergone an External Peer Review in the required 3 year cycle as required by Standards.
  - Note – the Office of the City Auditor will undergo a peer review at the conclusion of FY22.

We planned and performed the activity to obtain sufficient, appropriate evidence to provide a reasonable basis for our recommendations based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit the objectives.

## **Organizational Strengths**

During this review, we observed certain strengths of the City regarding economic resiliency. Key strengths include:

- A high-level of responsiveness and a problem-solving approach to business needs during the Covid-19 pandemic
- A strong baseline for the city's residential property tax base and supporting demographics to continue to support future growth
- A healthy mix of business sizes, industry specialization, and geographic location of retail and business centers across the city to support the city's economic resiliency profile

**The Office of the City Auditor greatly appreciates the support of the Administrative Services Department in conducting this audit activity.**

***Thank you!***

# Economic Resiliency Review

## Introduction

The purpose of the economic resiliency review is to provide a high-level background of baseline conditions and core indicators that the City could consider as an economic resiliency threshold. This review is primarily drawn from secondary research, data, and reports. Unfortunately, there is a lag of data available to truly elucidate the disruption of the Covid-19 pandemic to the core conditions of the local and regional economy.

The intent of this review is to summarize past baseline conditions to prepare the City and its economic development partners to move forward with a new set of challenges and conditions given the ongoing pandemic and long-term changes to remote work and an online retail economy. With that in mind, the City considers itself as embedded within the business community, aligned with other groups that provide support and resources to local businesses, such as the Palo Alto Chamber of Commerce, the downtown business district, the California Avenue business district, property owners and brokers, the Stanford Research Park, and Stanford University. As such, the City should rely on its many partners in economic development to act on strategies, policies, and programming to support economic growth.

## Summary Presentation of Demographic Data & Business Baseline

To develop a working understanding of the economic baseline, the economic development SMSs reviewed key indicator demographics, including population data, income, educational attainment, housing market data, business, and employment information. These demographic indicators determined a strong profile of economic resiliency.

### Population, Income, and Educational Attainment

The City's population was 68,572 as of the 2020<sup>2</sup> census data. Between the 2010 and 2020 censuses, the population grew by a steady but modest pace of 6.47% that was above the state average of 6.13%, but below the national average of 7.35% and below the 8.67% increase experienced in Santa Clara County as a whole<sup>3</sup>. The population is significantly less diverse than Santa Clara County and California. 54.9% identified as "white alone, not Hispanic or Latino" while that number was 30.6% in Santa Clara County and 36.5% statewide<sup>4</sup>. The City's younger age brackets are comparable to county and state averages; however, the city has a higher proportion of its population that is 65 years or older at 19.4% while the county and state percentages are 13.9% and 14.8% respectively<sup>5</sup>.

Palo Alto has very strong personal and family income when compared to the county and state averages. Median household income was \$158,271 while Santa Clara County was \$124,055 and California was \$75,235. Per capita income was even more significant at \$92,590 with the county and state averages being \$56,248 and \$36,955 respectively. Poverty prevalence was significantly lower as well, with the percent of persons in poverty at 6.10% compared to 7.52% in Santa Clara County and 11.8% in California<sup>6</sup>.

The city has extremely high education attainment rates. 97.4% of persons age 25 year or older are high school graduates or higher, and 82.8% have a bachelor's degree or higher<sup>7</sup>. The city's extremely high rate of college degrees is of note, being more than double the state average. By comparison, Santa Clara County's rates are 88.4% and 52.4% respectively, and California's rates are 83.3% and 33.9% respectively.

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<sup>2</sup> US Census Bureau, Quick Facts; Palo Alto, CA; 2020 Census

<sup>3</sup> US Census Bureau, 2020 Census.

<sup>4</sup> Ibid

<sup>5</sup> Ibid

<sup>6</sup> Ibid

<sup>7</sup> US Census Bureau, QuickFacts; Palo Alto, CA; 2015-2019 data

## Housing Market and Property Tax Revenue

The city has a very strong housing market with much higher property values than county and state averages. According to the US Census Bureau, the median value of owner-occupied housing units was \$2,000,000+ in Palo Alto, \$984,000 in Santa Clara County, and \$505,000 in California<sup>8</sup>.

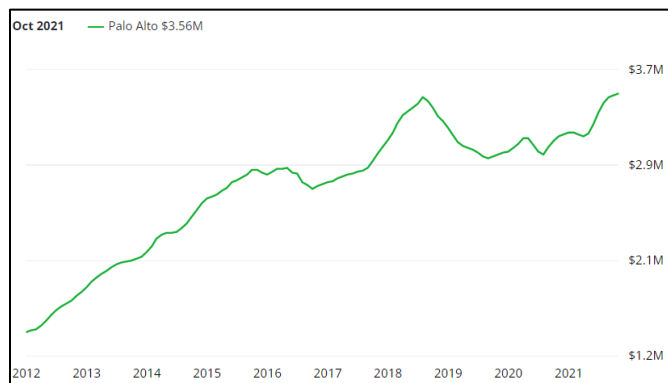


Figure 1: Zillow Home Value Index, Palo Alto, 2012-2021

According to the more recent Zillow Home Value Index<sup>9</sup>, the typical home value in The City was \$3,560,805 as of their October 2021 data. This value is seasonally adjusted and reflects the typical value for homes in the 35th to 65th percentile range and represents an 11.6% increase over the previous year. The market has rebounded from the 2008 Financial Crisis and following recession, with Zillow's Home Value Index showing a value of \$1,500,000 in Dec 2011. Over the last five years, growth has continued but the pace has moderated somewhat.

