

# The Path to Sustainable Prosperity: Kern County's Economic Development Strategy

Kern County is at an important juncture where decisions made today will shape the County's ability to adequately provide for its residents in the coming decades. Many of Kern County's industries are strong and the economy is becoming more diversified. However, rapid population growth, urbanization and loss of farmland, ongoing air quality concerns, home price appreciation, persistent low wages and educational outcomes all present challenges which must be addressed. At the same time, the changing business environment in several of Kern's leading industries – from energy to agriculture to aerospace – require creativity and innovation to ensure that Kern's employers remain competitive.

The purpose of the Kern County Economic Development Strategy is to guide economic development activities in Kern County over the next five years while preparing the County for the major issues that will affect the County for decades. Because the challenges are great and resources are limited, coordination is required. This strategy thus necessitates and enables the County's economic actors – business owners, government agencies, educational providers, labor unions, chambers, interest groups, employees and individual citizens – to collaborate in promoting economic development.

The Kern County Economic Development Strategy was initiated by the County of Kern's Community and Economic Development Department, Employer's Training Resource, Department of Human Services and Kern Economic Development Corporation. ICF Consulting has provided the framework, analysis and technical support for the strategy development process.

## The ICF Approach: Competitiveness Via Quality, Not Costs

Kern County has for several years been using a "cluster-based economic development" approach in its economic strategy. This approach is grounded in decades of experience and is currently being implemented in hundreds of communities throughout the world. The cluster-based approach recognizes that economic development builds from a community's strengths and that successful economies focus on improving the quality of what they produce and the inputs needed for that, not just on reducing their costs relative to competitors. The ICF Consulting strategy process has maintained and refined the existing cluster-based approach. The ICF approach has identified several rules for the success of a strategy. These rules have informed the analysis and recommendations in this document. These rules are:

- **Recognize economic growth at a regional level - focus on the entire County:** Businesses are no longer as concerned about which city or jurisdiction they are in. Instead they care about a general environment where they locate and what advantages they can draw from local inputs—from skills to innovation to transportation to quality of life. Moreover, everything we do within our individual communities has an impact on the broader region and County in which we live. Challenges such as air and water quality, congestion and farmland preservation reach across jurisdictional boundaries and require broad-based solutions.
- **Grow the County's industry clusters – the drivers of our economy:** Our economic performance is driven by our "portfolio" of industry clusters. Clusters are groups of related businesses who export products and services from the County (bringing in new dollars), their suppliers as well as the public and private providers of economic inputs, such as trained workers, innovation, financing, transportation as well as business climate. Clusters grow and change over time. Competitive clusters generate high value-added jobs whose multipliers (salaries and expenditures within the County) create other jobs. A healthy economy has a diverse portfolio of competitive and newly emerging clusters. Cluster needs

and actions exert an important impact on the surrounding region's performance—prosperity, disparity and sustainability. These clusters are what our County “does for a living” and bring net new revenue into our communities by exporting goods and services beyond our communities' boundaries. Identifying our clusters is based on understanding our economic niche and how our economy links with larger regional economies (such as Southern California and the entire San Joaquin Valley).

- **Build the local advantages that support clusters:** Clusters only take shape and grow in regions where they can find advantages for their operations—the more responsive to their needs, the better. This is why technology-driven clusters tend to be located close to sources of skilled workers and innovation—as well as close to each other—so they can take advantage of similar workforce and infrastructure. An economy that is able to create advantages in workforce preparation, in supplying finance, transportation, energy and water, efficient regulation and administration and provide a high quality of life will form, expand and attract more companies around specific clusters. Building and adapting local advantages for clusters is the core of a sustainable and prosperous economy.
- **Collaborate to achieve ongoing economic growth:** Economic strategy requires thinking beyond traditional industry and community boundaries. Learning how to work collaboratively across community and jurisdictional boundaries will be necessary to solve shared competitiveness challenges. High performing economies around the world have achieved their status because their communities, businesses and institutions have built a collaborative culture. A collaborative culture is an environment in which all stakeholders are open to change and are willing to negotiate trade-offs and constructive agreements with one another—they get things done, often in creative ways. A collaborative economic culture enables businesses, governments and organizations to work together, to commit to new ways of doing business and to make investments that will have a mutually beneficial pay off. Learning and applying collaborative practices is the key to building the advantages that will help form and grow clusters and achieve a sustainable and prosperous economy.

