

Revitalizing Contra Costa's Northern Waterfront

HOW TO BE COMPETITIVE IN THE
21ST CENTURY GLOBAL ECONOMY

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Executive Summary

Background

CONTRA COSTA COUNTY'S NORTHERN WATERFRONT, a 55-mile stretch of shoreline extending from Hercules to Oakley, is an important economic asset to the local economy given its waterfront setting with deep-water channels, marine terminals, proximity to two Class 1 railroad lines, critical mass of manufacturing companies, electric generating capacity, industrial zoned land, skilled workforce, and proximity to growing markets in the Bay Area and Northern California. Regional goods movement infrastructure also provides access to U.S. and foreign markets. Although these assets support an active manufacturing base, employment has declined over the past several decades. Given the region's comparative advantages and emerging global economic trends, policy-makers see the potential to revitalize the industrial areas along the Northern Waterfront.

In early 2013, at the urging Supervisor Federal Glover, District 5, the County Board of Supervisors launched an initiative, with active participation by the cities of Hercules, Martinez, Concord, Pittsburg, Antioch, and Oakley, to engage stakeholders along the Northern Waterfront, including representatives from private industry, in a dialogue about the economic prospects for the area.

The consultant team of Craft Consulting Group and Cambridge Systematics, Inc. was commissioned to conduct a market assessment to better understand the economic development opportunities of the area from a real estate, transportation infrastructure, and economic perspective; examine how global and domestic trends might impact the Northern Waterfront; and assess the likelihood of attracting manufacturing companies to the Northern Waterfront, particularly in growth-oriented and emerging industries. This report evaluates both the opportunities and challenges facing the Northern Waterfront and provides a framework with recommended actions to help revitalize and transform the Northern Waterfront into a 21st century economic asset.

Economic Significance of Manufacturing Sector

The Northern Waterfront plays an important role in the local economy, employing more than 26,000 workers spread across all employment sectors (of which 28% are in manufacturing jobs) and generating \$21.6 billion in economic output. **In 2012, the manufacturing sector along the Northern Waterfront accounted for more than 7,300 jobs and \$9.3 billion (13.9%) of the County's overall Gross Regional Product (GRP) of \$67 billion.** Given its economic assets, the Northern Waterfront has developed a comparative advantage as an industrial location with a concentration of manufacturing employment 2.2 times greater than the national average.

Historical Role of Northern Waterfront

Historically, the Northern Waterfront provided access to water transportation for shipping, inexpensive land, and cheap labor. Communities along the Northern Waterfront were able to capitalize on these assets attracting large resource intensive manufacturing

plants that produced explosives, chemicals, refined petroleum products, sugar, cement, lumber, silver, lead, and steel. Resource-based industries dominated the Northern Waterfront's manufacturing sector during the early part of the 20th century with the processing of agriculture products, crude oil, metal ores, and other natural resources. Industrial development came early beginning in the late 1800's. With its wide-open land area, waterfront access, and railroads, the Northern Waterfront was an attractive location for the new large scale manufacturing facilities of that time. Companies such as Redwood Manufacturing, Selby Smelting & Lead, Union Oil, Mountain Copper, Hercules Powder Works, California Fruit Packers Association, C&H Sugar, and Columbia Steel built manufacturing plants along the shoreline. While the companies may have changed due to various business and economic reasons, many of these same industries are still operating today along the Northern Waterfront.

Growth/Decline of Manufacturing Sector

Manufacturing employment in Contra Costa County and the Northern Waterfront grew from a small base in the early 1900's to become the dominated employment sector by mid-century. In 1962 almost 40% of the County's workforce was employed in manufacturing. Today less than 7% of the workforce is employed in the manufacturing sector. The Northern Waterfront has followed a similar pattern, as the county's manufacturing sector matured and the economy has transitioned from predominately manufacturing to increasingly more service sector employment. Over the past decade manufacturing employment in the Northern Waterfront declined by 21.5%, most of which occurred since the start of the Great Recession in late 2007.

During this same time period, the number of manufacturing firms also declined. Between 2001 and 2011 approximately 45 establishments closed their doors or moved out, almost all were small businesses with less than 50 employees. Today, the Northern Waterfront

includes approximately 180 manufacturing firms spread across various manufacturing subsectors. A survey of manufacturing firms in the Northern Waterfront during the third quarter of 2013 found that 44.8% of the manufacturers had plans to grow their business over the next three to five years by expanding into new markets, adding equipment, or hiring new employees.

The overall outlook for the manufacturing sector in the Northern Waterfront remains uncertain. Projections of historical trends indicate that the total number of manufacturing jobs will continue to decline over both the short and long-term. This scenario reflects "business as usual" where nothing will change as the global economy emerges from the recession with modest economic growth and productivity gains limiting the need for expansion of the manufacturing workforce. While this is a likely outcome, there are emerging global and national trends including the growth of advanced manufacturing firms, that if properly supported could lead to the reversal of the historical trends and the expansion of manufacturing employment in the Northern Waterfront.