According to Redfin's November 2021 data, the housing market is considered very competitive, with a Redfin Compete Score of 87 out of 100. The median sale price was \$3,525,000, representing a 21.5% increase year-over-year. The average home is on the market for 11 days and sells for 8% above list price, with some homes selling for 17% above list price. Approximately 64.6% of homes sold above list price, a 31.7% increase year-over-year.

With the rapid increase in housing prices during the post-recession recovery period, housing costs have increased considerably to nearly three times the national average for owners and more than double the national average for

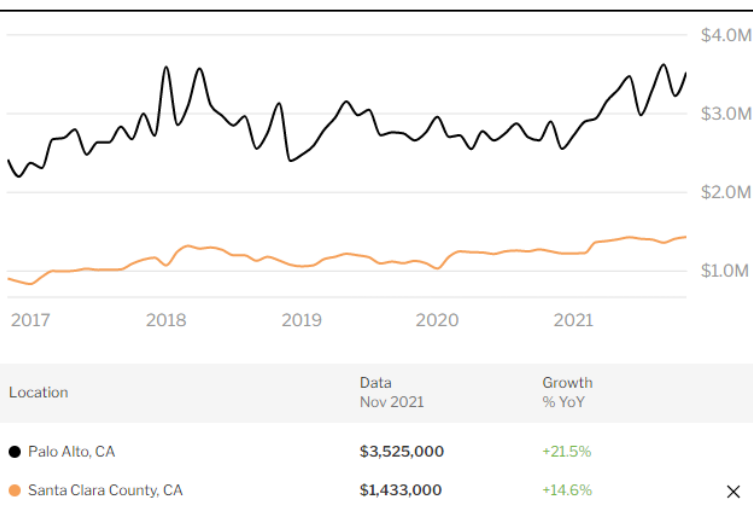


Figure 2: Redfin Median Sale Price, Palo Alto and Santa Clara County, 2016-2021

renters. According to data from the US Census Bureau<sup>10</sup>, median monthly owner costs with a mortgage were \$4,000+, significantly higher than the \$3,381 in Santa Clara County and \$2,357 in California. Median gross rent (2015-2019) in Palo Alto was similarly high when compared with the county and state averages of \$2,268 and \$1,503 respectively.

As the residential property market has experienced increased activity in recent years, the City's property values have seen increases across all categories of real estate. The Palo Alto Property Tax Summary for 2019-2020 reflects pre-pandemic numbers. According to the summary, the year-over-year increase in property values for all real estate categories was \$3.055 billion, an increase of 7.8%. Residential values experienced a 6.3% increase and accounted for 56% of all growth for

the period. Commercial properties had an increase of 9.7% which accounted for approximately 24.8% of all growth for the period. Industrial properties saw the greatest increase at 28.4% after having declined by 10% in the previous year. The significant jump in industrial values was primarily related to improvements to certain larger parcels. Fifty vacant parcels were developed and transferred to other uses.

<sup>8</sup> Ibid

<sup>9</sup> Zillow Home Value Index; Palo Alto, CA, October 2021 Report

<sup>10</sup> US Census Bureau, QuickFacts; Palo Alto, CA; 2015-2019 data



While there was uncertainty surrounding real estate and the overall economy at the outset of the pandemic, the trend towards higher property values and increased real estate transactions has continued. Any negative impact to commercial or industrial properties is likely to be offset by the strong growth in residential property sales during the pandemic which was buoyed by historically low interest rates. Even with the Federal Reserve considering multiple interest rate increases in 2022<sup>11</sup>, interest rates are anticipated to remain comparatively low relative to historic trends, which should sustain the residential real estate market and related property tax revenues.

While residential property values are a benefit in terms of property tax revenue, they can pose a barrier to local employment growth. When comparing Palo Alto’s housing data to Santa Clara County and the state, high housing prices combined with limited land available for new housing, could be a driver of the unusually high commute patterns identified in the labor force summary below. (US Census 2019, Commute Patterns). Employers in Palo Alto import 93% of their employment base from outside of the city. If the standard rule follows that mortgage/rent payments should not exceed more than 30% of a household budget, a theoretical person purchasing a house at the current median home value of \$2,000,000 (US Census) to \$3,500,000 (based on recent sales data) with a median income of \$158,271 would spend a much higher percentage of their income on housing-related costs. While the housing market, income levels, and household budget allocations are more complex than this example, economic development strategies to support businesses and the workforce may be needed to mitigate some of the issues related to housing costs.

However, since commute data is not available from 2020- to current, which includes the pandemic, it is unknown to what the extent the trend toward remote work will impact the residential and commercial real estate market and property tax revenue. With remote work becoming more prevalent as a result of the pandemic, particularly as it relates to business class/white-collar jobs, there may be a trend for workers to relocate to more suburban areas with lower costs of living, larger residential properties, and access to outdoor space. Additionally, many employers are downsizing office size and shifting to more remote and shared-work spaces. It is not known if this trend is temporary or permanent and how it may impact the city in the long term. However, based on current real estate market data, it does not appear to be negatively impacting residential prices.

