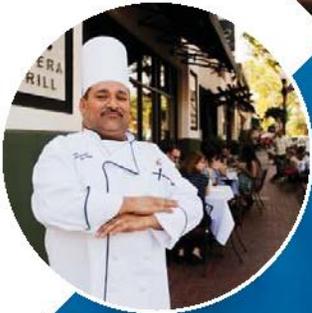


2017 Morgan Hill ECONOMIC BLUEPRINT



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ECONOMIC BLUEPRINT

TABLE OF CONTENTS	Page
1. Acknowledgments.....	3
2. Executive Summary.....	4
3. Introduction.....	6
a. Purpose of Economic Blueprint.....	6
b. Context.....	7
c. General Plan 2035.....	9
d. Economic Development Approach.....	11
e. Community Engagement.....	12
4. Economic Profile.....	14
a. The General Fund.....	14
b. Employment.....	17
c. Demographics and Labor Force.....	21
d. Jobs/Housing Ratio.....	22
e. Employment Lands.....	24
f. Real Estate Market Conditions.....	28
g. Tourism.....	29
h. Retail Trends.....	32
i. Downtown Morgan Hill.....	35
5. Economic Blueprint Goals.....	37
a. Innovation and Advanced Manufacturing.....	39
b. Retail.....	44
c. Tourism.....	47
d. Healthcare.....	50
6. Conclusion.....	52
7. Economic Indicators.....	53
8. Strategies & Actions.....	54
9. Appendix A: Stakeholder Questions.....	58
10. Appendix B: Links to Relevant Documents.....	59

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EXECUTIVE SUMMARY

Increase Economic Prosperity and Vitality

The Economic Blueprint is intended to further the community's quality of life by attracting investment, development, and jobs that will ensure continued economic prosperity. This report is founded on guiding principles from the General Plan, *Morgan Hill 2035*, and incorporates feedback from over 400 residents, businesses, and community leaders engaged and invested in the future of Morgan Hill.

Thoughtful planning has made Morgan Hill a desirable community within Silicon Valley. With its unique character and strong sense of community, Morgan Hill offers a superb quality of life. Historically, the community has been mindful to make strategic investments for Morgan Hill to thrive, including:

- Leading in affordable housing – creating a community where one of every eight homes is affordable
- Investing in protecting hillsides and open space from development
- Leading the region in agricultural preservation policies
- Pacing growth to provide for the development of infrastructure and services
- Providing excellent housing and community amenities
- Offering the region state-of-the-art recreational facilities
- Attracting unprecedented investment in Downtown, making it a gem within Silicon Valley
- Maintaining a high level of safety
- Leading the region in water and agricultural land conservation

Morgan Hill's natural geography, along with events, recreational areas, and activities, attract nearly 1 million visitors to Morgan Hill annually. Complementing the strong visitor base is the robust dining destination that is evolving in Downtown Morgan Hill and the region's burgeoning wineries. The Economic Blueprint identifies four industries that are key to Morgan Hill's future growth and further fiscal sustainability. By focusing on these areas of opportunity, the Economic Blueprint is intended to generate jobs, investment, and economic vitality, while providing goods and services to the community and new tax revenues for the City.

The four industries are:



1. **Innovation and Advanced Manufacturing:** *Grow existing companies, attract new industry, and grow professional jobs.*



2. **Retail:** *Grow retail offerings and strengthen commercial nodes.*



3. **Tourism:** *Grow leisure, agriculture, wine country & recreational tourism.*



4. **Healthcare:** *Grow and foster the medical service and diagnostics industry by attracting services and facilities.*

By articulating clear intentions with these industries, and developing implementation strategies, the City and its economic development partners (Chamber of Commerce, Downtown Association, Tourism Alliance, Wineries of Santa Clara Valley, businesses, educational organizations, brokers, developers, service providers, and many others) will be better positioned to realize the dividends of a focused and collaborative effort. From the City's perspective, a primary responsibility is to make land use and policy decisions that in return will attract investment, remove unnecessary barriers, achieve economic sustainability, and enhance the community's quality of life.

As the Morgan Hill community looks to have a focused plan around advancing the four industries, it is important to establish benchmarks to determine success. The Economic Blueprint provides a baseline of vital statistics that range from jobs and revenues to vacancy rates and industry-proven economic indicators. To achieve success in growing any of these industries will require the City to strengthen its partnerships as well as develop new ones. It will be imperative that the City and its economic development partners align efforts in supporting the four industries and thereby sharing in combined prosperity and success.

Introduction

Purpose of Economic Blueprint



The City's most recent adoption of *Sustainable Morgan Hill* develops the lens for which all future City

Council decisions will be viewed. From a thriving economy and highly inclusive community to a healthy environment, the community's long-term sustainability is the foundation for all policies, projects, programs, and initiatives. The Economic Blueprint is a significant opportunity to advance this vision and all the benefits of a sustainable community.

The City's General Fund revenues, which provide for many of the services the community enjoys, such as police services, fire protection, and recreation, are derived from property taxes, sales taxes, recreation services, and hotel transient occupancy taxes. The City's ability to provide public safety services, safe roads, youth and senior services, and other amenities to its residents requires a progressive approach to General Fund revenue growth. In order for Morgan Hill to continue to provide quality services and amenities to its residents, the City needs long term reliable revenue growth to offset growing costs of services.

This can be achieved through careful land use planning, policy creation and strategic actions that, combined, will ensure economic prosperity.

Maintaining Morgan Hill's quality of life, unique character, and strong sense of community can only be achieved by ensuring the principles of Sustainable Morgan Hill are in balance. This includes having long term and sound economic development objectives. The Economic Blueprint will provide specific guidance for land use and policy decisions that will support economic prosperity and sustainability. The purpose of the Economic Blueprint is to focus the City's and its partners' economic development efforts. The City in its role will align its financial and human resources to increase economic prosperity in the City of Morgan Hill.

The Economic Blueprint identifies strategies and actions that will generate jobs, investment, and economic vitality by focusing on four key industries. The Economic Blueprint focuses on actionable items that the city can influence such as land use and policy decisions that remove unnecessary barriers, provide clear intentions, and align partners and champions.

Context

Morgan Hill is located within the southern part of Santa Clara County, 10 miles south of San Jose and 10 miles north of Gilroy. Morgan Hill is nestled between the Diablo Mountain Range and the Santa Cruz Mountains, and has a rich history of farming and manufacturing. While Morgan Hill resembles Silicon Valley in its business mix, rich entrepreneurial spirit and thirst for innovation, the city's natural geography and open space make it a unique place.

The City is 13 square miles, home to approximately 44,000 residents and 1,200 businesses employing approximately 16,000 people. Over 47% of households in Morgan Hill earn over \$100,000 a year. The average household size is 3.06 residents per household. The median age is 38. The majority of residents are White (64%) and 34% are Hispanic. Over 70% of all employed residents travel more than 20 miles to work each day.

Morgan Hill is served by Highway 101, which provides north-south access. Morgan Hill is also served by Caltrain, express bus service to major employment hubs and limited regional bus service provided by the Valley Transit Authority (VTA), and tech buses moving Morgan Hill residents to and from employment bases from San Jose to the Peninsula.

Morgan Hill is best known for its superb quality of life with access to open space and abundant recreational amenities that give employees, visitors, and residents alike a



unique place within Silicon Valley to live, work, and recreate. The City has made many thoughtful decisions and as a result is a leader in affordable housing production, open space preservation, water and agricultural land conservation, and environmental stewardship. Smart planning has resulted in state-of-the-art recreational facilities for residents and visitors, making Morgan Hill a sports/recreation destination. As a gateway to the Santa Clara Valley wine region, proximity to wineries, farms, cycling,

golfing, swimming, and boating also make the area an ideal tourism destination.

The city offers 6.2 million square feet of Industrial, R&D and manufacturing space in three large business parks. The vacancy rate ranges from 3-7%, and there is demand for new development. **Morgan Hill has approximately 247 acres of vacant industrial land available to accommodate this development.** The City has a significant and growing manufacturing and wholesale employment base, and projected growth in the health, education, finance, insurance,

real estate, and information technology sectors.

The City's top three business niches are food production/manufacturing, sports/recreation, and electronic components manufacturing. Approximately 20% of Morgan Hill's workforce is employed in advanced manufacturing. City's industry leaders include Anritsu Corporation, Specialized Bicycles Components, Paramit, Infineon Technologies, TenCate Advance Composites, NxEdge, Phoenix DeVentures, Del Monaco Foods, Lusamerica Foods, Velodyne, and Sakata Seeds.



General Plan 2035

The General Plan, Morgan Hill 2035 Plan, provides a vision for the future and establishes a framework for Morgan Hill growth and change for the next 18 years.

The General Plan serves as the baseline for this Economic Blueprint. Morgan Hill 2035 was approved in 2016, after a three-year process that included extensive community and business outreach. The General Plan's Economic Development Element establishes policy guidance to support the community's economic well-being. The Plan's Economic Development Goals are:

- **Household Prosperity:** High quality jobs for residents that support household incomes consistent with local housing costs and higher-education institutions that enhance skills and increase access to high quality education.
- **Fiscal Sustainability:** A strong, unique, stable, and diverse economic base that supports fiscal sustainability.
- **Business Retention and Attraction:** A high-quality business community with established roots in Morgan Hill.
- **Tourism:** A vibrant, enhanced, visible, and well-promoted tourist industry that draws on Morgan Hill's unique character and variety of amenities.
- **Downtown:** A downtown where residents and visitors of all ages can live, work, meet, shop, dine, participate in public celebrations, discover the story and past of our city, and share in the richness of Morgan Hill's community life.
- **Monterey Corridor:** A mix of uses along Monterey Corridor that support the Downtown and encourages walking and biking.
- **Commercial Development:** Thriving stores, restaurants, and shopping centers that meet local resident shopping needs and also attract regional shoppers and tourists.
- **Office and Industrial:** Office and industrial areas that provide high quality work locations for existing and new businesses.
- **Infrastructure to Support Businesses:** Public and private infrastructure that helps make Morgan Hill a competitive business location.

" The overall combination of actions envisioned by the General Plan will help Morgan Hill grow and prosper while balancing quality of life, economic development, tourism, fiscal sustainability high quality development, and preservation of habitat, the natural environment, and viable agriculture, without compromising its historic and enduring rural charm. "

As a subset of these nine key goals and recommendations, 45 policies, and 21 related actions are also articulated in the General Plan. Through these policies and actions, the City aims to develop a robust mix of land uses that will support the City's fiscal sustainability, decrease the need for residents to make long commutes, create a thriving downtown that remains a focal point of community life and enhance Morgan Hill's appeal as a tourism destination.

The City must strategically allocate its resources, which is not unique when compared with other governmental agencies, private sector businesses, or individual households. To this end, this Economic Blueprint establishes the City's *current priorities* for the implementation of

This Economic Blueprint is intended to lay the groundwork for today's focus to achieve economic development goals. It is also intended to provide clarity about the City's goals for potential developers, companies and investors who may wish to do business in Morgan Hill.

Economic Development goals. This document is not intended to replace the Economic Development Element of the General Plan, nor is it intended to limit the goals and aspirations set forth in the Plan. Rather, this Economic Blueprint lays the groundwork for today's focus to achieve economic development goals. It is also intended to provide clarity about the City's aspirations for potential developers, companies, and investors who may wish to do business in Morgan Hill.

The General Plan establishes land use priorities for the City for the next 18 years. It articulates a common vision to maintain quality of life, engage in economic development, grow tourism, strive for fiscal sustainability, create high quality planned development, and preserve habitat, the natural environment and viable agriculture. The Economic Blueprint provides focus for these aspirations and further defines strategies to achieve economic prosperity.