Building on Competitive Strengths

Today, the industrial areas along the Northern Waterfront include a combination of traditional and new industries such as oil refineries, petro-chemical plants, metal fabrication, sugar processing, and life science firms. These existing industries represent the core from which to build a more vibrant and diversified regional economy that continues to innovate and attract new emerging industries to the Northern Waterfront including clean technology, alternative energy, recycled materials processing, food & beverage companies, green building products, precision instruments, machinery, and transportation equipment.

By building on its competitive strengths the Northern Waterfront would benefit from the expansion of several industry clusters including:

1. Clusters anchored by global companies with products being produced for local and regional markets (such as chemical products, pharmaceuticals, and transportation parts and equipment). Research and innovation is taking place elsewhere, but products are being produced locally for domestic and global markets;
2. Clusters dominated by regional companies in industries (such as food & beverage, fabricated metals, and printing) producing products where time to market is important, high shipping costs, or proximity to customers dictate the need for local production facilities;
3. Clusters producing products which are energy and resource intensive that could utilize the electric power generation capacity or maritime facilities located along the Northern Waterfront (this would include primary metals, refined petroleum products, and nonmetallic mineral based construction materials);
4. Clusters consisting of emerging industries with innovative new products (in clean technology, recycled materials, alternative energy, and water technologies) being developed by Bay Area firms that would benefit by having their initial production activities located in close proximity to their research and product development headquarters.

Responding to the Changing Economic Landscape

Despite its strengths, the Northern Waterfront has suffered from a changing economic landscape and a lack of investment in facilities and infrastructure. Impediments to business expansion and attraction exist including competition from neighboring regions, the brownfield character of some industrial parcels, and congested roads and highways that connect the Northern Waterfront to the Interstate system.

Most of the industrial real estate is older and borders on functional obsolescence or was built for 20th century manufacturing operations that required large footprint buildings. Today's advanced manufacturing firms are smaller and more efficient in their utilization of modern spaces. Conventional large-scale vertically integrated manufacturing operations are less common as companies seek to minimize costs and provide flexible manufacturing systems and platforms for responding to changing customer demands, technologies, and economics.

Although the area has attracted new businesses and investment, along with the upgrading of older facilities, it still struggles to make a successful transition from an economy based primarily on traditional manufacturing with large scale, resource-based processing industries to one based on advanced manufacturing, innovation, and emerging technologies.

Overcoming decades of neglect will require economic development strategies that are sustained over the long-term. Business attraction, expansion and retention efforts will involve more than just the availability of suitable industrial zoned land, low cost real estate, or the fast-tracking of building permits and project approvals. In order to remain competitive with other regions and manufacturing centers local governments must address a number of challenges including investing in goods movement infrastructure, preparing a pipeline of workers with advanced manufacturing skills, preserving and protecting existing industrial zoned lands, structuring a portfolio of financial and tax incentives, building advanced telecommunications infrastructure, fostering the growth of targeted industry clusters, and actively marketing the Northern Waterfront as a desirable location for advanced manufacturing firms and emerging industries.

Working collaboratively, local governments can help tilt site selection decisions by manufacturing firms in favor of the Northern Waterfront by focusing on providing reliable infrastructure, a skilled workforce, and a business friendly climate that supports industrial development. Financial incentives may be important

in the final determination, but they cannot turn a poor location into a good site. Companies are realizing that financial incentives cannot make up for high labor costs, poor highway access, a lack of skilled labor, or high energy and occupancy costs.

Emerging Opportunities

The convergence of various global trends, market forces, new technologies, and public policies presents a unique opportunity for the Northern Waterfront to expand and diversify its industrial base.

Rising labor rates in China and other countries, along with increased productivity by American workers have reduced the labor cost advantage in other countries to a point where manufacturing in the U.S. is becoming more competitive, especially for high value-added, capital intensive industries. In addition, rising energy prices have made global transportation and overseas manufacturing more expensive for products sold in the U.S. At the same time, the recent boom in U.S. oil and gas production has increased the demand for machinery and chemicals to extract the oil and gas while providing U.S. manufacturers with an inexpensive reliable energy supply. Studies by Boston Consulting Group, PriceWaterhouseCoopers, McKenzie & Company, and others suggest that these trends may be the beginning of long-term structural changes supporting a U.S. manufacturing resurgence and reshoring.

New business models, processes, and technologies allow for flexible, customized production of specialty products that are competitive with the mass production of commodity products. New technologies (including robotics, 3D printing, computer aided modeling, and computer numerical controlled machines) and business models (such as lean manufacturing, global footprint design, and flexible manufacturing systems) will make manufacturing in the U.S. more competitive.

The emergence of new industries in clean technology, energy efficiency, alternative energy, and other sectors present opportunities to capture manufacturing firms in the early-stage when they are producing for regional markets and need to be located in proximity to their research and product development headquarters.