### Business Size Profile

The city’s employment base is characterized by several factors that are noticeably different from California as a whole. A high percentage of overall employment is from larger companies. The percentage of employers with 500+ employees is four times the state average. Similarly, the percentage of employers with between 250 to 499 employees is double the state average. At the other end of the spectrum, companies in the size class of 1 to 4 employees make up a higher percentage of businesses in Palo Alto, with a rate of 41.4% when compared to the state average of 34.7%.

Palo Alto Employers	Employees
Stanford Healthcare	5,500
Lucile Packard Children's Hospital	5,700
Stanford University	4,500
Veteran's Affairs Palo Alto Healthcare System	3,900
VMWare, Inc.	3,500
SAP Labs Inc.	3,500
Space Systems/Loral*	2,800
Hewlett-Packard Company	2,500
Palo Alto Medical Foundation	2,200
Varian Medical Systems	1,400

Figure 3: Palo Alto Top Largest Employers, Good City Company

Figure 3 above shows the largest employers in the city. While there is a heavy concentration of firms in the information industry sector, healthcare and social services account for half of the top employers, and three out of the top four on the list are in the healthcare and social services industry. There is a significant economic impact of Stanford University School of Medicine and its related medical research and technology, and Stanford Health Care (among the top hospitals in the nation) that add to the health care economy core strength. Stanford University (4,500 employees) is a strong asset

<sup>11</sup> Timiraos, N. (2022, January 5). Fed minutes point to possible rate increase in March. The Wall Street Journal. Retrieved January 7, 2022, from <https://www.wsj.com/articles/fed-minutes-reflect-growing-unease-over-high-inflation-11641409628>

and economic driver on multiple levels, as a top tier education and research institution, as well as driver of new residents and visitors to the community.

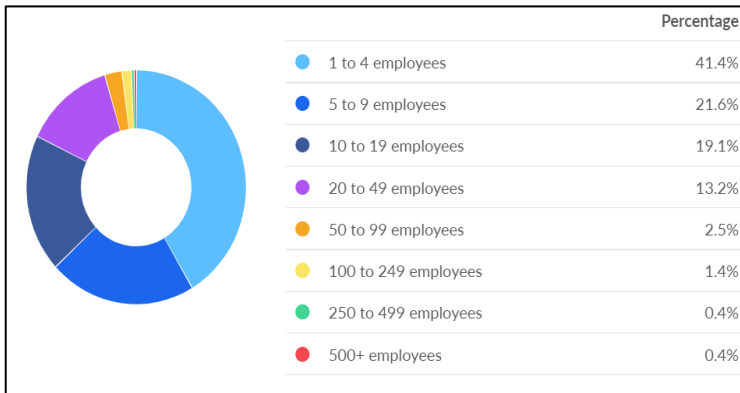


Figure 4: Palo Alto Business Percentage, Emsi/DatabaseUSA.com

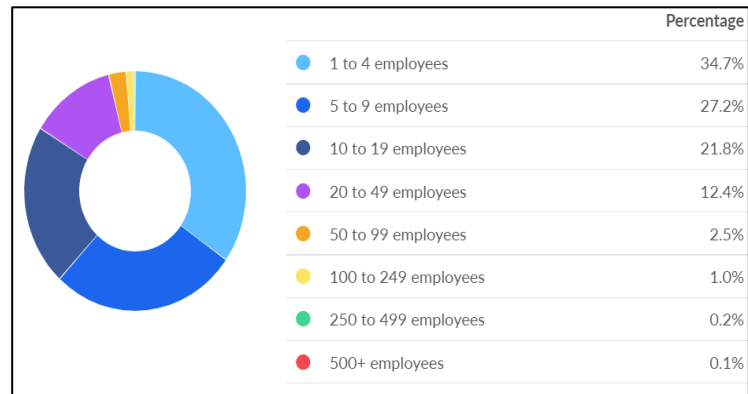


Figure 5 California Business Percentage, Emsi/DatabaseUSA.com

### Employment and Industry Mix

We looked at industry employment based on percentage change from 2015 to 2020 and industry employment by location quotient to determine both the growth in employment and the concentration of employment as it compares to the national average.

In the top growing industries, the largest change in industry employment was in the Information sector with a 5-year increase of 32%, or 6,697 new jobs. Government saw a 5-year increase of 12% or 910 jobs. Health Care and Technical Assistance saw a 5-year increase of 11% increase or 2,575 jobs. And Professional and Scientific, and Technical Services saw a 5-year increase of 10% or 1,726 jobs.

