



## City Council AGENDA REPORT

**DATE:** 01/04/2024

**AGENDA OF:** 01/23/2024

**DEPARTMENT:** Economic Development and Housing

**SUBJECT:** Economic Development Strategy Update: Downtown and Eastside/Midtown District Activation and Direction (CN/ED)

**RECOMMENDATION:** Accept the Economic Development Strategy Update regarding downtown and eastside/midtown actions and direct staff to move forward on the following additional recommended action areas to further activate the two districts during the current fiscal year:

- 1) Placemaking and activation activities
- 2) Assessment of empty storefronts
- 3) Permanent planning for future use of the existing downtown library site
- 4) Integration of new downtown housing projects into the downtown business, retail and shopping environment
- 5) Pursue establishment of an eastside/midtown Business or Property-Based Improvement District
- 6) Amend the Economic Development Strategy to include these additional strategies and actions, and
- 7) Return to Council with an update on progress during the current fiscal year.

**BACKGROUND:** In March of 2021, during the height of the pandemic, the City Council approved the Economic Development Strategy (EDS) which included a 2-year plan for immediate pandemic relief efforts and a longer 3-5 year plan for recovery and activation of the City's business and retail sectors.

The EDS was developed through a process that included data analyses, outreach to stakeholders, surveys, and input by the City Council and City staff to identify significant opportunities and challenges to be addressed in the plan. The EDS has helped guide the City's efforts over the last three years, and the development of programs including the Santa Cruz Microloan program, Grow Santa Cruz loan program, the Outdoor Dining Program and the Downtown Pops! program provided critical support for many businesses during the pandemic.

As 2024 holds significant promise for additional business recovery, it is time to take stock of existing programs, review the goals and objectives in the EDS for the next 2 years, and evaluate opportunities for further business support and activation of our primary retail and business districts in Santa Cruz. This comprehensive approach will not only enhance the downtown and eastside/midtown environments but also align with the City's commitment to Health in All Policies.

The EDS (2021-2025) is comprised of goals, strategies and implementation actions around the following topic areas: COVID-19 Impacts, Tourism and Hotels, Small Business and Commercial Districts, Retail and Shopping Districts (Downtown and Eastside/Midtown), Specialized Industry Sectors, and City Services and Processes. The EDS also includes potential metrics for tracking progress in implementing a given strategy or action. For the purposes of this update and direction, and in response to particular community and Council interest, this report will focus on the following topic strategies: Small Business and Commercial Districts and Retail and Shopping Districts (Downtown and Eastside/Midtown).

**Small Business and Commercial Districts:** Based on challenges noted by small businesses on accessing available technical and financial resources and challenges in accessing commercial districts, the EDS recommends that the City help support and grow small businesses and commercial districts by connecting businesses to available resources, addressing specific transportation and parking needs, and generally investing in the public environment of commercial districts through infrastructure enhancement, focusing on pedestrian improvements, beautification, and activation of public spaces. Specific to the downtown and eastside/midtown, progress made in each of these areas and on specific strategies and actions will be highlighted in the discussion section below.

**Retail and Shopping Districts:** Long-term shifts in retail and shopping that were in progress by 2020 were further exacerbated by the pandemic with increased reliance on online shopping and changing consumer habits. Santa Cruz has always benefited from unique and highly performing owner-occupied businesses that consistently drew local and regional shoppers to the area. However, the retail industry as a whole is undergoing changes that favor “experiential” businesses such as dining, drinking, and entertainment as these activities cannot be easily replicated through online sales. As a result, there is a need to allow greater flexibility and diversity of uses in storefronts within retail districts, along with flexibility in accommodating non-traditional types of “anchors” to attract foot traffic as larger, more traditional retailers are becoming less successful in fulfilling that role. Progress made in each of these areas along with new recommendations for focus and improvement will be highlighted in the discussion section of this report.

**DISCUSSION:** Downtown is experiencing a true revitalization as economic recovery from the pandemic continues. More businesses have opened since 2021 than were lost during the pandemic and downtown is now experiencing a healthy vacancy rate with new vacancies turning over quickly and demand for retail and food spaces remaining high. These market conditions are being matched by investment and support from property owners and businesses through the approval of an increase to the Business Improvement Assessment rates and increased rates and an expanded district boundary for the Cooperative Retail Management Assessment to provide additional funding to the programs and services of the Downtown Association and Downtown Management Corporation, respectively.