The Kern County strategy applies these rules in its goals and initiatives.

## General Diagnosis of the County

Kern County is a dynamic and rapidly changing County. Population growth presents an opportunity to continually expand the labor force but it also puts increasing strains on the County's underlying infrastructure, from roads to schools, and is threatening some of the County's prime farmland and industrial activities as residential development is placed in areas where it is competing directly with economic activities. In recent years the County has made significant improvements in key economic and social areas such as the growth in average weekly wages, but has not performed as strongly as some neighboring counties in other measures such as the unemployment rate.

Kern's economy is based on the diverse assets of agriculture, oil, aerospace and transportation and warehousing services. Despite this seeming economic diversification, the overall performance of the County has been mixed in recent years when compared to the State and other counties, although noticeable progress has been made overall. This is due in part to the cyclical and uncertain nature of oil and aerospace which are often affected by factors beyond the County. Further, the agricultural sector consists largely of low paying and often seasonal employment which limits the positive multipliers within the economy. Moreover, key industries in the County, like value-added agriculture, are regional and national leaders, and new ones, such as transportation, logistics & warehousing, are emerging and growing. The County also has distinctive assets related to renewable energy and aerospace, two areas with significant potential to expand and develop. Wind and biomass geothermal are established forms of locally-generated renewable energy while solar remains largely untapped potential. Aerospace potential is driven by the emergence of private sector space-travel

activities as well as other private sector aerospace activities and government contracts related to the County's two military bases. Lower business costs, the availability of land, and relatively lower costs of living also add to Kern's attractiveness and competitive advantage. On the other hand, lackluster new business growth, lower educational attainment and skills gaps, out migration of young people, a high incidence of low-to-moderate income residents, and air quality issues are significant disadvantages in the County that need to be addressed.

## Kern's Cluster Portfolio: What Drives Performance

The key to building Kern County's economic prosperity over time is to strengthen each of our industry clusters. Industry clusters are the engines of Kern County's economy. Clusters are led by export-oriented lead industries, supplied by local supplier companies, and supported by an array of public and private institutions. These clusters have high economic multipliers and are wealth generators for the County because their economic activity utilizes many supplier and service inputs that represent high-quality jobs. In addition, clusters, as the name implies, continually attract capital, skilled and less-skilled labor to the County making the economy both deeper and broader. Clusters drive our economy because they produce goods and services that are sold outside the County and thus bring new economic wealth to Kern County.

The clusters compete in markets outside the County—across California, the United States, and the world—and their competitiveness in these markets largely determines the prosperity of the entire County. The exporting industries in these clusters are also linked to related supply industries and to economic input institutions. These 'value-chain' linkages are an integral feature of industry clusters: The better the value-chain linkages the stronger the cluster. With strong linkages, information can move more rapidly between customers, producers and suppliers; skilled labor can be attracted and shared; firms can react more quickly to market changes; and new technologies can be more rapidly incorporated. In turn, the clusters will be able to grow more rapidly and perform more competitively in the global economy.

Therefore, making a cluster deeper means adding more value locally—retaining wealth while reducing dependency on others. Broader clusters means that as clusters develop, they add new export market-serving segments, so that the economy is more robust or resilient in the face of global economic cycles, since one cluster segment may be doing well when another is not. Building and maintaining a strong cluster portfolio means that our County must enable each of these interdependent groups to maximize their innovation and efficiency so that they cause more enterprise to form, enable existing companies to expand, and attract new businesses into the County.