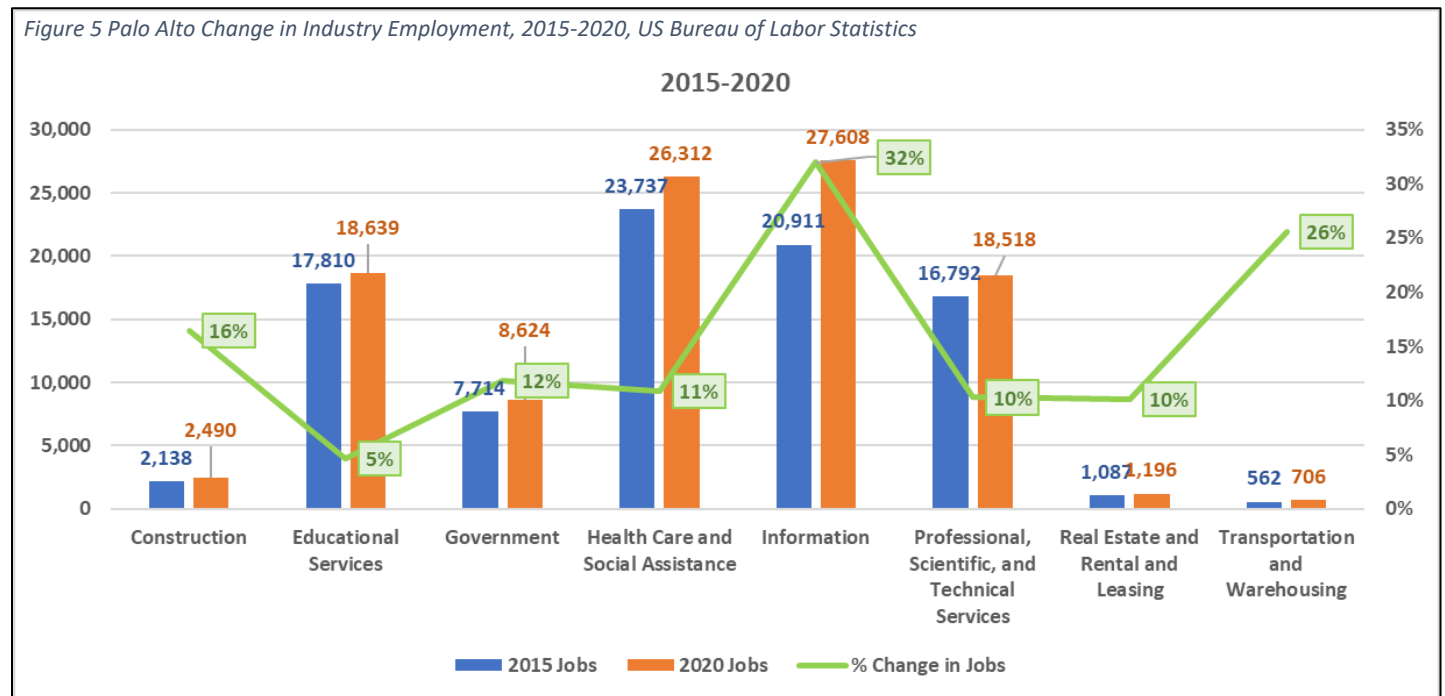


Figure 5 Palo Alto Change in Industry Employment, 2015-2020, US Bureau of Labor Statistics

Next, we looked at location quotient (LQ), which is a ratio that measures a region’s industrial specialization relative to the US. An LQ greater than 1 indicates an industry with a greater share of local area employment than the national base. Palo Alto has several industries, such as information; health care and social assistance; educational services; and professional, scientific, and technical services, which have a LQ over 1. The Information industry with a NAICS code of 51, includes jobs in software development, data communications, data processing, and other jobs related to publishing of information and data.



Figure 6 Palo Alto 2020 Industry Location Quotient, 2-digit NAICS, US Bureau of Labor Statistics

Location quotients help to understand regional economic strengths and opportunities. They are also useful in forecasting regional economic trends based on trends for specific market sectors. It is no surprise that the city has significant employment in the Information industry with a location quotient of 11.42. This high location quotient tells us there is a significant information technology ecosystem that can be leveraged to support other industry linkages as well as attract sub industry sector businesses. This robust ecosystem drives the local economy with extensive reach both domestically and internationally.

Analyzing location quotients at the more granular 6-digit NAICS versus a 2-digit NAICS allows for more precise reporting of the employment and overall growth of a region’s industry sectors. More precise industry data allows workforce training providers to design programs to better fit the existing and future skill needs of those industries, and for communities to leverage this projected growth. To get a closer look at the city’s industry mix, we looked at the 6-digit industry NAICS location quotient by employment. Internet Publishing and Broadcasting and Web Search Portal had a location quotient of 86.72, while Blank Magnetic and Optical Recording Media Manufacturing had a location quotient of 56.52 and Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing<sup>12</sup> had a location quotient of 35.36. All these LQ specializations reveal strengths with the technology industry.

<sup>12</sup> NAICS 334220 includes manufacturing radio and television broadcast and wireless communications equipment. Examples of products made by these establishments are transmitting and receiving antennas, cable television equipment, GPS equipment, pagers, cellular phones, mobile communications equipment, and radio and television studio and broadcasting equipment.