Work is underway to make improvements to the downtown streetscape including the installation of new benches, trash and recycling receptacles, tree well fencing, and updated paint colors for the light poles and parking meter posts to match the City’s wayfinding color palette. Public art continues to be a priority as well for downtown. In addition to the incredible Sea Walls murals that were completed in recent years (supported through the CityArts program), new public art and murals will adorn the paseos connecting the downtown district to the Riverwalk, the first of

which was recently completed through the City's Mural Matching grant program in the paseo adjacent to the Cedar Street Family Apartments.

Specific progress has been made in the downtown on the following EDS strategies and actions:

Strategy 21: Develop a pop-up program, with streamlined permitting requirements, to allow temporary retail and food uses in vacant storefronts. STATUS: Completed

Action 21.1: Review and partner with other City departments to modify existing permitting requirements to ensure pop-up uses can easily locate temporarily in vacant storefronts. STATUS: Completed

Strategy 23: Enhance the use of outdoor space by restaurants, stores, and personal services through continued implementation of the temporary outdoor expansion program and working on streamlining of permitting processes and reductions of fees for permanent sidewalk dining and parklet programs.

Action 23.1: Study the recent implementation of the Temporary Outdoor Expansion Area Program to identify successes, challenges, and opportunities applicable to the standard process for permitting use of outdoor space by restaurants, stores, and personal services businesses; also study these permitting times and fee costs in Santa Cruz versus nearby cities. STATUS: Completed

Action 23.2: Develop and implement recommendations, in conjunction with other City departments, to streamline permitting and reduce costs for use of public and private outdoor space. STATUS: Partially Completed and Underway (Parklet program for dining in public spaces completed and near completion for private dining program).

In 2021 the City developed two new programs during the pandemic: Downtown Pops! and the Temporary Outdoor Dining program. The Downtown Pops! program was specifically designed to address vacant storefronts during the pandemic while providing emerging businesses and property owners with a risk reduced platform enabling tenants to showcase their new business concepts in the downtown environment. The program assisted four tenants/spaces during the pandemic and currently has one active tenant/storefront in the program. Information on the program is available on the ChooseSantaCruz website.

The Temporary Outdoor Dining program has served as a lifeline for many restaurants during the pandemic and many restaurants are committed to providing a permanent outdoor venue for customers going forward. Two types of outdoor dining permits are available through the permanent program facilitated by the Economic Development and Housing Department: permits for parklets in public on-street parking spaces and permits for outdoor dining on private property.

The permanent parklet program has been finalized and 19 permits are underway. Of the 19 applications received through the permanent program, 12 are for pre-approved designs developed by the City in conjunction with the program. One permanent parklet has been completed and one is currently in construction. Temporary permits for all private outdoor dining have been extended into 2024 while the private property outdoor dining permit program is finalized. Both private and public outdoor dining permits will have a streamlined permit process, reduced permit costs, and clear design guidelines and operating standards. Council consideration of the final private

outdoor dining program is anticipated in early 2024. More information on these programs is available on the ChooseSantaCruz website.

Strategy 24: Provide supportive services for the formation of a new improvement district in Downtown Santa Cruz, as needed and requested by local business and property owners.

Action 24.1: Provide coordination and communication assistance to area businesses and property owners in completing the petition and ballot process to approve and enact a new single improvement district in Downtown Santa Cruz. STATUS: Completed

Strategy 27: Collaborate with other City departments and the Downtown improvement district(s) to enhance the effectiveness of ambassador, cleaning services, and homeless outreach to improve safety and comfort concerns.

Action 27.1: Assist in ongoing coordination between the Downtown Santa Cruz improvement districts, Public Works, Downtown Streets Team, and the Homelessness Response Manager and Downtown Outreach Workers. STATUS: Ongoing

Over the last two years staff have worked closely with the Downtown Association (DTA) and the Downtown Management Corporation (DMC) to assess downtown needs, and the current business improvement district managed by the DTA and the separate property-based improvement district (BID) managed by the DMC. After assessing both districts and consolidation options, it was decided that the best path forward was an expansion of the area of the PBID managed by the DMC along with an increase of assessments within the district and increasing the business assessments in the existing BID managed by the DTA.

Both the PBID changes and the BID increases were approved by the property owners and businesses in the respective districts. As a result, both assessment districts have experienced a combined increase of over \$325,000 in the funding available for downtown maintenance, safety, downtown promotions, cleanliness and mental health outreach in the downtown. As new mixed-use properties come online in the coming years, the assessments will increase accordingly, and it is estimated that the combined budgets of both organizations will exceed a million dollars annually dedicated to downtown services annually benefiting the downtown businesses and properties.