Economic Blueprint's four key pillars

General Plan 2035 Priorities (Pillars)

Maintain
Quality of Life



Fiscal
Sustainability



Job
Growth



Tourism



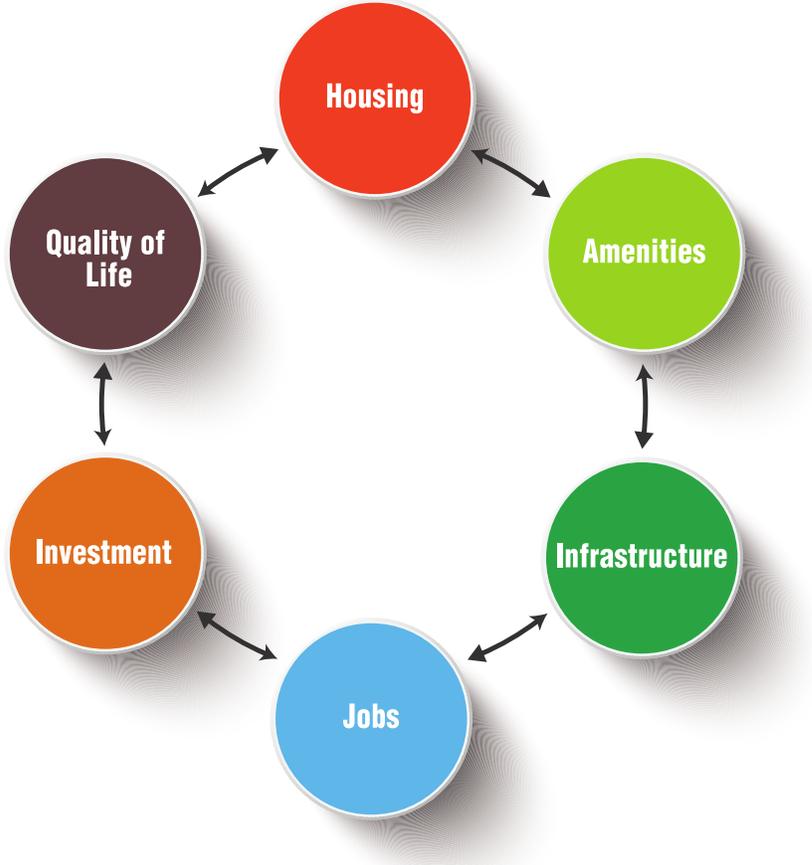
Economic Development Approach

A primary role of Economic Development in Morgan Hill is to catalyze investment in the City, resulting in job creation. While jobs and investment are paramount to economic prosperity, in order to attract and maintain jobs and investment, other elements of a healthy business environment are required. These elements include an adequate supply and variety of housing options, infrastructure to support both commercial and residential development including wet and dry utilities, transportation, and telecommunications. At the same time, companies, investors and developers choose to expand in communities that are stable, offer a good quality of life, and provide a wide range of amenities.

This is also true for young creative workers who may choose where to work after they have chosen where to live.

In a "Vital Economic Cycle" (as demonstrated in Graphic 1) a strong and successful economy, and a strong and successful community are mutually reliant. To be successful, all elements of the cycle must be healthy. Exclusively focusing on one element of the vital cycle does not help create a balanced community. The process of active economic development is charged with nurturing the elements of this cycle and therefore is a citywide priority that requires working collaboratively with many community partners.

Graphic 1: Vital Economic Cycle



Community Engagement

The Economic Blueprint is a community-driven plan which incorporates input from a wide variety of Morgan Hill stakeholders including members of the business community, residents, policy makers, and industry experts from inside and outside of the community in a dialog about economic development priorities for Morgan Hill (Graphic 2). Through a range of meetings, focus groups, and online surveying, feedback from over 400 individuals was collected and analyzed to help develop Morgan Hill's first Economic Blueprint.

Unique to this effort are special groups that played key roles in the development and review of this project. These groups include **Thought Leaders**, a set of Morgan Hill community leaders that engaged with the Economic Blueprint from the very beginning and served as a sounding board for the City team working on the effort. This group helped guide and react to the findings and progress made along the way.

The team also formed a **Pathfinders** group that represented the industries the Economic Blueprint identified. These Pathfinders were able to provide intelligence from an industry perspective on how the City could help attract those industries to Morgan Hill.

When the Blueprint was about 95% complete, the team invited regional

Economic Development Professionals to join us on a peer review of the document. This group was made up of representatives from the cities of Milpitas, Fremont, Redwood City, San Carlos, Santa Cruz, Los Gatos, Los Altos, and a representative from Joint Venture Silicon Valley Network. The **Professional Peer Review** was instrumental as it helped fine-tune some of the actions, provided innovative ideas and best practices of how other cities are tackling similar economic development initiatives and provided guidance on how to focus City-led efforts to maximize return on investment.

Finally, a meeting with industry practitioners was held and these individuals were invited to be **Champions** for the City in the four industries and help achieve the goals set forth in the Economic Blueprint. And, while the Economic Blueprint strategies and actions are specific to efforts the City should lead and can influence, the Champions recognize their role as drivers of these industries in the private and non-profit sectors. The outcome of the community-led engagement is an Economic Blueprint which will serve as a guiding policy document to be used in decision making, resources allocation, investment, and accurately communicating community priorities related to Economic Development.

Graphic 2: Approach to Community Engagement

Approach to Community Engagement



City Council
Morgan Hill Planning Commission
Morgan Hill Chamber of Commerce
Morgan Hill Downtown Association
Rotary Club
Kiwanis Club
Economic Development Team
City Teammates

Tourism Alliance
Citywide Resident Focus Group
South County Realtors Alliance
Silicon Valley Economic
Development Alliance
Online Surveys
Individual Companies

Economic Profile

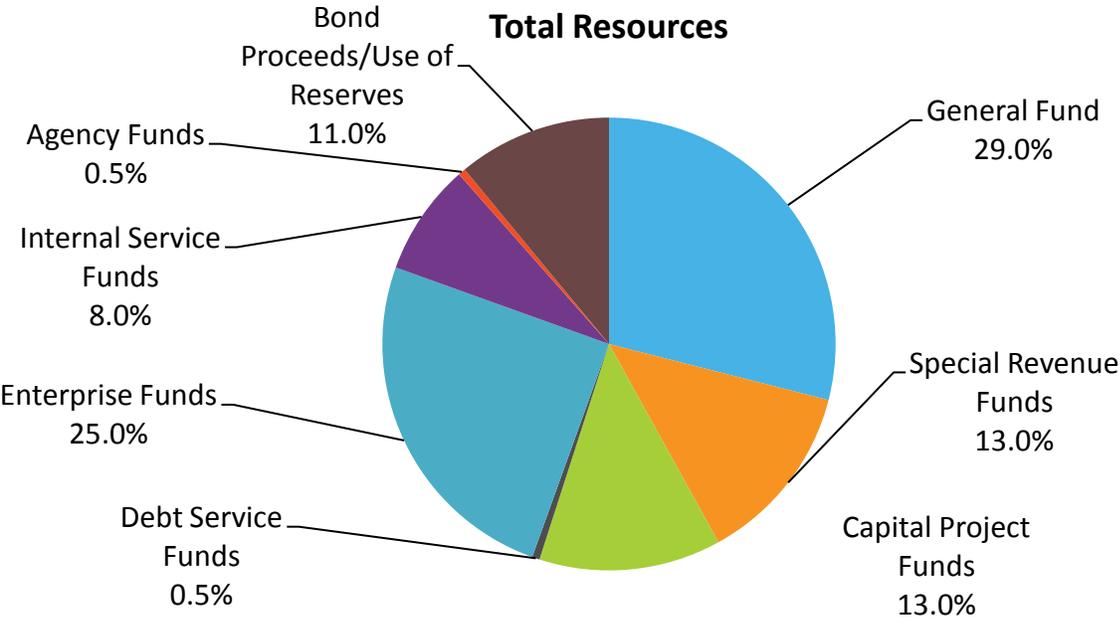
This section provides an analysis of fiscal and economic characteristics or trends in Morgan Hill. The analysis uses data from a variety of sources including the City budget, the American Community Survey (ACS), the California Economic Development Department (EDD), market reports from brokers, and other private sector resources.

The General Fund

The City of Morgan Hill total 2016-17 budget is \$126.2 Million. The General Fund, which supports most of the City's major services including police, fire, recreation, street maintenance, municipal governance, and administrative services, accounts for less than 30 percent of this total. The

remaining 70 percent of the budget is comprised of Special Revenue Funds, Capital Project Funds, Enterprise Funds (such as sewer and water), and Internal Service Funds; all funds that are restricted to the specific uses for which they were collected.

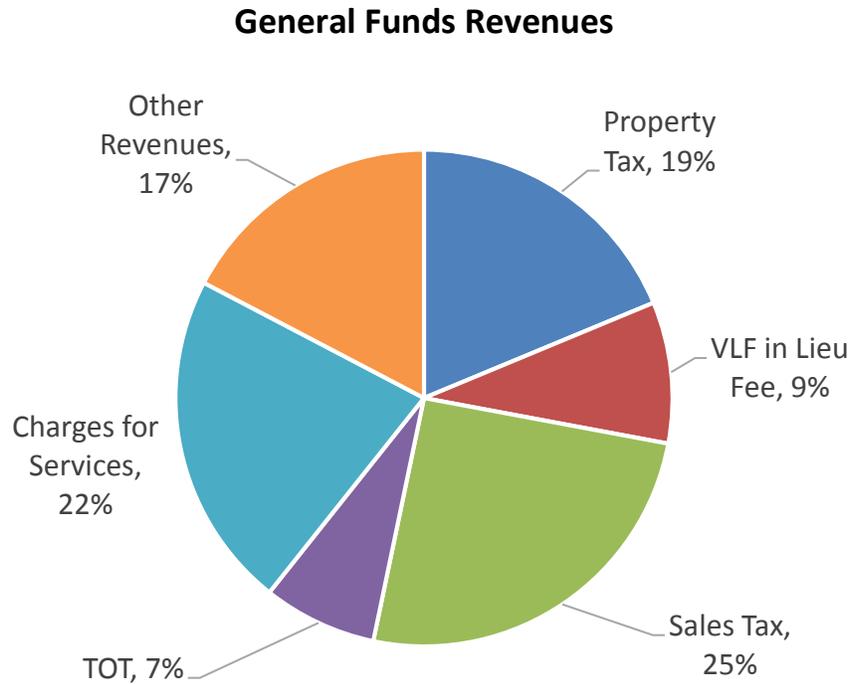
Figure 1. Total Morgan Hill Budget by Fund, FY 2016-2017



Total budgeted General Fund revenues in FY 2016-17 were \$36.2 Million. **Revenue sources that are directly tied to land use and economic growth – including sales**

taxes, property taxes, and transient occupancy (hotel) taxes – account for 64% of General Fund revenues. Current services, which include fees for services such as recreation, generate another 21.7%.

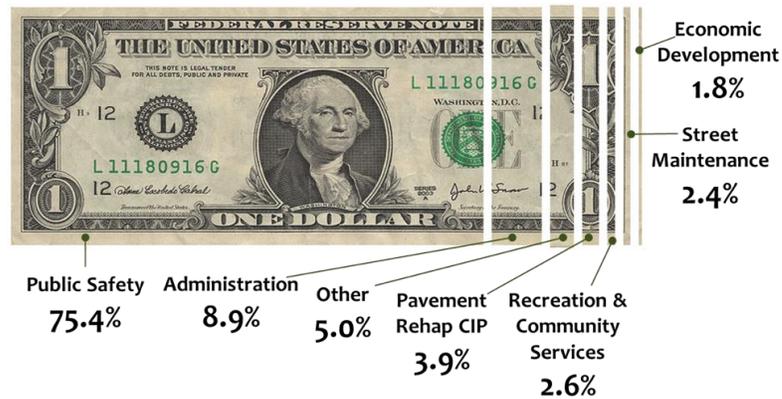
Figure 2. General Fund Budget by Source, FY 2016-2017



Of the \$36.2 Million General Fund budget, the City Council has discretion over how to spend \$25.8 Million. The remaining General Fund revenues support a specific activity (such as recreation services) and can only

be used to provide that service. Three-quarters of the discretionary funds pay for public safety services, including Police and Fire.

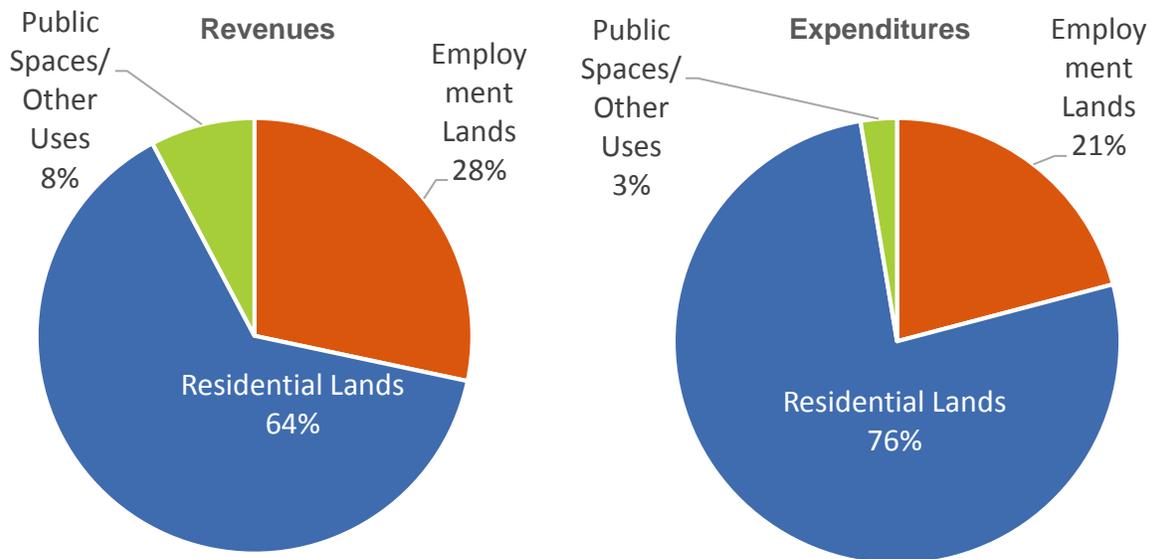
Figure 3. General Fund Discretionary Expenditures by Department, FY 2016-2017



Revenue sources that are directly tied to land use and economic growth – including sales taxes, property taxes, and transient occupancy (hotel) taxes – account for 64 percent of General Fund revenues.