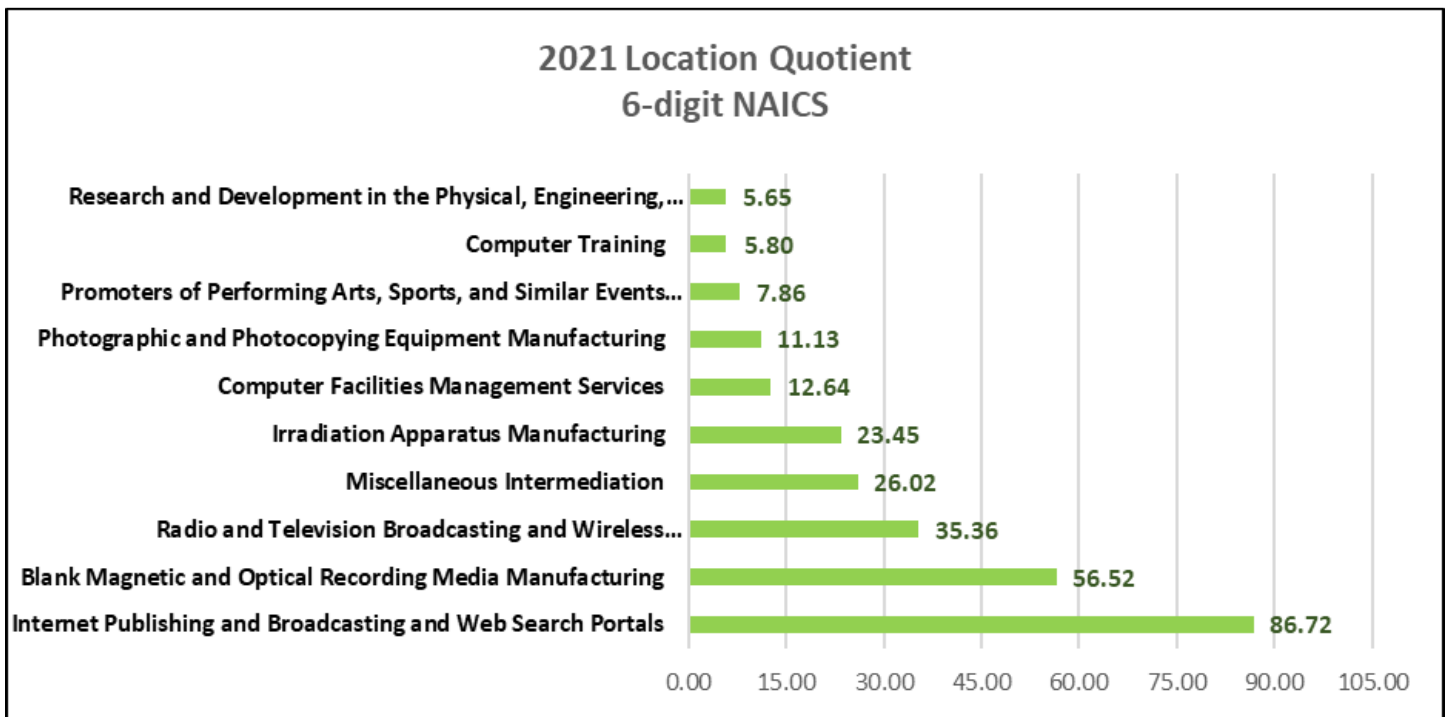


Figure 7 Palo Alto 2020 Industry Location Quotient, 6-digit NAICS, US Bureau of Labor Statistics

However, often a significant industry concentration needs to be addressed in terms of economic diversification. A diversified economy is more able to withstand downturns in their primary economic driving activity leading to a more resilient economy. Industry diversification also provides for skill set diversification which can allow employees to transfer more quickly into other occupations and employers to customize job training programs should there be downturns in the primary industry.

## Labor Force and Commuting Patterns

To further understand the geographic labor shed of the area, Baker Tilly analyzed the workforce’s place of work when compared to the place of residence. Based on 2019 data from the Bureau of Labor Statistics, the City’s total primary private employment was 109,220, with a net inflow of 82,304 jobs. Of the 109,220 total primary private jobs in 2019, only 24.6% of workers, or 26,916, were living in the City of Palo Alto. Whereas 102,544 people were employed in the Palo Alto area but living outside the area. Of the 26,916 workers living in the city, only 6,676 are employed and living in the Palo Alto. This data suggests a significant in-migration of workers who could live in here if other factors, such as available housing types, cost of living, commute time, work flexibility, or other factors were different. A further analysis of this large in-migration of workers is warranted to determine if providing a shorter commute or an opportunity to live within the area in which they are employed could create a positive impact for attraction and retention of a highly skilled and sought-after workforce.