Industrial development, especially heavy industry, has fewer options when locating or expanding new facilities. A limited supply of industrial zoned land apportioned in large parcels with rail and water access exists in the Bay Area. Various studies have documented the loss of industrial lands creating an opportunity for preserving and modernizing industrial real estate along the Northern Waterfront for industries that are expanding or relocating.

Seizing these emerging opportunities and addressing development constraints faced by the Northern Waterfront will make the region a more competitive location and lead to a stronger more productive manufacturing sector. Accomplishing this objective will not happen overnight. A successful outcome resulting in job growth and business expansion will require a sustained long-term commitment by local governments acting together in a collective manner.

Development Alternatives

A range of development alternatives and growth assumptions prepared by the consultant team, based on market trends and possible public policy actions, indicate the potential for new job growth over both the short and long terms. Mid-range employment projections show annual employment growth of 100 to 250 jobs with a cumulative total of 1,974 to 4,678 net new manufacturing jobs being created in the Northern Waterfront over the next 20 years with the support of local government policies and investment. The projected job growth could translate into demand for approximately 2 – 5 million square feet of additional industrial space.

Due to the multiplier effect manufacturing job growth would add another 11,000 to 28,000 jobs to the regional economy as a result of local spending for supplies, energy, repairs, new facilities, equipment, and professional services from a broad array of industries including engineering firms, wholesale trade, warehouse/distribution, transportation, and construction sectors required to support the production process.

Target Industries

Given the emerging trends and an existing base of core companies, the Northern Waterfront has an opportunity to attract companies in emerging new industries and advanced manufacturing. A critical mass of existing companies form the basis for several industry clusters, which include transportation fuels, diversified manufacturing, clean technology, food and beverage processing, and life sciences. Properly supported, these industry clusters could increase the productivity and job creation of existing companies and attract new industries and related businesses.

Intraregional Coordination of Economic Development Programs and Support Services

Local jurisdictions should collaborate to avoid competition among communities within the Northern Waterfront. Various degrees of intraregional coordination are possible ranging from the establishment of a formal organization to undertake economic development planning, financing, business recruitment, and retention activities to informal coordination that entails jurisdictions within the region talking to each other on a regular or ad-hoc basis as needed for specific issues. Intraregional coordination also could involve the pooling of resources to attract companies to the region and the investment in regional infrastructure. The motivating factor for collaboration is the recognition that job creation, business attraction, and regional infrastructure investment have economic benefits that spill over city boundaries.

Public Policy Initiatives

Local policy-makers have a role to play in positioning the Northern Waterfront as a competitive location for manufacturing jobs. Public policy recommendations to enhance the Northern Waterfront's competitive advantages have been organized around the following seven categories:

1. **Business Climate and Regulatory Environment** - Improving and simplifying the regulatory process to improve outcome certainty, identifying high-priority development areas, and protecting industrial zoned land from conversion to non-industrial uses;
2. **Infrastructure Investment** - in water supply, sewers, roads, and advanced communications are critical components of the development capacity and long-term competitiveness of the Northern Waterfront. Businesses rely on infrastructure to conduct their work and transport their goods and services;
3. **Development Incentives and Financing** - for infrastructure and business expansion should be investigated and a package of financing programs and investment incentives developed that is tailored to the needs of the Northern Waterfront such as sales tax exemptions, hiring credits, industrial development bonds, SBA loans, PG&E rebates and rate reduction programs, and the Recycling Market Development Zone Loan Program;
4. **Regional Branding and Marketing** - to promote the competitive advantage of the Northern Waterfront as a location for advanced manufacturing and targeted industry clusters;
5. **Cluster Development, Innovation, and Productivity** - to support the growth of targeted industry clusters through increased business connectivity, industry interaction, adoption of innovative technologies and processes, and buy local programs;
6. **Business Development and Support Services** - that are coordinated and targeted to startups, and small and medium sized manufacturing businesses in the Northern Waterfront;
7. **Workforce Development** - focused on preparing a skilled workforce in advanced manufacturing that meets industry's needs.

Conclusions

The outlook for industrial development along the Northern Waterfront, although uncertain, is favorable assuming that local governments act in a collaborative manner and take the necessary actions to capitalize on the emerging trends and overcome the challenges faced by the region. Local governments and stakeholders should work together to create a new framework for regional cooperation with a clear focus and objective of enhancing the Northern Waterfront as a competitive location for industrial development.

By adopting a regional economic development strategy, the Northern Waterfront has the potential to become a more attractive location, capable of capturing its share of the Bay Area's projected growth in manufacturing employment.

The window of opportunity will not remain open forever and competition from other regions is strong. The time for action is now. **By acting collectively, decisively, and strategically, local policy-makers have a unique opportunity to develop the Northern Waterfront into a 21st century economic asset.**