Another way to understand the City’s costs and revenues is to relate them directly to land use. As shown in Figure 4, residential lands generate approximately two-thirds of the City’s General Fund revenues, but an estimated three-quarters of the General Fund goes to providing services to those lands. In contrast, employment lands contribute 28 percent of revenues, but only account for 21 percent of costs.

Figure 4. General Fund Revenues and Expenditures by Land Use, FY 2014-2015



Sources: County of Santa Clara Assessor, City of Morgan Hill sales, property, and transient occupancy tax, recreation fees and business license. General Fund costs are generally attributed two-thirds to housing and one third to businesses.

The City Council has established a policy to maintain a minimum General Fund balance of 25% of revenues. As a result of increased investments in transportation improvements, the General Fund balance is at approximately 42% of revenues. However, the five-year forecast predicts a decline in General Fund Balance to 36% in 2017-18 and 29% by 2020-21 because of future investments in the City’s street

infrastructure, increasing staffing levels in high priority areas, and addressing unfunded pension liabilities. Given these increased expenditures, it is more important than ever to develop sound policies to support increased revenues by attracting office, commercial, industrial and R&D investment and growing tourism-related investment and visitor spending.

Employment

Morgan Hill is home to 1,200 businesses, employing approximately 16,000 workers. The City’s employment base reflects Morgan Hill’s importance and relationship to the rest of the Silicon Valley economy. The diversity of jobs in the City supports fiscal and economic resiliency, helping the local economy endure fluctuations in the regional and national economies.

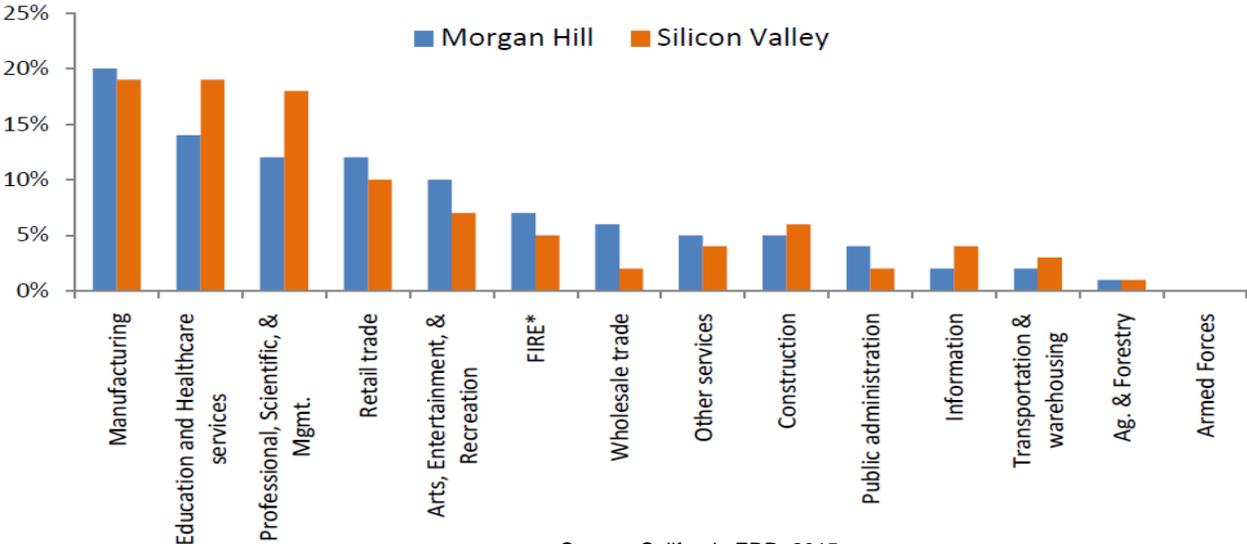
Manufacturing accounts for the largest segment of employment both in the City and in Santa Clara County (Silicon Valley), comprising 21 percent of all employment in

Morgan Hill and 20 percent in Santa Clara County in 2015 (Figure 5). After manufacturing, the next largest industries in Morgan Hill are education and healthcare services (14 percent of employment), professional and scientific services (12 percent), and retail (12 percent). However, compared to Santa Clara County overall, the City’s jobs are more weighted towards

manufacturing, retail trade, arts, entertainment and recreation, with relatively fewer jobs in education and healthcare, and professional and scientific services.

Figure 6 captures employment by land use and industry cluster (using industry clusters defined by the Joint Venture Silicon Valley Network). Morgan Hill has a particular specialty in the cluster of high-tech manufacturing, providing semiconductors, electronics, and other parts for Silicon Valley companies. Over the last five years the City has added 1,400 new jobs (an increase of 10 percent) in a range of clusters. Industry clusters such as biotechnology, building firms, semiconductor firms and industrial suppliers have expanded, while logistics and government services (segments of Education and Healthcare services) have contracted.

Figure 5. Employment in Morgan Hill and Silicon Valley, 2015



Source: California EDD, 2015

Figure 6. Employment by Land Use and Industry Cluster: Morgan Hill, 2010-2015

Land Use & Industry Cluster	2010	2015	% Change
Office/R&D/Industrial			
Miscellaneous Manufacturing	672	1,271	89%
Building/Construction/Real Estate	662	961	45%
Semiconductors	597	915	53%
Transportation/Distribution	1,174	878	-25%
Business Services	924	836	-10%
Innovation Services	663	693	5%
Industrial Supplies and Services	429	596	39%
Bioscience	458	555	21%
Corporate Offices	545	542	-1%
Electronic Component Manufacturing	421	482	14%
Financial Services	374	340	-9%
Software	143	106	-26%
Computer and Communications Hardware			
Manufacturing	10	64	540%
Retail			
Retail/Consumer Services	3,705	4,578	24%
Visitor			
Visitor (Tourism)	203	163	-20%
Other			
Civic (Government and Education)	2,212	1,977	-11%
Healthcare	589	649	10%
Other	479	117	-76%
Total Jobs	14,260	15,723	10%

Sources: CAA EDD, Quarterly Census of Employment Wages; City of Morgan Hill; Joint Venture Silicon Valley Industry Cluster Definitions.

Morgan Hill’s largest employers (after the Morgan Hill Unified School District) include advanced manufacturers such as Anritsu, Specialized Bicycle Components, Paramit, NxEdge, and Infineon Technologies (Figure 7). **These and other companies with more than 100 jobs each employ one-third of the City’s total workforce, but only account for 2 percent of businesses in Morgan Hill.** Approximately 85



percent of all firms in Morgan Hill are considered “small” with less than 20 employees (Figure 8).

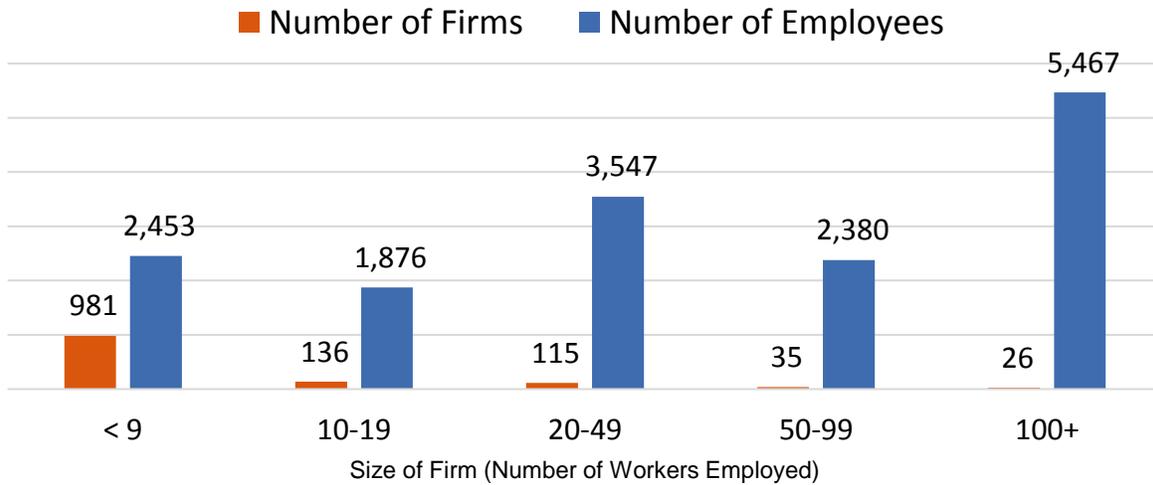
A strong innovative and entrepreneurial spirit exists in Morgan Hill. Companies such as Paramit, Lin Engineering, Specialized, OEA International, Applied Wireless Identification Group, and Anritsu are leading research, development, and innovation in Morgan Hill. Morgan Hill-based companies have received an average of 35 patents per year over the last five years.

Figure 7. Top Employers in Morgan Hill, 2016

Employer	Description	Jobs
Morgan Hill Unified School District	Public Sector	716
Anritsu Company	Testing and measurement devices	477
Specialized Bicycle Components	Bicycles, bike parts, and accessories	400
Paramit	Medical device and instrument manufacturing	320
Lusamerica Foods, Inc.	Wholesale seafood distribution	270
NxEdge MH LLC	Semiconductor manufacturing	265
Infineon Technologies	Semiconductor manufacturing	203
City of Morgan Hill	Public Sector	188
Del Monaco Specialty Foods, Inc.	Specialty food manufacturing	165
Wal Mart Supercenter #5766	Retail	158

Source: Morgan Hill 2016 Comprehensive Annual Financial Report

Figure 8. Morgan Hill Firms and Employment by Size of Firm, 2015



Sources: CA EDD, Quarterly Census of Employment Wages; City of Morgan Hill, 2015.

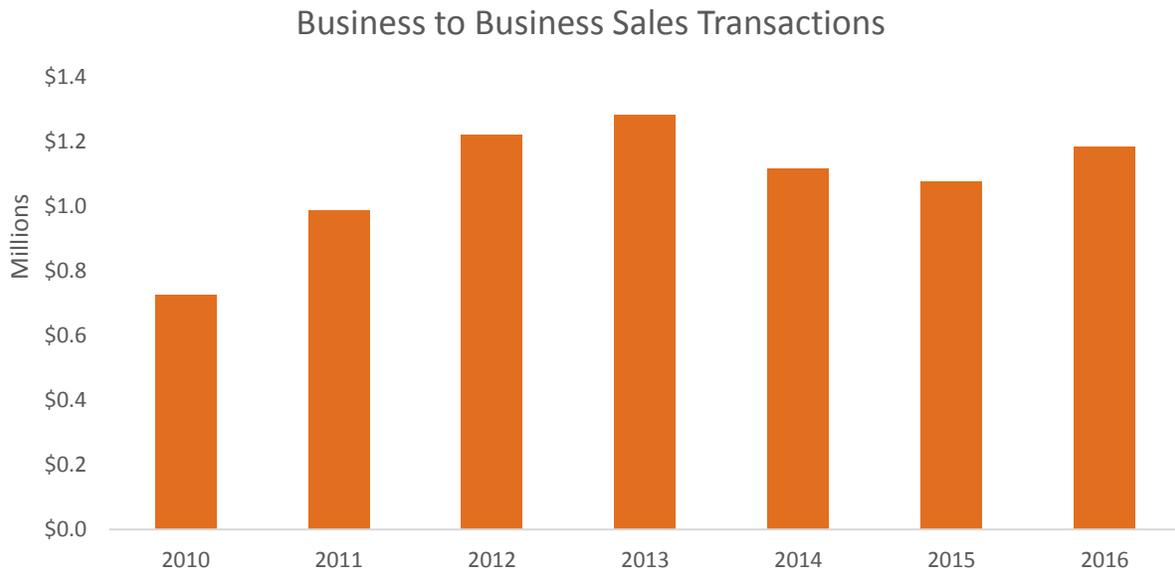
Within the innovation and advanced manufacturing industry sector, business to business transactions are integral to the local supply chain. Companies that produce electronic equipment, provide services for businesses, produce chemical products used in the production of goods, and firms that sell or lease heavy and light industrial equipment are generally categorized as business to business providers.