The research behind this report identified seven significant industry clusters in Kern County. These are:

- **Value-Added Agriculture** is the leading cluster Countywide with the bulk of its employment concentrated throughout the Valley. The cluster builds on Kern's historic role as a leading center for crop production. The cluster also benefits from the recent growth of food processing work, particularly carrot and tomato processing.
- **Transportation, Logistics & Warehousing** is a fast growing and increasingly concentrated cluster with tremendous potential within Kern. This is a leading cluster and supports the competitiveness of the Energy and Chemicals and Value-added Agriculture clusters through the use of warehousing and distribution services. Given Kern's location to the immediate north of Los Angeles County with California's two major north-south interstates running through the County as well as the only year-round pass over the Sierras in the San Joaquin Valley, it is a natural place for growth in Transportation, Logistics & Warehousing. In recent years, Kern has become the location for major distribution centers such as IKEA, Target, and Sears.

- **Energy and Chemicals** is a historic driver of economic growth throughout many parts of the County. Employment in traditional oil extraction has been declining in recent years. The new focus must be on moving into downstream activities such as additional chemicals and plastics manufacturing as well as developing seed activities in renewable energies (wind, solar, biomass, and geothermal).
- **Aerospace and Defense** remains as a leading industry cluster for the County and particularly for the Eastern Kern where the economy of most communities is dependent on the strength of the aerospace and defense industries. The County has among the best natural assets in the West for continued expansion in aerospace and defense though faces some challenges and uncertainties through the 2005 Base Realignment and Closure (BRAC) process. The potential for space tourism offers a new hope for the industry though is not yet a sure bet for major employment gains to the cluster.
- **Business and Professional Services** is an emerging cluster which builds from the location of key insurance and financial services back offices and becomes poised to serve the growing population in the San Joaquin Valley. Some of these new firms are relocating from Southern California while others are emerging locally. The broad focus on business and professional services enables the cluster to meet the changing demands of local businesses. An example of the role which Kern plays is represented by the fact that State Farm has located one of their two California Regional Offices in Kern.
- **Tourism, Recreation & Entertainment** is also an emerging cluster Countywide which plays a dominant role in certain communities throughout Kern. ICF is encouraging a new focus which changes the prior emphasis on tourism, retirement and film. ICF has worked with many regions on tourism strategies and believes that it is most important to focus one's efforts on distinct market niches. Both retirement and film must be understood as tourism niches from the standpoint of attraction (i.e. attracting retired people to Kern because of amenities or attracting film crews to Kern because of locations). However, this strategy proposes that film remain a distinct part of the tourism marketing and attraction while retirement ceases to be a key component to the strategy. There will not be a distinct focus on retirement in the cluster, except as a market segment.

## Strategy Goals

The Kern County strategy is meant to be a guiding document for both public and private policy decisions affecting economic development in the County. As such, there are three overarching objectives or goals of the strategy. These goals should be applied as a “lens” with which to help evaluate economic development decisions.

### *Goal 1: Expand Jobs and Overall Prosperity*

While job growth and increased prosperity are indisputable as goals of the strategy, the specific goal is to accomplish this by strengthening industries and segments with export potential. In other words, the way to increase jobs and arrive at greater prosperity is to focus on the County's economic drivers – its industry clusters – to help grow the overall economy. This will also require forging greater linkages between Kern's educational institutions (particularly higher education) and clusters to help promote the development of local innovations. The first goal is focused on moving the County towards higher-value-adding activities by strengthening the competitive environment for its industry clusters and in so doing reduce unemployment while increasing average wages.