Strategy 25: Expand the diversity of entertainment, dining, nightlife, and retail uses in Downtown Santa Cruz, and explore opportunities to attract non-retail ground floor storefront uses that would draw foot traffic to Downtown Santa Cruz, including gyms, entertainment, and games; also support inclusion of medical offices in Downtown except along Pacific Avenue and Cedar Street.

Action 25.1: As opportunities arise, continue connecting business owners with brokers of available spaces. STATUS: Ongoing

Action 25.2: Review and pursue modifications to existing land use, permitting, and zoning regulations that create challenges for diversifying uses in Downtown Santa Cruz. STATUS: Ongoing

Prior to the pandemic, the Economic Development business team held annual broker meetings to share information on sales tax information and trends, space available, and commercial tenant opportunities across the City. During the pandemic, the team increased the meetings to quarterly and the more frequent broker breakfasts focused on collectively working to address the vacancies in downtown. These quarterly events have been well received with over 20 brokers attending on average and, while still primarily a downtown focus, are once again expanded citywide.

The focus of these meetings is to share key updates from the City regarding development activity, changes to policies that benefit businesses, reduce barriers to entry in the permitting process, as well as providing an opportunity for the brokers to share updates on their current leasing activity. As a result of these meetings staff have been able to provide tailored marketing materials based on feedback from the brokers to help them more easily share enticing information about the growth of downtown and resources available through Economic Development to prospective tenants. The broker breakfasts have established an open dialogue with the broker community to keep track of the activity occurring in our downtown spaces and enabled city staff to be more proactive in helping new businesses coming in as well as being responsive when there may be potential closures or other issues the city team can help problem solve.

Staff across Planning, Public Works and Economic Development have worked closely over the last few years in reviewing and updating land use, permitting and zoning regulations in the downtown and across the City. Greater flexibility in the downtown through the Downtown Plan Amendments and the current study of the Downtown Plan Expansion area will further support the necessary changes to support business retention and growth in our major business districts including the downtown. Recent approvals of the Temporary and Permanent Parklet program, the Downtown Pops! program and changes to retail depths are further evidence of proactive change in this area.

Strategy 26: Continue to partner with the Downtown Association, Visit Santa Cruz, Santa Cruz Works, and others for shop local campaigns and efforts to encourage local spending.

Action 26.1: Through ongoing communications and engagement with the Downtown Association, Visit Santa Cruz, Santa Cruz Works, and other partners, assist in implementation of shop local campaigns via actions such as outreach to businesses, marketing, and financial support. STATUS: Ongoing

Economic Development worked closely with Miller Maxfield and the DTA during the pandemic on the successful SHOP LOCAL, DINE LOCAL campaign which included radio and newspaper ads and banners in and leading to the downtown. For 2024, new banners and a new campaign will be developed in conjunction with the DTA and Visit Santa Cruz.

Eastside/Midtown Business District Update: Similar to the downtown, the eastside/midtown area continues to grow with a mix of retail, restaurants, services, and community organizations coming together to promote their collective businesses and connect with their immediate neighbors and the larger Santa Cruz community. Economic Development has been supporting the growth of this commercial district and their burgeoning Midtown Business Association through attendance at their organization meetings, sponsorship of collective marketing efforts, and the infrastructure and programming support for the beloved summer event series, Midtown Fridays, a city-led event series operated by Event Santa Cruz.

The businesses in the eastside/midtown area expressed interest in the City testing out a holiday season activation in the public parking lot located in the area (Lot 32). In response to this interest and to test the viability of such a concept, Economic Development issued a request for proposals for an event operator to run a holiday market from October to December. Staff selected Tasty Mob as the operator and Economic Development helped facilitate the special events permit process in coordination with Parks and Recreation. Colder early winter weather impacted the first event and as a new operator to the City, Tasty Mob had difficulty building the critical mass of event attendees to make this a sustainable series. As a pilot program to try out a holiday season activation, staff was able to learn several lessons from this experience and what additional infrastructure and lead time could be added to increase the chances for success in attracting a viable event activation and attendees during the darker and colder season.

The EDS recommends the following strategy and action for the eastside/midtown shopping area:

Strategy 28: Support and assist the Eastside/Midtown area in assessing the support for and potentially creating an improvement district to enhance local marketing, maintenance, and collaboration efforts.

Action 28.1: Work with engaged business owners in the Eastside/Midtown area to conduct additional outreach and raise awareness of potential for an improvement district among other area businesses and property owners; pursue creation of a district when sufficient support exists.  
STATUS: Workplan 2024

With the successful completion of updates to the Downtown assessment districts, the Economic Development business services team is poised to add this effort to the workplan for 2024. Initial interest has been expressed by businesses in the area and a larger outreach effort will be conducted to both businesses and property owners in early 2024 to further gauge interest and assess the best structure for successful implementation in the area.