Many of the business to business firms in Morgan Hill not only support Morgan Hill but much of Silicon Valley. Within Morgan Hill these companies generate approximately 1.2 million dollars and make up about 15% of the total sales tax base (Figure 9). The number of jobs associated with business to business in Morgan Hill are 2,900.

SAMPLE COMPANIES IN MORGAN HILL THAT PRODUCE BUSINESS TO BUSINESS REVENUE

- NXEdge
- Terrapin Systems
- Paramit
- Phoenix DeVentures
- Minutemen Press
- Aragen Bioscience
- KAL Machining
- Andpack

Figure 9. Business to Business Sales Transactions



Demographics and Labor Force

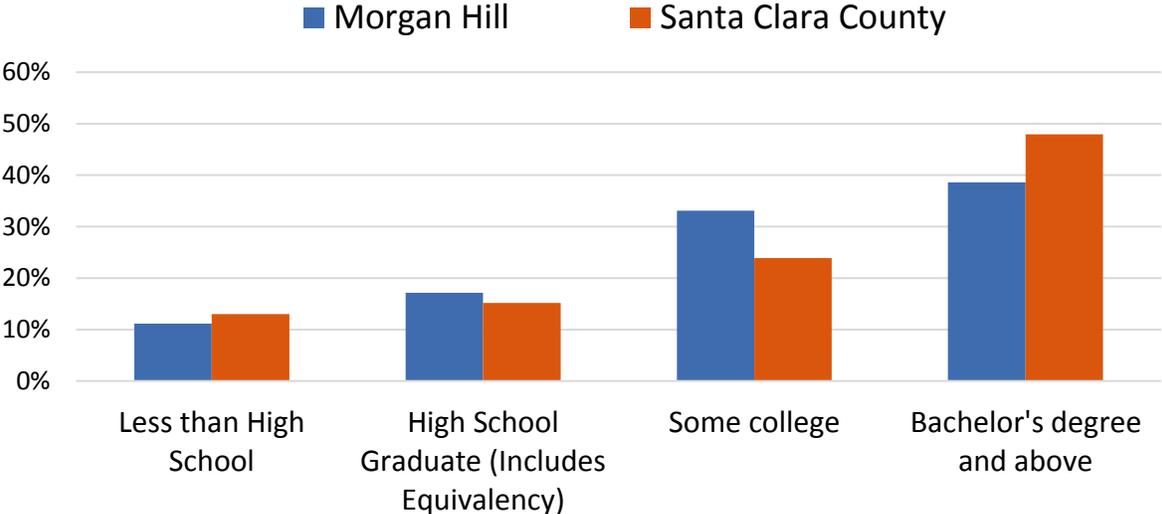
Morgan Hill experienced planned population growth over the past two decades. The City’s family-friendly environment draws a relatively affluent demographic. The community’s median household income is over \$96,000.

The most common industries employing Morgan Hill residents are education and health care, manufacturing, professional, scientific and technical services. Nearly 60 percent of residents possess at least some college. Compared to Santa Clara County as a whole, residents are more likely to have received some college education but slightly less likely to have obtained a Bachelor’s degree or above – suggesting

that the City is home to many middle-skilled workers those with some postsecondary experience but less than a bachelor’s degree. (Figure 10).

In addition to Morgan Hill companies creating patents, Morgan Hill residents are also innovators. According to the United States Patent and Trademark Office statistics, over the last five years there have been 335 patents issued annually to residents of Morgan Hill. In addition, several entrepreneurs and innovators participate in Meet-up groups and funding platforms such as Kickstarter, Indiegogo, and AngelList to support start-up activity.

Figure 10: Educational Attainment for Population 25 Years and Over



Source: American Community Survey 5-Year Estimates, 2011-2015.

Jobs/Housing Ratio

Economists and land use planners often use a community’s ratio of jobs to housing units to understand the opportunities available for residents to work near their homes. A balanced jobs/housing ratio suggests that there are adequate opportunities for residents to work locally, decreasing congestion and improving productivity and quality of life.

However, it is important to note that the extent to which residents will work locally depends in part on complex relationships between the

housing types available, the skills and education levels among the local workforce, and the jobs that are offered within the City and elsewhere.



Figure 11 compares the jobs/housing ratio in Morgan Hill, Santa Clara County (SCC), and the Bay Area as a whole in 2010, as well as the projected jobs/housing ratio for 2040. Morgan Hill's jobs/housing ratio is 1.42 jobs per household, which is considered a healthy ratio and higher than the regional ratio. Santa Clara County's ratio

is even higher, at 1.53 jobs per household. While household growth in Morgan Hill and SCC is projected to outpace employment growth through 2040, resulting in a slightly lower ratio of jobs per household in

2040 than in 2010, the change in ratios over time is not expected to be substantial. However, improving the jobs/housing ratio is considered a primary goal of the Economic Blueprint.

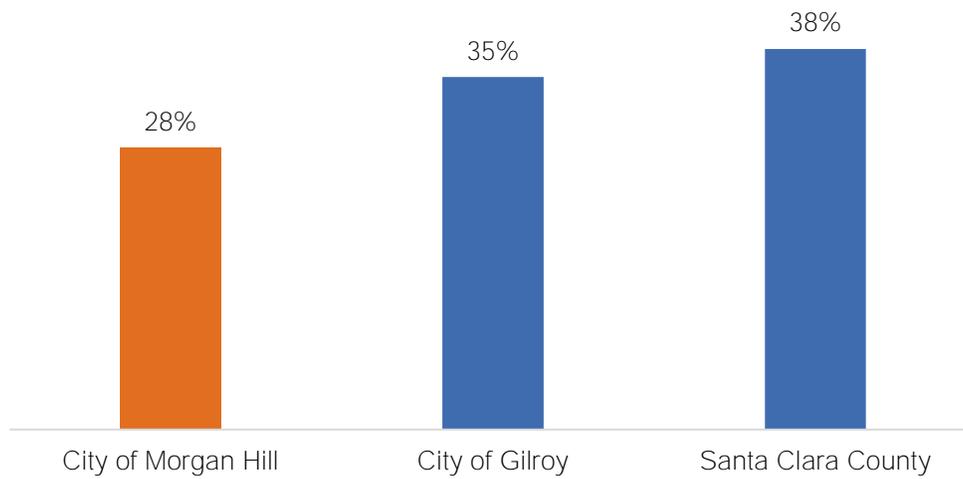
Figure 11. Jobs/Housing Ratio, 2010 and 2040 (Projected)

	2010	2040 (Projected)
Morgan Hill	1.42	1.37
Santa Clara County	1.53	1.50
Region (9 Counties)	1.30	1.36

Sources: General Plan Economic White Paper; ABAG, Plan Bay Area Jobs Housing Connection Strategy, May 2012.

The current and projected ratio of jobs to households indicates a relatively healthy balance of land uses in the City, providing opportunities for residents to work locally. However, only 28 percent of Morgan Hill residents work in the City (Figure 12). In Santa Clara County, 38 percent of residents live and work in the same city. Improving the match between the type and affordability level of local housing options, and attracting high-quality jobs that are well-suited to the skills and preferences of local workers, may increase the number of people who can both live and work in Morgan Hill.

Figure 12. Percentage of Residents that Work in the City the Live In.



*Or Census Designated Place.

Sources: American Community Survey 5-Year Estimates, 2011-2015.

Employment Lands

Morgan Hill offers approximately 6.2 million square feet of industrial, office and research and development (R&D) space (Figure 13). The majority of the space is Industrial and R&D. The City's large and diverse industrial sector, which includes both traditional industrial/manufacturing facilities as well as flex/R&D type facilities associated with the high-tech sector. Prominent industrial tenants include Anritsu, Infineon Technologies, Lusamerica, Del Monaco Foods, Specialized Bicycles and TenCate Composites. Only 750,000 square feet of the City's commercial inventory is dedicated to office.

Within the 13 square mile boundaries of Morgan Hill, there are 2,191 acres of land (developed and undeveloped) that are General Plan designated for employment uses¹. Approximately 42% (936 acres) are for a range of industrial uses while 29% (629 acres) are dedicated for office and retail uses².



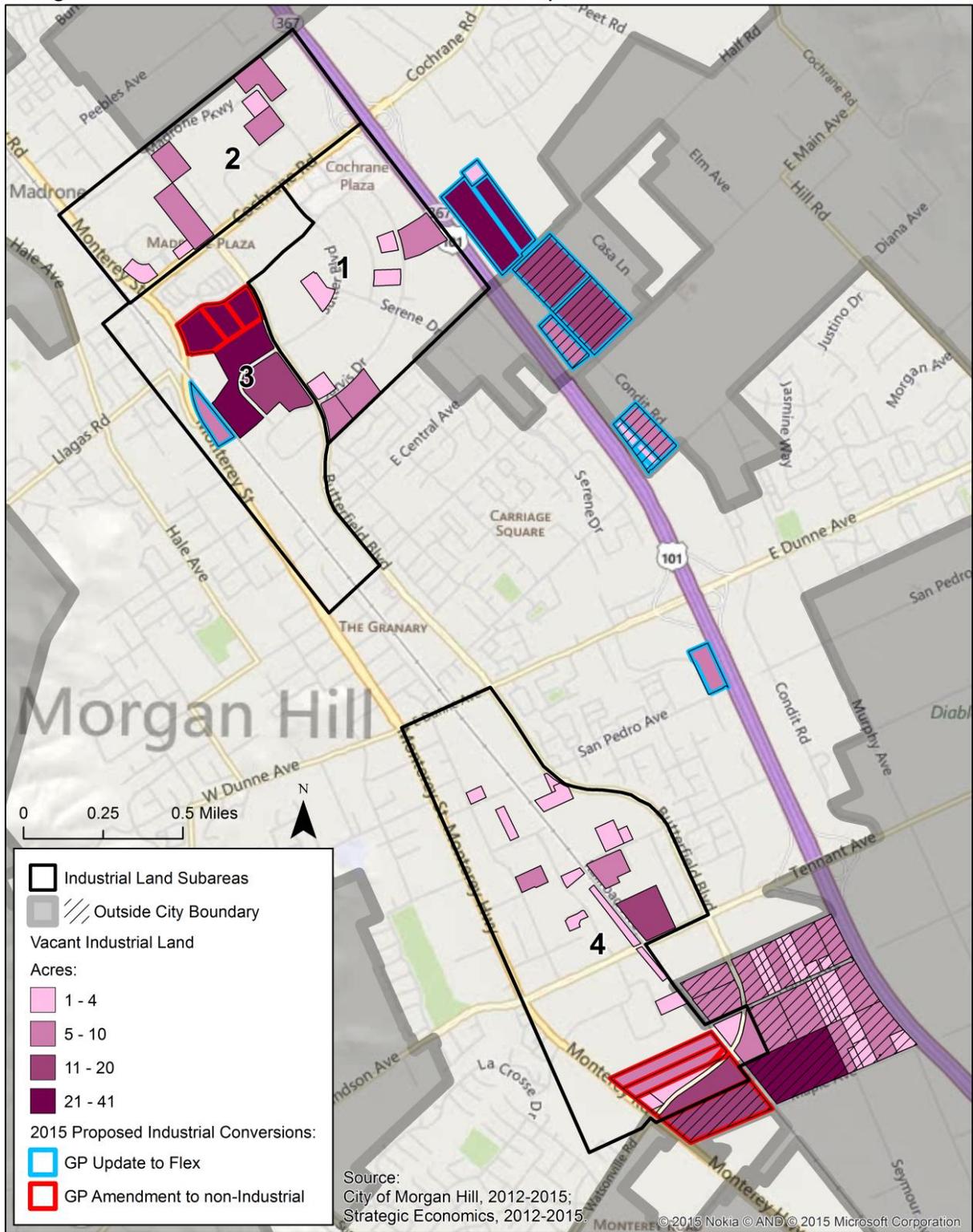
The industrial employment lands are located in three business parks that are located in four major subareas. *Subarea 1* is the Morgan Hill Ranch Business Park, located south of Cochrane Road and east of Butterfield Boulevard. This area houses the city's largest employers and is considered a core employment area. *Subarea 2* is located north of Cochrane Road, bounded by

Highway 101 to the east and Monterey Road on the west, and is also considered a core employment area. *Subarea 3* is located in the Morgan Hill Ranch Business Park west of Butterfield Boulevard, housing the largest available vacant industrial sites that present the largest opportunities for employment growth in Morgan Hill and the last area with large industrial parcels under a single ownership. This area contains what is referred to as the South Bay (20 acres) site and the DivcoWest (approximately 39 acres) site. *Subarea 4* is the industrial district south of Dunne. This area contains heavier industrial users and is defined as an established industrial area. *Subareas 1, 2 and 4* are established employment areas with little vacancy and limited development opportunity. *Subarea 3* is considered a future employment area.