### *Goal 2: Foster Inclusion and Increased Equity*

The second goal requires that there should be a focus on job opportunities which benefit low and moderate income people and communities. Firms which receive assistance should be providing career ladder opportunities and family wages so that employees can be strong participants in the local economy. A related goal is to ensure high adoption of technology as a

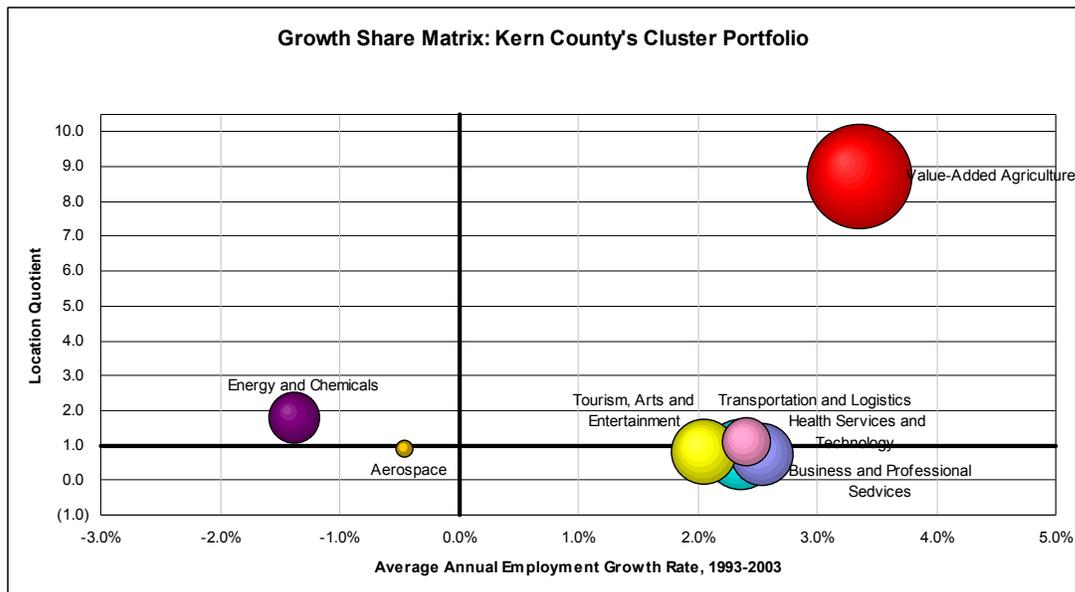
way to increase the skill sets of residents and help foster the creation of high quality jobs. In all activities, the County should strive to have its efforts increase participation and reduce social and economic disparities.

### ***Goal 3: Promote Sustainability and High Quality of Life***

The third goal recognizes the relationship between maintaining a clean environment with strengthening the County’s quality of life. The County should thus encourage industries and firms to incorporate sustainable practices and result in reduced air/water pollution and overall environmental impact. Further, the County should recognize that growth is putting a strain on existing resources and is resulting in growing conflicts over the compatibility of land uses. Visit any Board of Supervisors or local planning commission meeting to see the rising levels of frustration over encroachment, densities, compatibility, etc. The goal is for the County to manage growth in a way that limits conflict between housing and jobs, preserves farmland, maintains open space and improves quality of life throughout the County.

A Growth-Share Matrix shown below is a useful way to summarize the competitive performance of Kern County’s industry clusters. It shows three things simultaneously: the County’s level of specialization in each cluster, indicated by the height on the vertical axis (the location quotient); a 10-year growth rate, and the total employment, shown by the size of the bubble.

**Figure: Kern County’s Cluster Portfolio**



## **Strategic Initiatives**

The Kern County Economic Development Strategy is built around the idea that the public and private sector must collaborate in a bottom-up, market-focused process to grow and sustain Kern’s diversified economy.