Recommendations: While much progress has been made implementing recommended actions from the EDS, emergent needs have developed over the last two years and additional opportunities for growth around specific strategies and actions from the EDS are warranted to support our changing downtown. Development in the pipeline and currently in construction is rapidly changing our physical environment downtown. As more than 1200 housing units are absorbed into the downtown community over the course of the next five years, we will need to regularly revisit circulation, parking use, and consumer and transportation behavior as needs in our downtown core change.

Similarly, new development on many of our public and privately-owned surface parking lots are already shifting transportation and parking needs downtown. New homes for active uses of these parking lots, like the Farmers' Market on Lot 4, are opportunities for additional community and stakeholder engagement. In late 2022, the City and Farmers' Market entered into a Memorandum of Understanding (MOU) that laid out a partnership to find both an interim and a permanent home for the Farmers' Market prior to breaking ground on the Downtown Library Affordable Housing Project (Project) in late 2024/early 2025.

In 2021, Council directed staff to initiate a public engagement process around re-use of the existing library site prior to the relocation of the downtown branch to its new home on Lot 4. The Project for Public Spaces and Group 4 were selected through a request for proposals to lead a

community-driven outreach and visioning process resulting in the Santa Cruz Library Re-Use Visioning Process Report (Attachment 2). The purpose of the process and report was to create an implementable, community-oriented vision for the existing downtown library site once the library moved to its new location.

The recommended vision in the report was based on an extensive public and stakeholder engagement process, as well as a thorough understanding of the site in the broader community context. Several potential public uses and components were considered and discussed for the site, including parks, plazas, the farmers' market, parking, and mixed-use and affordable housing. As the anticipated construction of the new Project moves closer, it is time to revisit these earlier recommendations and next steps for the existing library site.

Specific recommendations for additional Council consideration and direction in the Downtown and Eastside/Midtown Districts include the following seven recommendations:

**Recommendation 1: Placemaking and Activation:** Develop a plan following community engagement and stakeholder input for activating major public spaces with an emphasis on public locations downtown and in the eastside/midtown area that have the greatest potential impact and return to Council within the current fiscal year for consideration. Specific areas to address shall include the downtown alleyways, the public area on Pacific Avenue located between the kiosks at the terminus of Lincoln Street with Pacific Avenue, and Lot 32 located at the intersection of Cayuga and Soquel in the eastside/midtown area.

While many visitors have returned to our shopping areas following the pandemic, consumer behavior across the country has changed, and new forms of engagement with our public spaces are needed to help revitalize our downtown and eastside/midtown areas in order to draw our community and visitors back to these spaces in new and expanded ways. Placemaking can be achieved through an investment in infrastructure that creates new utilization of the public space like an interactive sculpture or play area and increased and creative uses of permanent lighting that helps transform how a space is used and perceived. Additional ideas for placemaking could be the installation of a kiosk or converted shipping container that could host a food and beverage and/or retail business with public gathering space for seating, music, and event activations.

In the downtown, adding festoon lighting to the alleyways is a priority investment supported by the DTA and Economic Development. City invested in festoon lighting for Pacific Avenue several years ago and Economic Development helped fund and facilitate the installation of lighting in Pearl Alley in 2016 with a collective investment from the adjacent businesses. The City's recent public engagement for the Downtown Design Standards project also showed resident interest in expanding the festoon lighting and added pedestrian scale lighting in alleyways and other areas of Downtown. Funding for this project is available and budgeted in Economic Development's Capital Improvement Project Budget.

Activation of spaces can be achieved through support and facilitation of events both in the downtown and eastside/midtown areas similar to the successful Midtown Fridays series and the First Friday art events each month. There have been several recent attempts to host food truck or other special event activations in the alleyways in downtown and the success of these efforts have varied depending on the location and type of activation. Staff in coordination with the DTA would like to conduct further outreach and engagement to identify the best fit in terms of type of activation and location. More passive activations such as photo spot murals may be easier to

implement in some areas where businesses or residents may be more sensitive to noise and higher concentrations of foot traffic.

With the success of Midtown Fridays, there has been growing interest from the businesses and surrounding neighbors in creating the infrastructure needed to support a community space in the public parking lot where the event is held. Specific infrastructure investments needed to fully activate Lot 32 include sewer, water, and electrical infrastructure improvements in addition to modifications to the accessible parking layout to support events, food trucks and community activation. Further research is needed to understand the full cost of the potential improvements. These infrastructure investments could also help to extend the season for viable year-round activations.