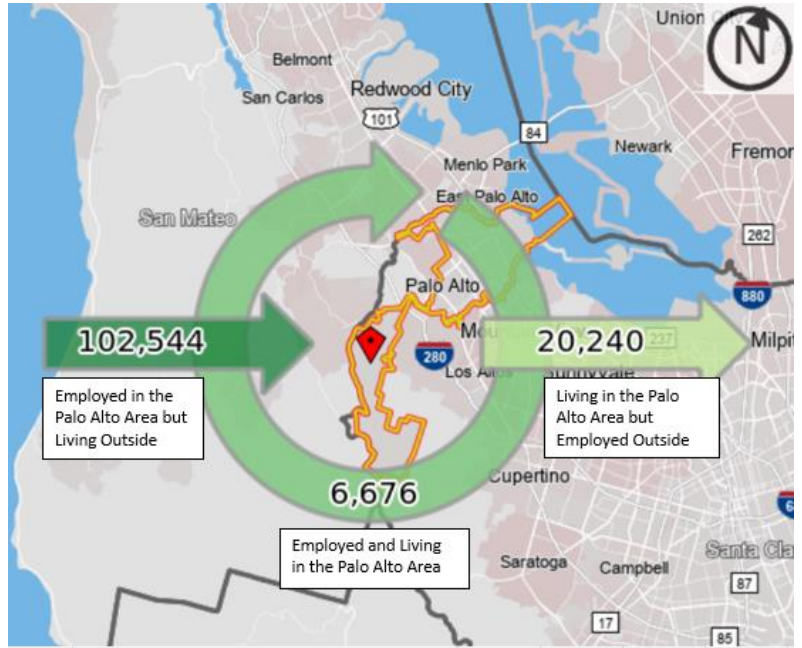


Figure 8 Commuting Patterns, US Census, OntheMap, 2019

Inflow/Outflow Job Counts (Private Primary Jobs)		
	2019	
	Count	Share
Employed in the Palo Alto Area	109,220	100.00%
Employed in the Palo Alto Area but Living Outside	102,544	93.90%
Employed and Living in the Palo Alto Area	6,676	6.10%

Figure 10 Inflow/Outflow Job Counts, US Census, OntheMap, 2019

Palo Alto (Private Primary Jobs)			
	2019		
	Count	Share	
Employed in the Palo Alto area	109,220	100.0%	
Living in the Palo Alto Area	26,916	24.6%	
Net Job Inflow (+) or Outflow (-)	82,304		-

Figure 9 Employed and Living in Palo Alto, US Census, OntheMap, 2019

## Retail – Shopping Centers and Key Corridors

The OCA’s economic recovery report projects future growth in and sales tax over time. The City’s largest sales tax contributors are a diverse group of businesses that conduct automobile sales, medical sales, tech companies and data management, and destination retail. Geographically, the largest sales tax contributors are located on automobile-oriented corridors, at the Stanford Shopping Center, or along small business-scale or “walkable” retail corridors, such as California Avenue and University Avenue. While California Avenue and University Avenue are well-known and contribute to a sense of place in the city, the largest sales tax performers are located in auto-oriented retail destinations.

Numerous challenges have emerged on small retail corridors during the Covid-19 pandemic, including temporary closures of California Avenue to support outdoor dining. Anecdotally, this appears to have helped some businesses and hurt some businesses. A broader analysis and redevelopment strategy of the California Avenue corridor could be conducted to position it for the future economy and an endemic status of Covid-19, where remote work continues to impact localized retail corridors.

Palo Alto, CA. Major Sales Tax Performers, 2020	
Business*	Type**
Anderson Honda	Auto
Lucile Packard Children's Hospital	Medical
Tencent	Tech/Data Management
Apple Stores	Destination Retail
Macy's Department Store	Destination Retail
Tesla	Auto
Audi Palo Alto Magnussen's	Auto
Toyota of Palo Alto	Auto
Telsa Lease Trust	Auto Lease
Bloomingdales	Destination Retail
Hp Enterprise Services	Tech/Data Management
Shell Service Stations	Gas
McLaren San Francisco	Auto
Tiffany & Company	Destination Retail
Bon Appetit Management Co	Catering
Neiman Marcus Department Store	Destination Retail
Urban Outfitters	Destination Retail
Hermes	Destination Retail
Nest Labs	Tech/Data Management
Varian Medical Systems	Medical
Houzz Shop	Destination Retail
Nordstrom Department Stores	Destination Retail
Volvo Cars Palo Alto	Auto
Integrative Archive Systems	Tech/Data Management
Stanford Outpatient Clinic Pharmacy	Medical

\*Source for Business: Good City Company Presentation to Council, 6/1/21

\*\*Source for Type: Baker Tilly

## Economic Resiliency Analysis

The economic resiliency analysis involves calculating risk to a community’s key economic assets and developing a strategy to buffer risk to minimize or avoid shocks to the economy. Baker Tilly analyzed the current state of economic resiliency through a high-level review of development incentives, economic trends, and business engagement during the COVID-19 pandemic to uncover opportunities for adjustment or improvement.

### Economic Trends

Several of the city’s strong business and professional occupations held steady or experienced growth over the past five years, such as Business/Financial Operations, Management, and Health Care Practitioners/Technical, Educational, and Sales. The city’s top growing occupations can be found primarily in the health-related industry and Arts/Media fields. The Arts/Design/Entertainment/Sports and Media occupations grew by 43% from 2015 – 2020. In the same period, the combined growth in occupations related to the health care industry grew by roughly 20%

The top occupations based on location quotients are computer and mathematical at 3.56, legal at 2.95, art/design/entertainment/sports and media at 1.92, and healthcare practitioners and technical at 1.87. These quotients indicate a higher concentration of employment in these occupations in the Palo Alto area than the national average.

As we are shifting from an occupation-based workforce to a skills-based workforce, knowing the concentration of skills within these occupations is important to attract new businesses. Employers are often looking for skills versus occupations as they can retrain/upskill if the employee has the basic industry skill sets. A valuable exercise would be to determine the skills sets within these industry occupations to market the region’s workforce and to sustain existing business growth.