¹ Employment lands/uses are generally defined as General Planned land designated commercial and industrial in nature.

²Morgan Hill 2035 Draft Environmental Impact Report, Table 3-1.

Figure 13. Vacant Industrial Land by Subarea, Morgan Hill, 2015





Over the past 15 years, a significant amount of the City’s industrial land has been converted to residential uses. In 2013, there were 293 acres of vacant industrial land available. **Today Morgan Hill has only approximately 247 acres of industrial land available for development and virtually no product available for lease with historically low vacancy rates in office and R&D.**

Since 2013, rents for industrial, office, and R&D space have increased significantly and the vacancy rate for office and R&D has declined dramatically. The City added 121,000 square feet of new inventory over the last five years.³ Morgan Hill has experienced a robust amount of investment from companies choosing to expand and buy real estate in the Morgan Hill market. However, other parts of Silicon Valley are experiencing new commercial development at a far faster rate.

Figure 14. Industrial, Office, and R&D Market Statistics, 4th Quarter 2016

Industrial, Office, and R&D Market Statistics: Morgan Hill, 4th Quarter 2016			
	Industrial	Office	R&D
Building Inventory (Sq. Ft.)	2,365,493	749,932	2,874,930
Vacancy Rate	7.7%	5.2%	3.6%
Average Asking Rent Per Sq. Ft.*	\$0.84	\$2.07	\$1.01

*Average asking rents for Industrial and R&D are triple net, while office is presented in full-service.
Source: Colliers International, 2016.

³ Based on an analysis of CoStar data.

While the vacancy rate (Figure 14) has improved significantly over recent years (currently between 3 to 7%), the conversion of employment lands for residential uses has potentially problematic fiscal consequences. As shown in Figure 15, on a

per acre basis, new commercial development brings a much higher level of revenues to the City of Morgan Hill, even after accounting for increased costs of providing services.

Figure 15. Estimated Annual Revenues, Expenditures, and Jobs per Acre by Land Use Development Type

Land Use Development Type	Revenues per Acre	Expenditures per Acre	Net Revenues per Acre	Jobs per Acre
Single Family	\$222	\$175	\$47	N/A
Multifamily	\$53	\$58	-\$5	N/A
Retail	\$44,366	\$9,239	\$35,127	29
Office/R&D/Industrial	\$6,050	\$1,568	\$4,482	26
Hotel*	\$43,490	N/A	N/A	10

Notes: Jobs, revenues, and expenditures for single family, multifamily, retail, office/R&D/Industrial are modeled based on previous fiscal impact studies conducted by Strategic Economics.

*Hotel tax revenues include transient occupancy tax, property tax, and sales tax revenue. Expenditures were not available.

Sources: HA&A Hotel Market Research, 2015; STR Host Almanac, 2016; HVS Hotel Development Cost Survey; City of Morgan Hill, 2017; Vallen and Vallen, 2012; Strategic Economics, 2017.

Real Estate Market Conditions

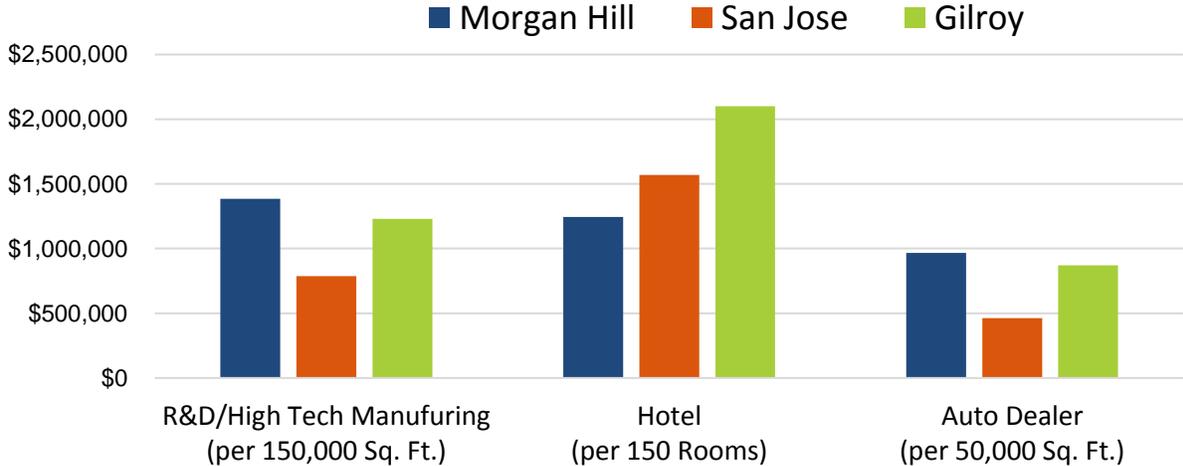
According to commercial brokers, the office real estate inventory in Morgan Hill is relatively limited and weaker compared to other locations in Silicon Valley as indicated by vacancy rates, asking lease rates, and absorption. Office space is mainly available within the City’s industrial and R&D areas.

Morgan Hill has a large and diverse industrial sector, which includes both traditional industrial/manufacturing facilities as well as flex/R&D type facilities associated with the high-tech sector. While vacancy in these areas has decreased to single digit numbers, the asking rents are much lower compared to the average for Silicon Valley.

In addition, development opportunities in Morgan Hill are generally located in vacant, undeveloped lands that have the high

development costs associated with developing in a greenfield environment, including bringing utility connections and building offsite improvements plus any development fees such the Habitat Conversation Plan fees. The first-time cost to build the infrastructure may be a substantial barrier. Some of these costs include the City’s development impact fees to supply service such as water and sewer to these undeveloped lands. Since Morgan Hill is still developing its infrastructure, these fees can be higher than in neighboring cities for some types of development (R&D/high tech manufacturing and auto dealerships) as shown in Figure 16. Lower rents coupled with higher development costs can be a challenge to attract future development.

Figure 16. Comparison of Development Impact Fees by Development Type



Sources: Cities of Morgan Hill and San Jose, 2015; Strategic Economics, 2017.

Tourism

Morgan Hill is a great destination for tourism because of its weather, accessibility, proximity to the Bay Area, and unique entertainment resources including annual special events, access to the growing wine region, and the Downtown. The City's ideal location in South Silicon Valley offers the opportunity for year-round recreational activities, including cycling, golfing, swimming, and boating. The beautiful tree and grass-covered hills contain numerous hiking trails. Residents and visitors enjoy world-class recreational facilities, the proximity to golf courses, lakes, and outstanding county and state parks.



Nearly 1 million people visit Morgan Hill each year to enjoy the City's exceptional sports facilities. The Morgan Hill Outdoor Sports Center hosts over 30 events per year

drawing over 500,000 local, regional, and national visitors annually for soccer, lacrosse, football, rugby, field hockey and Ultimate Frisbee and other events. With 38

acres of grass and synthetic fields, the Outdoor Sports Center can be configured from 11 to 25 fields and accommodate parking for up to 2,000 cars. The Morgan Hill Aquatics Center hosts an average of 15 swim meets per year, with each event drawing 200-4,000 swimmers and their families. During the summer months, the facility's pools, water slides, and play features make it a regional destination generating over 60,000 visits for Summer

Recreation Swim. The well-maintained competition pool, facility layout and amenities, available equipment, and easy access to nearby accommodations have all contributed to the success of meets hosted at this site and have made it a premier and sought after venue for meet organizers, clubs, and swimmers. Additionally, many cyclists and mountain bikes from all over the Bay Area come to Morgan Hill to enjoy our rural roads and mountain trails.



Many people throughout the region are not aware of these great amenities. There is a tremendous opportunity to brand Morgan Hill as the perfect weekend destination, and as an alternative to the wine regions to the north. In addition to expanding marketing and branding efforts, the City can also support tourism by enhancing and leveraging existing sports and recreational facilities in order to attract additional sports tournaments and events.

Finally, the City and its partners can work to ensure that there is adequate lodging

available to accommodate guests. There are currently 900 hotel rooms in the City in 14 hotels. However, only six of the hotels are considered upscale or upper-midscale. The rest of the hotels are economy class and many of them have reached or are approaching the end of their economic life (which means that they need to re-invest or may be required to downgrade the brand/flag). A 2015 Hotel Market Study conducted by Hotel Appraisers & Advisors, found that there is also substantial unmet demand for additional hotel development in the community.



Retail Trends

The City of Morgan Hill has an inventory of 1.3 million square feet of retail space in eight shopping centers. The City is home to many major national retailers including Target, Home Depot, Wal-Mart, TJ-Max, Ross Dress-for-Less, Dick's Sporting Goods, Hobby Lobby, and DSW. In addition to the existing retail space, two key life-style shopping centers, Cochrane Commons (also known as the Target Shopping Center) and the Madrone Village Shopping Center (home to Peet's Coffee and Five Guys among other life-style tenants) have obtained entitlements for an additional 425,000 square feet of retail that has not yet been built.

The types of retailers that Morgan Hill and other local communities can expect are influenced by trends in the national and regional retail industry. The industry has been in flux over the last decade. Some of these wider industry trends include:



- *Online shopping has put pressure on conventional retail businesses.* As more retail sales shift online, many national retail brands have consolidated and demand for certain types of brick-and-mortar retail stores – for example, book, music, and video rental, and electronics stores – has declined significantly. In shopping centers across the Bay Area and the nation, demand for new retail space is increasingly driven by stores that face little or no competition from online sales, such as restaurants, groceries, hair and nail salons, and other personal services. At the same time, many communities throughout the nation have struggled with large retail spaces being vacated by retailers that are no longer in existence. For example, Morgan Hill has struggled for years to fill three, vacant, 25,000 square foot retail spaces (currently there are only 2 large spaces available).
- *Preferences for retail space have evolved.* Some of the aging strip retail centers in the South Bay no longer meet the space needs of national and regional chains. These types of tenants tend to favor wide storefronts with high ceilings and highly visible signage, located in concentrated nodes with high traffic, good visibility, and easy vehicle and pedestrian access. Older retail buildings that do not meet those criteria may struggle to attract tenants, although in some instances they may also provide more affordable space for smaller, independent businesses.

- *In the Bay Area, new retail development is generally limited to expansions or redevelopment of existing malls and shopping centers, often as part of a mixed-use project.* The Bay Area region has added very little new inventory in recent years, ranking 17th out of 19 primary markets for retail construction in 2015 despite having the lowest vacancy rate in the country.⁴ There are many factors that have reduced the amount of new retail construction, including shrinking store sales, rising land costs, and rising construction costs. Generally, retail development projects generate lower financial returns than office or residential projects, making it difficult for retail development to compete for costly land unless it is part of a mixed-use project.

Beyond these national trends, Morgan Hill also faces several challenges to attraction of new retail that are related to the City's size, location, and land use regulations. First, Morgan Hill shares a trade area with the City of Gilroy and South San Jose. Virtually every retailer is already represented in the area which spans from the Oakridge Mall in South San Jose to the Outlets in Gilroy, making it difficult for Morgan Hill to attract more retail. Another challenge is the City's smaller population. Often retailers will only consider investing in communities with at least 60,000 residents. Finally, the City's residential growth management policies are a further disincentive for retailers to locate in Morgan Hill since slow residential growth

⁴ JLL, United States Retail Outlook, Q2 2015.

translates into slow or stagnant revenue growth for the retailer. Retail challenges are reflected in Morgan Hill's sales tax revenues. Figure 17 shows the City's sales tax revenues by retail category, as a percentage of potential sales tax revenues based on residents' disposable incomes.⁵ Overall, Morgan Hill captures 109 percent of potential sales, meaning that City sales tax revenues are 9 percent higher than would be expected based on residents' incomes alone. However, this figure is driven by high sales in just a few categories: in particular, transportation (vehicle sales, services stations, auto parts and repair) and food (grocery) stores. Morgan Hill's high transportation sales reflect the City's freeway accessibility, location in south Silicon Valley, and the surrounding green belt that may encourage drivers to fill their tanks before a long journey. The City's Auto Incentive Policy, which streamlines the permitting process and in some cases, offers limited incentives, has also yielded dividends to the City with recent additions of and expansions of the Ford and Honda dealerships and the new addition of the Chrysler, Jeep, Dodge, Fiat dealership planned for late 2017. Food store sales are likely underrepresented because groceries are not taxable in California.