**Recommendation 2: Assessment of remaining empty storefronts and the development of potential incentives for property owners:** While vacancy rates are currently historically low in the downtown and re-leasing of recently vacated spaces is healthy, there remain a handful of longer-term vacancies that are problematic for the overall health and vibrancy of the downtown. Conducting a current survey of existing vacancies, including length, special circumstances and challenges to activation will be useful information to assist the City and brokers in helping property owners re-lease long-term vacant storefronts. Exploring best practices and potential incentives including grants, low-interest loans as well as potential changes to the City ordinances to encourage re-leasing are all recommendations to be specifically explored.

**Recommendation 3: Planning for future use of the existing library space including a permanent home for the downtown Farmers' Market:** Over the last year, City staff have been working closely with the Farmers' Market leadership on vetting temporary on-street and off-street locations for a 2-3 year temporary home. Final decisions on temporary location options will be finalized in early 2024. Following direction and commitments included in the Farmers' Market MOU as well as recommendations from the Council-directed 2021 Library Site Re-Use Visioning Process Report prepared by Project for Public Spaces and Group 4 Architecture (Attachment 2), staff would like to move forward on next steps regarding the future use of the existing library site:

Action 1: Revisit the three preferred options and recommendations in the 2021 Library Site Re-Use Visioning Process Report for future uses for the site and kick off a new community engagement process to finalize the proposed uses for the existing library site.

Action 2: Working with the Farmers' Market leadership, stakeholders, and community input, finalize the permanent home for the downtown Farmers' Market including consideration of the existing library site as one of the proposed permanent locations.

**Recommendation 4: Integration of new downtown housing projects into the downtown business, retail and shopping environment:**

Action 1: Continue to communicate and facilitate mitigation of ongoing construction and construction-related transportation impacts to downtown businesses.

Action 2: Working with DTA, DMC and housing development partners, develop specific outreach materials and promotions geared towards new downtown residents.



Action 3: Working with Downtown Commission, Public Works, DTA and DMC, evaluate existing parking programs including residential permit parking in order to respond proactively to changing parking conditions downtown and explore opportunities to reduce impacts of increased parking fees in downtown on low wage workers and businesses (EDS Strategy 17, 17.2, 22, 22.1).

**Recommendation 5: Pursue establishment of an Eastside/Midtown Business or Property-Based Improvement District:** The Midtown Business Association is currently operated by businesses in the area to promote and advocate for midtown/eastside business success. Growth of this organization and further investments for clean, safe, and welcoming services could be delivered if there is support and interest in establishing a Business or Property-Based Improvement Assessment similar to the improvement districts that operate in downtown. Further engagement and outreach would be needed to determine what type of district is preferred and would be successful and to gauge the support from potential assessment payers for such a district. Staff is currently administering a survey of business owners and property owners to collect this initial feedback and will share the survey results during the presentation of this report. Should survey results and stakeholder outreach prove favorable, staff will return in the next few months with recommendations and potential authorization to proceed with assessment district formation.

**Recommendation 6: Amend the Economic Development Strategy to include these additional strategies and corresponding actions as recommended above.**

**Recommendation 7: Return to Council with an update on progress during the current fiscal year including any related additional actions or recommendations needed for implementation and funding.**

**HEALTH IN ALL POLICIES:** The proposed additional recommendations and amendments to the Economic Development Strategy aligns directly with the city's commitment to Health in All Policies. Creating inviting, communal spaces and promoting the establishment of businesses enhance the quality of life for residents. This not only contributes to economic growth and prosperity but also fosters health equity and sustainability in Santa Cruz's community. Moreover, the engagement of community members in the decision-making process ensures that their needs and perspectives are considered, leading to a more inclusive and healthier urban environment.

The exploration of permanent activation and placemaking in the downtown and in the eastside/midtown area aligns seamlessly with the City's commitment to Health in All Policies. This initiative places an emphasis on the pillars of health equity and sustainability by creating vibrant, inclusive, and accessible spaces that support the physical and social well-being of all community members. Nurturing local businesses and fostering economic growth contribute to a more equitable and sustainable future, while also promoting a healthier and more vibrant city for all residents.

**FISCAL IMPACT:** Each of the initial steps in the above recommendations and actions can be achieved within the current adopted budget of the Economic Development and Housing Department. Full implementation of a number of the recommendations will be based on future council consideration and may be included in the proposed FY 2025 Economic Development Department and Housing budget.

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**ATTACHMENTS:**

1. SANTA CRUZ ECON DEV STRATEGY.PDF
2. LIBRARY SITE REUSE VISIONING REPORT.PDF