### Business Engagement During Covid-19

The City was very involved in business recovery and engagement strategies during the Covid-19 pandemic, particularly as it impacted retail and restaurants on key corridors, such as California Avenue and University Avenue. The city developed an action team of decision makers and department heads, with hands-on involvement from the City Manager to address and solve problems brought up by local businesses. The city developed weekly business check-in meetings

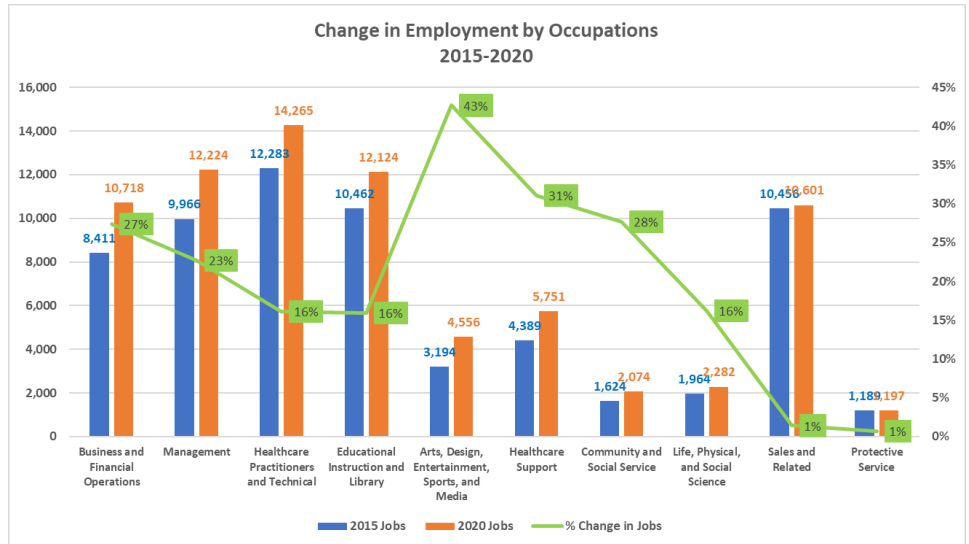


Figure 11 Change in Employment by Occupations, US Bureau of Labor Statistics, 2015-2020

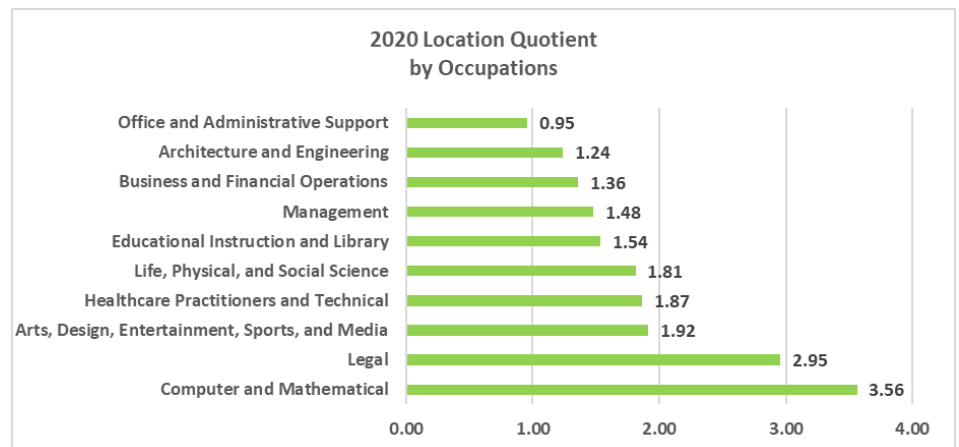


Figure 12 Location Quotient by Occupations, US Bureau of Labor Statistics, 2020

and the *Uplift Local* program to quickly utilize outdoor spaces to help expand business activities outdoors for restaurants and fitness businesses.

The Stanford Research Park is a powerhouse economic asset to the City and is an economic driver of jobs, salaries, spending power, business growth, industry diversification, and property tax receipts. While there was some collaboration during the COVID-19 pandemic with strategic support of the small businesses on California Avenue corridor, a more proactive engagement strategy of business retention and attraction could be considered from the city perspective, targeted to the larger industrial and tech businesses located there.

The City views itself as embedded within the business community when it comes to economic development, aligned with other groups that provide support and resources to local businesses, such as the Palo Alto Chamber of Commerce, the downtown business district, the California Avenue business district, property owners and brokers, the Stanford Research Park, and Stanford University. The new economic development staff person is one of many participants within the business development and economic development space, and can only act on the specific decisions, programs, or action steps that can be executed by city staff.



# Considerations

## Business and Industry Attraction, Retention, and Diversification Strategies

The City and its economic development partners could explore the following considerations for business and industry attraction, retention, and diversification to enhance long-term economic resiliency. Retail and small business corridors warrant different considerations than considerations for larger businesses.

### *Retail and Small Business Corridor Considerations*

While destination retail in the city is doing well, small business corridors, such as California Avenue and University Avenue, have been more vulnerable to impacts of the COVID-19 pandemic and the changing retail environment. The following considerations would support a more proactive approach by economic development partners to attraction and retention of small businesses in walkable, “Main Street” corridors.