In most retail industry categories, Morgan Hill experiences sales tax leakage, meaning that Morgan Hill residents demand more retail goods and services than are being supplied in the city limits and are buying those goods elsewhere. For general retail (a

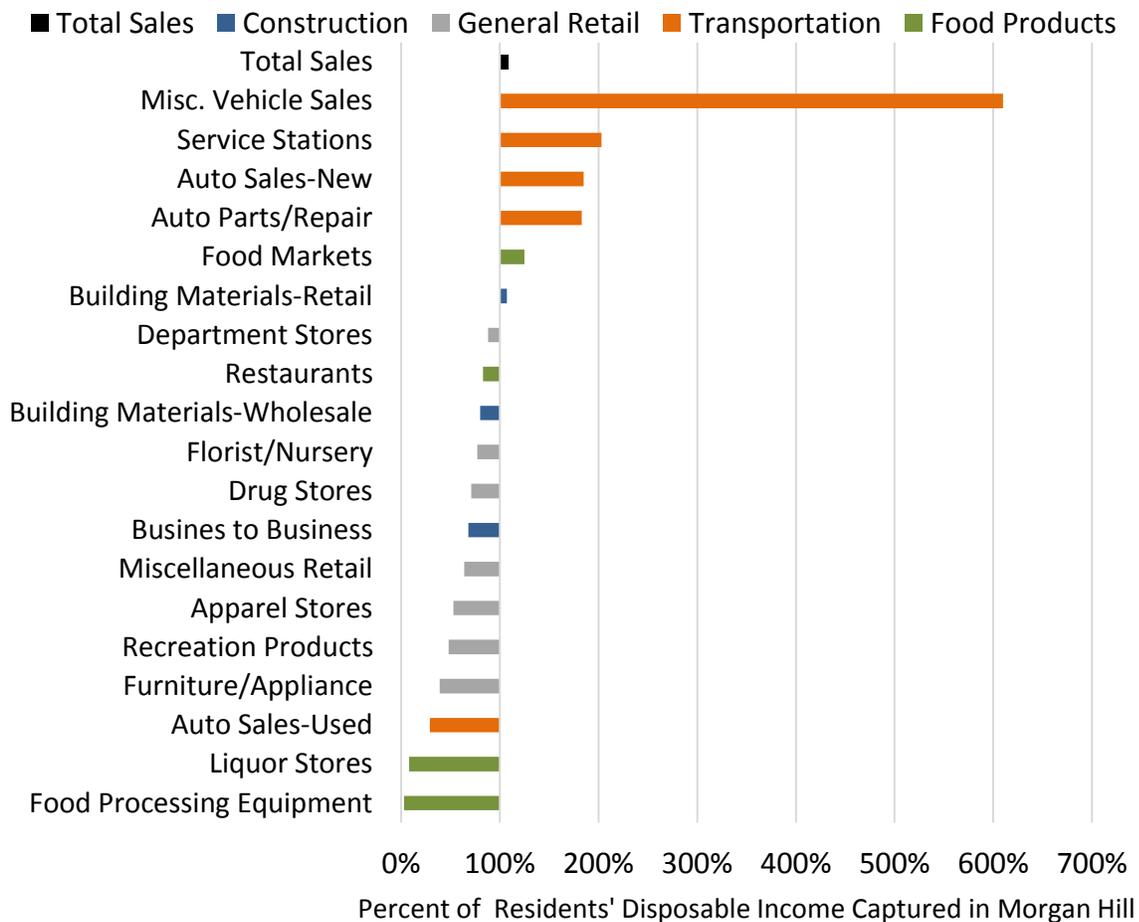
⁵ As calculated by the City's sales tax audit and recovery firm, Muniservices.

category that includes furniture/appliance stores, apparel stores, and department stores among others), the overall leakage is 31 percent. Given the City's small size and location in the large and crowded South County retail trade area, as well as the shrinking of many retail categories, it is unlikely that Morgan Hill will ever capture 100 percent of residents' purchases.

However, there are opportunities to improve the retail picture in Morgan Hill.

One strategy to increase the City's retail sales is by upgrading older strip retail centers (for example, along Monterey Road) and continuing to support the transformation of Downtown Morgan Hill into a pedestrian-oriented, mixed-use destination. There are also opportunities to attract new retailers, particularly in categories such as restaurants and food stores for which residents and workers are less likely to drive long distances to dine and shop.

Figure 17: Sales Tax Leakage in Morgan Hill (Percent of Residents' Disposable Income Captured in the City), 2nd Quarter, 2016



Source: MuniServices, "Morgan Hill: 2nd Quarter 2016 Sales Tax Capture & Gap Analysis Report."

Downtown Morgan Hill



Downtown Morgan Hill is a thriving and growing business district with a distinct character. Downtown offers fine-dining, charming boutiques and local street fairs, summer music festivals and events. Downtown Morgan Hill has 123,000 Square Feet of occupied retail space (and 20,000+ of new retail space under development), and over 450 housing units recently developed or under construction. The City of Morgan Hill recently invested

The City's \$30 million Downtown investment resulted in \$80 million of new private investment.

over \$30 million of public funds into Downtown improvements, including a new parking garage, new parks, unique public

art and street and median improvements. Today, there are six independent sites under construction, including retail, housing, and a boutique hotel, that will result in \$80 million of new private investment. Rents for new and rehabilitated space in Downtown have gone from \$1.25 to approximately \$3 per square foot.

The new investment that Morgan Hill has been able to attract in such a short period is astonishing. Developments include an entertainment and dining venue (site 1), two emerging retail concepts (site 7), a two-story gallery with a restaurant and rooftop lounge (site 3), four well known and trending restaurants (site 4), a 16-unit mixed use project with retail (site 5), a 29-unit mixed use project with retail (site 6), a

60-room boutique hotel with a market hall (site 2), an 83-unit market rate apartment project with retail (site 9), and a 271-space public parking structure (site 8). Sites 10, 11 and 12 represent the \$6 million in new park investment in Downtown.

By continuing to nurture Downtown’s transformation, the City can support the Downtown’s role as a community gathering space, attract new visitors and investment, and grow property values and sales tax revenues. As part of fostering a mixed-use Downtown, however, the City must

consider how to successfully accommodate increased densities and mixed-use development in a historically suburban, auto-oriented environment.

New mixed-use development should be designed with adequate visibility, parking, and access to make it competitive. In some cases, it may be easier and more cost effective to design horizontally integrated mixed-use projects (with retail adjacent to housing) rather than requiring residential over commercial space. In addition, given the increasingly competitive retail environment, the City must be realistic about the amount of retail that can be supported in the Downtown and the types of locations that are most likely to attract tenants.



Economic Blueprint Goals



Building on the four key pillars and extensive feedback received from the community, this Economic Blueprint identifies four key industries which will drive economic prosperity, create a fiscally sustainable future, and guide the City’s Economic Development activities in the coming years.

The four industries are:

- 1. **Innovation and Advanced Manufacturing:** *Grow existing companies, attract new industry, and grow professional jobs.*
- 2. **Retail:** *Grow retail offerings and strengthen commercial nodes.*
- 3. **Tourism:** *Grow leisure, agriculture, wine country & recreational tourism.*
- 4. **Healthcare:** *Grow and foster the medical service and diagnostics industry by attracting services and facilities.*

By articulating clear intentions with these industries, and developing implementation strategies, the City and its economic development partners (Chamber of Commerce, Downtown Association, Tourism Alliance, Wineries of Santa Clara Valley, businesses, educational organizations, brokers, developers, service providers and many others) will be better positioned to realize the dividends of a focused and collaborative effort. From the City’s perspective, a primary responsibility is to make land use and policy decisions that in return will attract investment, remove unnecessary barriers, achieve economic sustainability and enhance the community’s quality of life.

As the Morgan Hill community looks to have a focused regimen around advancing the four industries, it is important to establish benchmarks to determine success. The Economic Blueprint provides a baseline of vital statistics that range from jobs and revenues to vacancy rates and industry-proven economic indicators. To achieve success in growing any of these industries will require the City to strengthen its partnerships as well as develop new ones. It will be imperative that the City and its economic development partners align efforts in supporting the four industries and thereby share in combined prosperity and success.

Four Key Industries



The Economic Development team already engages in numerous activities related to retention and attraction, brand and marketing, and collaboration with brokers, developers and non-profits. The following sections articulate how the City and its

partners intend to expand on these efforts to attract investment and grow these industries. For each industry, the following sections identify both proposed **strategies** and specific **actions**.



INNOVATION AND ADVANCED MANUFACTURING

Grow existing companies, attract new industry, and grow professional jobs

A diverse industry base helps support a range of job opportunities for Morgan Hill residents. Despite a favorable jobs-housing balance, according to the U.S. Census, 70% of Morgan Hill working residents leave Morgan Hill to work. This phenomenon seems to indicate that there is not the “right” balance between the types of jobs, and the skills of residents. Moreover, nearly 75% of those commuting residents drive alone despite HOV lanes existing most of the distance between San Jose and Morgan Hill. A majority of commuters drive longer than 30 minutes to and from work. This pattern negatively impacts quality of life, stresses the City's and region’s transportation infrastructure, and is environmentally unsustainable.



As noted earlier in this document, there are several industry sectors where the makeup of Morgan Hill business does not mirror the rest of Silicon Valley. Information, professional, scientific, education and healthcare service careers are under-represented in Morgan Hill. Expanding job opportunities in these sectors, as well as continuing to attract advanced manufacturers, can help improve the match between resident skill sets and the jobs offered in Morgan Hill.

How do we attract the jobs and industries we want and need?

❖ **PRESERVE INDUSTRIAL LANDS**

According to Morgan Hill's vacant land inventory, 411 acres of employment land (industrial/commercial) remain, and 570 acres of residential land remain within the City's boundary. As vacant land becomes more constrained, pressure to convert industrial land to residential will intensify to meet the growing housing demand. In less than five years, the total number of available industrial acres in the City has declined from 293 to 247 acres, reducing the future supply to 19-48 years depending upon market absorption. It is possible that within the current time horizon of the newly adopted Morgan Hill 2035 General Plan all available industrial land will be depleted. In order to protect employment lands, the City should **Adopt an Employment (Industrial) Land Preservation Policy (Action #1)**. In addition, the City should **Strengthen General Plan Language to Prevent Conversion of Industrial Lands (Action #2)**.

❖ **IMPROVE AND FACILITATE DEVELOPMENT OF CRITICAL INFRASTRUCTURE**

The recent Telecommunications Infrastructure Report found that using the Central Coast Broadband Consortium's grading scale, Morgan Hill rates a "D" grade in telecommunications infrastructure⁶. There are several areas within Morgan Hill that remain under-served with broadband infrastructure thereby leaving Morgan Hill at a competitive disadvantage for the long term build out of business parks and residential districts. In early 2017, the City Council adopted a strategic priority to **Create a Telecommunications Master Plan to Improve Access to Fiber (Action #3)**. This Master Plan is intended to encourage or require development of telecommunications infrastructure from public and private sector development to support current and future business needs.

❖ **ATTRACT DEVELOPMENT**

The main tools the City has to regulate land development are the General Plan and the Zoning Code. To attract companies to locate or expand in Morgan Hill, the City should ensure the General Plan and the Zoning Code, are modernized and support today's industry trends. The City should **Update the Zoning Code and Parking Requirements to Modernize Zoning Code and Allow for New Hybrid of Developments that are Considered "Class A Industrial" or "Flex Space" (Action #4)** with an eye to support business development and innovation clusters.

⁶ Grade "D" means that at least one provider advertises speeds that meet the CPUC's minimum standards of 6mbps down and 1.5 mbps up.

Critical to the long-term resiliency and sustainability of any city is the investment and upkeep of its infrastructure. In Morgan Hill, the City maintains the following: roads, wastewater and water, street lights, and parks. Often the cost to bring "wet" and "dry" utilities to vacant/undeveloped land can be cost prohibitive. The City can **Explore Incentive Programs to Attract Industry-Specific Development (Action #5)**. City fees could be 'frozen' for a short period of time in exchange for expedited development. This will provide certainty to the development community, especially during a period of high economic growth where the cost of construction is continuously increasing.

To add value to industrial lands and incite development the City can **Allow Greater Intensification (FAR) and Taller Buildings to Increase Value of Employment Lands (Action #6)**. This means exploring the opportunity for bigger building (either vertically taller or horizontally wider) to maximize industrial and office development.



The Monterey Corridor provides a tremendous development opportunity for the City. This is an area is the spine of the City and is under developed and could offer opportunities for development for uses that can support the employment lands. The City should **Complete the Monterey Corridor Flex-Zoning Update and Optimize Development Opportunity (Action #7)**. Finally, the City can add value to businesses by streamlining entitlement processes. The Zoning Code Update provides a great opportunity to **Streamline Permitting Process by allowing Administrative Approvals as Part of Zoning Code Update (Action #8)**.

❖ FOSTER AN ENVIRONMENT THAT SUPPORTS BUSINESS GROWTH

The best and most meaningful action the City can take to help business development is to simply be business friendly and provide clear policies and guidelines in a streamlined development process. Another action the City can take is to provide an online ombudsman service that allows business entrepreneurs to maneuver through the City's policies, zoning regulations, and fees from the comfort of their home through smart “open system” platforms. The City should **Deploy Open-Counter Online Business Ombudsman Platform (Action #9)**. The vision provided by the Economic Blueprint sends a message to developers and investors that Morgan Hill is open for business and wants their investment. Identifying the industries that we are seeking will allow the team to **Market Economic Blueprint Vision, Process & Incentives to Attract Business Investment (Action #10)**. This will be attractive to developers as it minimizes their risk if they have the confidence that that the City is interested in and will support a certain type of development. Finally, the City team is already providing what people in the development industry call an *expedited process*. The City should **Formalize City's Expedited Process and Market it (Action #11)** to broker and investors.

❖ SUPPORT EDUCATIONAL FACILITIES & A LIFE LONG LEARNING ECOSYSTEM

Education is a key element to attracting and retaining talent and a critical component of workforce development. Having abundant education facilities and programs helps support a dynamic business environment. In interviews, local companies cite the need for more career-related educational opportunities. Many employers do provide on-the-job training for their employees. However, in industries like advanced manufacturing and health care, many positions require significant technical knowledge and skills that are often beyond what individual employers can provide. In fact, only three Morgan Hill employers in the last five years have utilized State of California funding programs that provide employer incumbent worker training. Moreover, many Morgan Hill employers are not aware of the resources that are available at Gavilan College.

Education opportunities and programs are needed to attract and maintain a skilled workforce. Educational organizations, providers and other non-profits are leading the charge in this arena. To keep the Economic Blueprint focused, the role of the City to support education facilities should be limited to **Connect Education Assets to Industry (Action #12)**.





RETAIL

Grow retail offerings and strengthen commercial nodes

The retail market provides many assets to community. Retail development supports community as well as quality of life within a neighborhood or city. When done well, retail can create great places, serve resident and business needs and be a catalyst for new investment. Retail is also an important source of General Fund revenue for the City through sales tax collection.



While retail plays a critical role in supporting a healthy local economy, demand for retail space is shrinking nationally and regionally due to competition with e-commerce and the consolidation of national retail brands. According to the real estate brokerage community that participated in the update to Morgan Hill 2035, Morgan Hill is considered 'over-retailed' relative to the size of its population. Moreover, the City

is located within the same trade area as Oakridge Mall in South San Jose and the Outlets in Gilroy, making it difficult for Morgan Hill to compete for new retail not represented in the market.

Given these dynamics, fostering successful retail and increasing the City's sales tax revenues will require careful planning to concentrate retail in the most appropriate locations that are most likely to be successful (a strategy that is sometimes known as "retail pruning"). For example, the Downtown Specific Plan calls for the Morgan Hill Shopping Center on Dunne and Monterey in Morgan Hill to be redeveloped into a mix of housing and retail uses. Other shopping centers may need to be upgraded and updated in order to meet modern retailers' space needs

Did you know?

As a category, Morgan Hill has a 31% general retail sales tax leakage

How is Morgan Hill going to grow retail offerings?

❖ RETAIL FLEXIBILITY

Retail experts suggest that Morgan Hill, like many other communities, is “over retailled.” This means that we have more retail space for the size of our community. In order to keep the key commercial areas healthy, the City should **Develop a Retail Concentration Strategy (Action #13)** and eliminate retail/commercial requirements where retail is not going to succeed. The retail industry is dynamic and the City should **Continually Revisit Retail Industry Trends & Requirements (Action #14)**.

One option for retail attraction is to **Pursue Sports Recreation Uses as Anchor Tenants; Increase Permitted Use allowance up to 15K sq. ft. (Action #15)**. This will make it easier for indoor sport facilities to locate in the large retail spaces that can no longer support a traditional retail tenant. This also supports the Sports/Recreation and Tourism goals of this community.

It is also recommended that the City work closely with the owners of retail shopping centers to help them find ways to re-invest in their properties. The City should also **Re-Evaluate and Propose Changes to Shopping Center -Site Specific Zoning Requirements (Action #16)**.



Another initiative that can support shopping centers and advance tourism goals is to proactively support wine bars, tasting rooms and craft distilleries. The City can **Change Zoning to Allow Incidental Wine, Beer and Alcohol Tasting Rooms and Distilleries in Downtown and Throughout the City in Commercial and Industrial Zoned Areas (Action #17)**. Another use that is not a traditional retail use but can bring people and foot traffic to commercial centers is co-working facilities. The City should **Promote Co-Working facilities in Commercial Nodes (Action #18)**.

❖ SUPPORT DOWNTOWN DEVELOPMENT

Downtown is not simply a business district. Downtown is the heart of the community, the living room for social gathering and the City's crown jewel. A successful Downtown can help attract investment throughout the City and lure a young, creative workforce. In order to support Downtown as a thriving retail destination and to manage growth in Downtown, the City should **Identify Parking Management Strategies (Action #19)** and continue to **Encourage Housing Development & Office Development (Action #20)** to support existing and new business growth.

Downtown needs continual care and nurturing. Unlike shopping centers that have one or limited number of owners, Downtowns are comprised of many owners, both property owners and business owners.

This makes it complicated to care for the Downtown business district. Often property owners or business associations need to come together to promote and enhance the Downtown. The City should work with the Downtown property owners and Downtown businesses to **Create Business Improvement District (BID) to Support Downtown Improvements and Programming (Action #21)**. In addition, the City should continue to work with the Morgan Hill Downtown Association to host events and market Downtown as a unique destination.

Another action that can help Downtown is to **Terminate Administrative Permit Process for Morgan Hill Plaza Shopping Center (Action #22)** which currently requires retail tenants to get an additional permit to go into that center



TOURISM

Grow leisure, agriculture, wine country & recreation tourism

The City of Morgan Hill is ideally situated in South Silicon Valley, welcomes local, national, and international visitors to a range of recreation and dining amenities. With 19 local parks, a variety of recreation facilities, wineries and proximity to the Pacific Coast, Morgan Hill offers visitors many places to relax, dine, and have fun.



The City of Morgan Hill has invested in its Aquatics Center, Outdoor Sports Center, and Centennial Recreation Center, making them premier destinations for both residents and visitors. The facilities, along with the local festivals and events, draw nearly 1 million visitors annually. According to the 2017 Morgan Hill Sports Market Business Strategy, **a visitor that spends \$1.00 in South County recreation activities such as at the aquatics center, generates \$1.80 in economic impact.**

To support the continued growth of tourism in Morgan Hill, the City must continue to support leisure and recreation destinations and also ensure the availability of high-quality lodging to accommodate visitors. A hotel study commissioned by the City of Morgan Hill and produced by Hotel Appraisers and Advisors in 2015 noted that many of the City's existing hotels could benefit from reinvestment, and that there is significant market demand for hotel rooms above and beyond the existing 900 rooms already located in the City.

How does Morgan Hill grow Leisure, Agriculture and Recreation Tourism through enhanced facility utilization while strengthening promotions and marketing partnerships?

❖ **ENHANCE FACILITY UTILIZATION AND GROW SPORTS/RECREATION FACILITIES**

According to the 2017 Morgan Hill Sports Business Strategy prepared by Johnson Consulting, Morgan Hill has the ability to enhance and leverage existing facilities in order to attract more events. To remain competitive, the City should **Upgrade the Outdoor Sports Center & Aquatics Center (Infrastructure & Amenities) (Action #23)** and **Develop a Financing Plan to Construct and Operate New Sports/Recreation Facilities (Action #24)**, such as Sand Volleyball, In-door Facilities and Baseball/Softball Fields.

❖ **SUPPORT LODGING**

The General Plan and the Zoning Code are the main tools the City has to regulate land development and support tourism by providing streamlined processes and clear rules for development of lodging facilities such as hotels and bed and breakfast facilities. The City should **Ensure General Plan and Zoning Code Address Bed &**

Breakfasts, Air B&B and Hotel Development (Action #25) to provide clear guidance regarding the rules that apply to short-term room or home rentals through Airbnb or other platforms.

Much of the existing City hotel inventory is approaching the end of its economic life cycle. This means that aging hotels need to consider reinvesting or transitioning these facilities to other uses. In Morgan Hill, some of these hotels have a large percentage of over 30-day stays or in other words, function as defacto housing. This raises concerns for safety, State Building Code compliance, and local General Plan and Zoning conformance. The City should **Develop Plan to Help Upgrade or Transition Aging Hotel Facilities (Action #26)**.

Finally, to support the vision of making Morgan Hill and South Silicon Valley a tourism destination, diversity among lodging amenities is needed. The addition of the Granada Boutique Hotel Downtown in 2018 is a big win for Morgan Hill and helps cement this vision. To promote this type of investment, the City should **Identify Pre-Zoned Lodging Sites (Action #27)**.

❖ **LEVERAGE RESOURCES THROUGH CROSS-PROMOTION AND PARTNERSHIPS**

Many communities have successfully branded, marketed, and promoted their communities as tourism destinations through the collaboration of hotels, hospitality, and other tourism-related businesses. Morgan Hill should **Work with Hotels to Develop a Tourism Based Improvement District (TBID) to help Finance Capital Improvements to Sports Recreation Facilities and to Promote and Market the Region (Action #28)**. This will allow for the City and hotels to develop an ongoing financial mechanism to promote and brand the area and make vital capital upgrades to existing or contribute to development of new recreational facilities. Additionally, the City should **Collaborate with Regional Partners to Enhance Branding, Marketing**

and Promotions or Regional Assets (Action #29).

❖ **SUPPORT A TOURISM ENVIRONMENT**

The City can advance the tourism goals and the retail attraction goals by aligning these two efforts and **Target Retail Attraction Towards Sport Recreation, Entertainment, Boutique and Food Retailers (Action #30)**. Downtown Morgan Hill is a thriving and growing business district with a distinct character. The community has been able to attract unprecedented investment in Downtown, making it a gem within Silicon Valley. Downtown Morgan Hill is a key component to making South County a tourism destination. The City should **Continue to Create a Lively Downtown with Entertainment Offerings (Action #31)**.





HEALTHCARE

Grow and foster the medical service and diagnostics industry by attracting services and facilities.

The closure and relocation of the former Saint Louise Regional Medical Center in 1999 left a large void in healthcare services in Morgan Hill. The community has expressed desire to regain access to the full range of healthcare/medical services it once enjoyed. Currently there are seven skilled nursing facilities and 145 medical, dental, and vision professionals within the Morgan Hill city limits. There is one urgent care facility (operating at the former hospital site) and one orthopedic surgery center. In addition to providing expanded services for residents, growing the City's medical industry will help create jobs for residents, many of whom are employed in this industry.

In 2014, the City of Morgan Hill commissioned a study by Health Systems Advisors (HSA) to assess the viability of attracting expanded medical services in Morgan Hill. The analysis estimated the demand for medical services, quantified the network of existing providers in the region and concluded that Morgan Hill was a viable location for the following medical services: Ambulatory surgery,



imaging center, urgent care, and primary care. The report recommended that the City of Morgan Hill attract, build, and maintain a vibrant ambulatory healthcare community, including increasing the number of primary care providers, as well as services such as laboratory, imaging, and physical therapy.

In interviews with medical providers, real estate ownership is an appealing opportunity for location and expansion. Focusing medical attraction efforts on vacant, non-industrial employment lands (particularly retail projects that are underutilized because they are not in the best locations) for specialty services, imaging, acute and urgent care service has the potential to garner new investments in Morgan Hill by the professional medical community.

How do we encourage medical offices and facility investment?