- A mix of coveted small-scale retail stores and California-based boutique brands can be found here, as well as independently owned restaurants, wine bars, and other small business venues. A strategic approach to corridor planning with intentional placemaking<sup>13</sup> tactics could be utilized to address the multi-faceted set of issues on key retail corridors.
- If it benefits the community’s identity and “placemaking” efforts, the City could consider if a more proactive approach to support business retention and attraction on walkable, small business-focused corridors is a priority. Ideas include simplifying the renovation and redevelopment process and fee structure, potential rent subsidies for small businesses, and/or workforce support programs. If an incentive program is considered, the City may require some evaluation criteria, such business plan information, revenue projections, market analysis, customer potential, etc. to qualify for investment.
- Another approach to the California Avenue corridor could be to undertake a broader business and retail analysis and develop a more divergent, future-focused redevelopment vision and plan. A new approach could position the corridor for the future economy and an endemic status of Covid-19, where remote work continues to impact localized retail corridors.
- The restrictions on big-box stores or retail chains could be reviewed to see if the current policy still meets the City’s goals in the current retail environment.
- Economic development partners focused on corridor business attraction could collaborate on retail attraction strategies with the owner/operator of Stanford Shopping Center. There may be an opportunity to capture an overflow of retail prospects to locate on University Avenue or California Avenue.
- As the population ages, changing demographics that lean towards an online-focused, more diverse population may not have the same brand allegiance to destination retail and/or may have different retail shopping habits. Consider developing strategies that account for changing retail preferences and trends to ensure the future success of destination retail.

**Note:** In contrast to the above, the City could choose a less proactive approach, including letting market forces guide what happens in the University Avenue and California Avenue corridors. There may be consequences for the small-scale, walkable businesses on these corridors and a lag in redevelopment efforts as market forces dictate future opportunities.

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<sup>13</sup> “Placemaking” is used here to reference a process of creating quality places (unique, visually attractive, interesting, often including public art and entertainment) to attract people and activities.

## Larger Business Diversification Considerations

The following considerations summarize the findings on larger business diversification. While the City is doing well in employment in total jobs and jobs within growth industries, continued business retention is an ongoing consideration, especially with the rapidly changing business climate.

- The city's industry mix is concentrated primarily in two industries, information and health care. Even though these are growth industries, industry diversification can provide economic stabilization and help mitigate the risk associated with the downturn in a concentrated industry.
- The percentage of employers with 500+ employees is four times the state average. This provides a workforce that would attract other larger corporations. However, consideration of providing targeted support and incentives to mid-size, small business and entrepreneurs would help diversify workforce and overall industry mix.
- The top occupations based on location quotients by 2-digit NAICS are computer and mathematical at 3.56, legal at 2.95, art/design/entertainment/sports and media at 1.92, and healthcare practitioners and technical at 1.87. The location quotient by 6-digit industry NAICS are Internet Publishing and Broadcasting and Web Search Portal at 86.72, Blank Magnetic and Optical Recording Media Manufacturing at 56.52 and Radio and Television Broadcasting and Wireless at 35.36. These occupations support a highly educated and skilled workforce, which can be used to support an effort to attract mid-sized businesses and aid in industry diversification.

## Housing and workforce findings impacted by Covid-19 pandemic

Here are some brief short-term considerations in the areas of housing and workforce, as it relates to issues that emerged and actions taken by the City during the Covid-19 pandemic.

- The housing market was stable and continued to grow throughout the pandemic. This helped buffer the City's revenue streams when retail sales tax, hotel stays, and other growth areas slumped.
- The continued growth of housing costs may need to be considered and further analyzed from a business retention and workforce recruitment standpoint.
- Many businesses on the University Avenue and California Avenue retail corridors that depend on office workers and commuters as customers struggled during the pandemic. Additionally, many businesses reported challenges with workforce attraction and retention in city surveys. As the pandemic continues to disrupt daily life and long-term remote work continues, a loss of foot traffic and daytime customers continues to negatively impact Palo Alto's retail and restaurants on key corridors. A broader strategy of coordination with partners to activate corridor businesses and business support strategies could be explored by the City. A more rigorous analysis using primary research of businesses on these corridors could be conducted to understand the long-term impacts of remote work and new strategies to engage existing residents and businesses to rebuild the customer base.
- As multi-family redevelopment sites become available, the City could consider additional financial and placemaking benefit opportunities in supporting this development. For example, locating multi-family development near transit networks, existing parking structures, or walkable retail corridors to increase foot traffic to existing small businesses that struggled during the pandemic.
- The city was highly engaged with local businesses and did a good job with troubleshooting during the pandemic. Some issues, such as parking and workforce attraction issues, emerged less as a crisis point as a result of the pandemic and more as a systematic issue to address with a long-term operational approach. Therefore, consideration of a strategic approach using urban planning and economic development expertise to address some of these issues may be needed.

## Enhancements to livability for resident and business engagement and retention

Palo Alto is a desirable community to live and to work in, which is supported by the strong economic indicators discussed in this report. However, even a successful community needs to look to the future, and to continue to enhance its position for businesses and residents. Some additional considerations to enhance livability to support positive resident and business engagement and retention include:

- Create experiences in downtown spaces and retail locations to attract resident attention and support, increase visitors, and prolong time spent in the walkable “Main Street” corridors, such as California Avenue and University Avenue.
- Enhance opportunities for more and different events in coordination with Stanford, since Stanford enrollment and visitor events have a positive impact on retail sales and hotel stays, as well as adding vibrancy and interest for college students and residents.
- Protect and market natural assets and areas since open space and natural assets are at a premium in the Bay Area and Southern Peninsula.
- Continue dialogue and ongoing engagement with current residents to guide delivery of relevant, high-quality city services.