❖ **EXPAND LOCATIONS FOR MEDICAL USES**

The main tools the City has to regulate land development are the General Plan and the Zoning Code. These tools support medical uses through ease and clear rules for development. The City should **Ensure General Plan & Zoning Code Allow for a Range of Medical Uses (Action #32)**.

❖ **ACTIVELY PROMOTE LOCATIONS FOR MEDICAL USES**

The City should **Identify & Market Pre-Zoned Medical Sites (Action #33)** to clearly outline pre-approved locations for medical services. Similar to the Auto Dealer Incentive Policy. This direction clearly announces that the City wants these uses in the community and eases their ability to locate.

To create awareness of new zoning regulations the City should **Increase Outreach and Medical Service Providers (Action #34)** and **Create & Implement a Targeted Marketing Campaign (Action #35)**.

Conclusion

The Economic Blueprint identifies four industries that are key to Morgan Hill's future growth and further fiscal sustainability. By focusing on these areas of opportunity, the Economic Blueprint is intended to generate jobs, investment, and economic vitality, while providing goods and services to the community and new tax revenues for the City.

The Economic Blueprint focuses on actionable items that the City can influence such as land use and policy decisions that remove unnecessary barriers, provide clear intentions, and align partners and Champions (outlined in Strategies and Actions).

In an effort to track progress of the Blueprint efforts, a set of Economic Indicators have been identified that will allow the community to evaluate if economic prosperity is improving. The measures of success are a set of economic indicators that are commonly used by industries that track the health of the economy, including unemployment, jobs, vacancy rates, tax revenue, and other economic indicators.

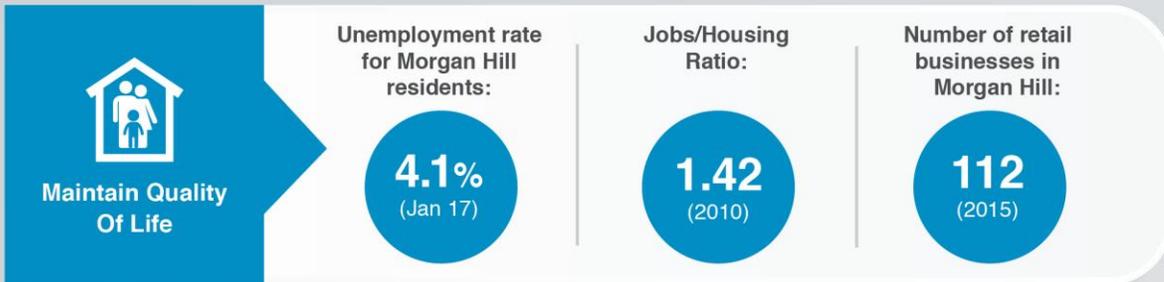


In order to be successful in achieving the goals of the Economic Blueprint, collaborative and strategic efforts will be required to maintain the community's sustainability. There is a significant opportunity for partner organizations to embrace the document and align their resources in a manner that furthers our collective efforts. Moving forward, the implementation strategy will aim to:

- Strengthen existing partnerships wherever possible and look to identify new strategic partnerships
- Develop local policies and procedures necessary to support change
- Align policy decisions with the Economic Blueprint wherever possible
- Provide updates to City Council on activities supporting the Economic Blueprint
- Recognize the Economic Blueprint is a community effort
- Share in the prosperity and success

Economic Indicators

The City will evaluate the success of the Economic Blueprint through different measures of success that are based upon the four economic pillars.



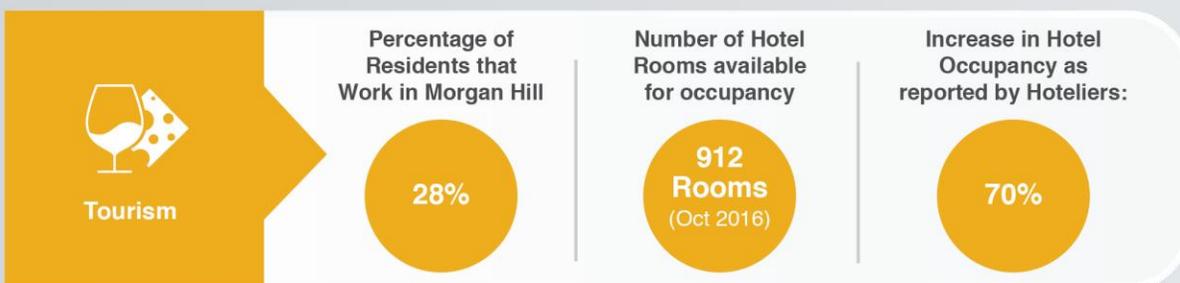
Sources: State of California Employment Development Department, California Department of Education, Census Bureau



Sources: Santa Clara County Assessor's Office, State of California Board of Equalization, Colliers International



Sources: State of California Employment Development Department, U.S. Census



Source: Individual Hoteliers

Work Program—Innovation & Advanced Manufacturing

INDUSTRY	STRATEGY AND CITY ACTIONS	TIMEFRAME				CITY LEAD	
		Current/In Process	Near Term 2017-2018	Mid-Term 2018-2019	Long Term 2019-2021		
 <p>INNOVATION & ADVANCED MANUFACTURING</p>	PRESERVE INDUSTRIAL LANDS						
	1	Adopt an Employment (Industrial) Land Preservation Policy					ED/Planning
	2	Strengthen General Plan Language to Prevent Conversion of Industrial Lands					ED/Planning
	IMPROVE AND FACILITATE DEVELOPMENT OF CRITICAL INFRASTRUCTURE						
	3	Create a Telecommunications Master Plan to Improve Access to Fiber					ED/Engineering/Planning/IT
	ATTRACT DEVELOPMENT						
	4	Update Zoning Code and Parking Requirements to Modernize Zoning Code and Allow for New Hybrid of Developments that are Considered "Class A Industrial" or "Flex Space"					ED/Planning
	5	Explore Incentive Programs to Attract Industry-Specific Development					ED/Finance
	6	Allow Greater Intensification (FAR) and Taller Buildings to Increase Value of Employment Lands					ED/Planning
	7	Complete the Monterey Corridor Flex-Zoning Update and Optimize Development Opportunity					ED/Planning
	8	Streamline Permitting Process by allowing Administrative Approvals as Part of Zoning Code Update					ED/Planning
	FOSTER AN ENVIRONMENT THAT SUPPORTS BUSINESS GROWTH						
9	Deploy Open-Counter Online Business Ombudsman Platform					ED/IT/Planning	
10	Market Economic Blueprint Vision, Process & Incentives to Attract business Investment					ED	
11	Formalize City's Expedited Process and Market it					ED	
SUPPORT EDUCATIONAL FACILITIES & A LIFE LONG LEARNING ECOSYSTEM							
12	Connect Education Assets to Industry					ED	

Work Program—Retail

INDUSTRY	STRATEGY AND CITY ACTIONS	TIMEFRAME				CITY LEAD	
		Current/In Process	Near Term 2017-2018	Mid-Term 2018-2019	Long Term 2019-2021		
 RETAIL	RETAIL FLEXIBILITY						
	13	Develop a Retail Concentration Strategy					ED/Planning
	14	Continually Revisit Retail Industry Trends & Requirements					ED
	15	Pursue Sports Recreation Uses as Anchor Tenants; increase Permitted Use allowance up to 15K sq. ft.					ED/Planning
	16	Re-Evaluate and Propose Changes to Shopping Center -Site Specific Zoning Requirements					ED/Planning
	17	Change Zoning to Allow incidental Wine, Beer and Alcohol Tasting Rooms and Distilleries in Downtown and Throughout the City in Commercial and Industrial Zoned Areas					ED/Planning
	18	Promote Co-Working facilities in Commercial Nodes					ED/Planning
	SUPPORT DOWNTOWN DEVELOPMENT						
	19	Identify Parking Management Strategies					ED/Planning/PD
	20	Encourage Housing Development & Office Development					ED/Planning
	21	Create Business Improvement District (BID) to Support Downtown Improvements and Programming					ED/Finance
	22	Terminate Administrative Permit Process for Morgan Hill Plaza Shopping Center					ED/Planning

Work Program—Tourism

INDUSTRY	STRATEGY AND CITY ACTIONS	TIMEFRAME				CITY LEAD	
		Current/In Process	Near Term 2017-2018	Mid-Term 2018-2019	Long Term 2019-2021		
 <p>TOURISM</p>	ENHANCE FACILITY UTILIZATION AND GROW SPORTS/RECREATION FACILITIES						
	23	Upgrade the Outdoor Sports Center & Aquatics Center (Infrastructure & Amenities)					ED/CS
	24	Develop a Financing Plan to Construct and Operate New Sports/Recreation Facilities					ED/CS
	SUPPORT LODGING						
	25	Ensure General Plan and Zoning Code Address Bed & Breakfasts, Air B&B and Hotel Development					ED/Planning
	26	Develop Plan to Help Upgrade or Transition Aging Hotel Facilities					ED/Planning/Housing/Finance
	27	Identify Pre-zoned Lodging Sites					ED/Planning
	LEVERAGE RESOURCES THROUGH PROFESSIONAL LINKAGES AND PARTNERSHIPS						
	28	Work with Hotels to Develop a Tourism Based Improvement District (TBID) to help Finance Capital Improvements to Sports Recreation Facilities and to Promote and Market the Region					ED/Finance/CS
	29	Collaborate with Regional Partners to Enhance Branding, Marketing and Promotions or Regional Assets					ED/CS
	SUPPORT A TOURISM ENVIRONMENT						
	30	Target Retail Attraction Towards Sport Recreation, Entertainment, Boutique and Food Retailers					ED/Planning
	31	Continue to Create A Lively Downtown with Entertainment Offerings					ED/Planning/CS/PD

Work Program—Healthcare

INDUSTRY	STRATEGY AND CITY ACTIONS	TIMEFRAME				CITY LEAD	
		Current/In Process	Near Term 2017-2018	Mid-Term 2018-2019	Long Term 2019-2021		
 HEALTHCARE	EXPAND LOCATIONS OF WHERE MEDICAL USES ARE ALLOWED						
	32	Ensure General Plan & Zoning Code Allow for a Range of Medical Uses					ED/Planning
	ACTIVELY PROMOTE LOCATIONS FOR MEDICAL USES						
	33	Identify & Market Pre-Zoned Medical Sites					ED/Planning
	34	Increase Outreach and Medical Service Providers					ED
35	Create & Implement a Targeted Marketing Campaign					ED	

Appendix A

Stakeholder Questions

- a) What positive developments have you seen in Morgan Hill in the last five years? What is moving in the right direction?
- b) What remains attractive about South Silicon Valley as a business location relative to other cities regionally or nationally? What advantages are eroding?
- c) Any thoughts or feedback on Morgan Hill's role, contribution, and leadership in the Bay Area?
- d) What important trends/shifts/uncertainties in business or other arenas should the City take into account in planning its future?
- e) As you think about the next five to ten years, what should the City of Morgan Hill prioritize to remain an attractive location for people and companies?
- f) In thinking about business/job growth and economic development, how do the next 12 months look to you? The next 3-5 years?
- h) Any other input you'd like to provide the City as we update Morgan Hill's Economic Blueprint?



Appendix B

Links to Relevant Documents

Healthcare Study 2014

<http://www.morganhill.ca.gov/DocumentCenter/View/17729>

**Hotel Appraisers & Advisors -
Hotel Study 2015**

<https://morgan-hill.legistar.com/LegislationDetail.aspx?ID=2373294&GUID=DB442772-0D79-4573-A320-0BAA18BB642E&FullText=1>

**Economic and Fiscal Impact
Analysis of Proposed Industrial
Land- Strategic Economics**

<http://www.morganhill.ca.gov/DocumentCenter/View/16910>

**City of Morgan Hill 2035 General
Plan-Telecommunications
Infrastructure 2015**

<http://www.morganhill.ca.gov/DocumentCenter/View/19679>

Sports Market Business Study 2016

<http://www.morganhill.ca.gov/DocumentCenter/View/20380>

**City of Morgan Hill, Adopted
Operating and CIP Budget, Fiscal
Years 2016-17 and 2017-18**

<https://cld.bz/OvsqSmr>

**City of Morgan Hill Comprehensive
Annual Report 2016**

<http://www.morgan-hill.ca.gov/documentcenter/view/20054>

**General Plan Economic
White Paper 2013**

http://morganhill2035.org/wp-content/uploads/2013/05/1_Economics.pdf

**Plan Bay Area Jobs Housing
Connection Strategy, May 2012**

http://www.planbayarea.org/sites/default/files/pdf/JHCS/May_2012_Jobs_Housing_Connection_Strategy_Main_Report.pdf



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