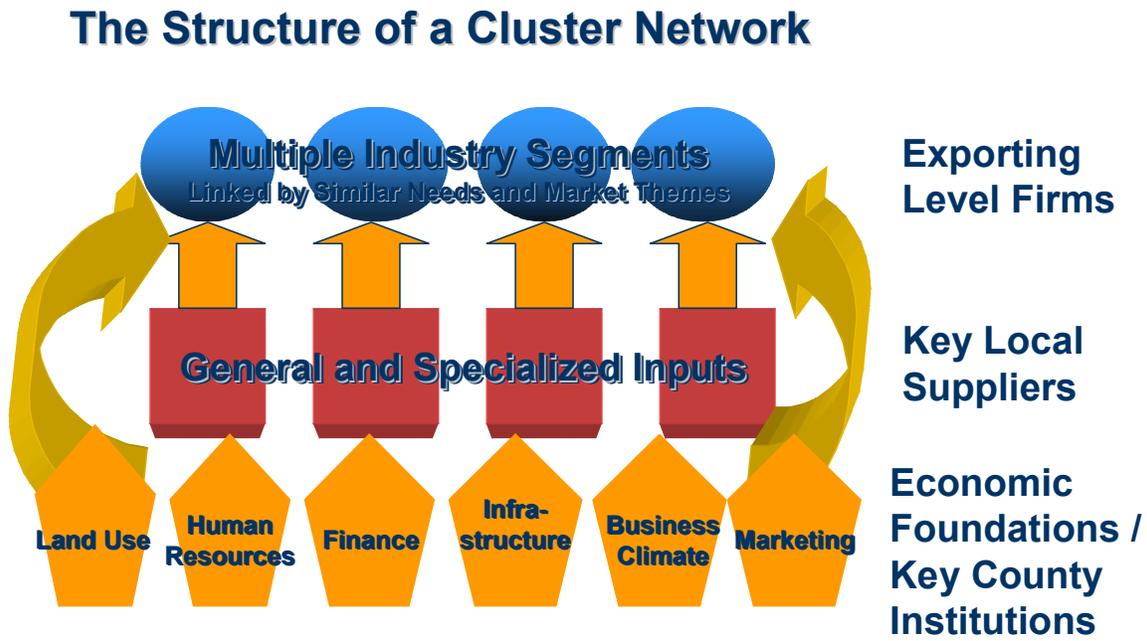
To implement the Kern County strategy, there are five strategic initiatives:

### ***Flagship 1: Cluster Network Development Strategies***

Clusters have some momentum now—but it must be sustained. For this reason KernEDC will provide support for an organizational infrastructure or secretariat for six out of the seven industry clusters and their members, assisting them in convening and expanding their

membership and in development collaborative initiatives—working with existing associations as appropriate. These cluster working groups will foster collaboration among the private and public sectors and result in improved partnering and problem-solving of competitiveness challenges. The flagship also proposes that KEDC reorient its business attraction, retention and expansion program to respond to the needs of each industry cluster network.

**Figure. The Structure of a Cluster Network**



### ***Flagship 2: Human Resources and Skills Development***

This flagship proposes that the WIB and its staff agency ETR focus a portion of their workforce development efforts on the distinct needs of the County’s industry clusters. The flagship also proposes that all education and training providers throughout the County align their efforts with the needs of the industry clusters in order to foster greater expansion of skilled employment in the clusters. Specific activities include:

- Establish cluster-based training responsibility at WIB.
- Convene WIB/ETR with clusters to align training with clusters.
- Establish new training programs at Kern’s colleges and schools to support key skill needs among the clusters.
- Ensure that k-12 programs provide strong basis and various options for students

### ***Flagship 3: Land Use and Infrastructure Planning***

This flagship proposes that the County’s planning department become the lead entity in conducting comprehensive land use, transportation and basic infrastructure planning in a way which responds to the needs of the clusters by establishing an advisory group that is directly involved in the planning process and oversees major investment and land use decisions. This comprehensive approach to planning will take place in coordination with all other planning departments in the County. Specific activities include:

- Identify leadership, establish advisory group on land use planning and transportation issues.
- Review planning documents, develop new planning framework.
- Establish new process for cluster land uses.

- Channel growth, encourage infill development, create buffer zones, review/establish industrial and agricultural zones.
- Plan countywide land use forum, develop land use vision.
- Identify new local funding for infrastructure.
- Encourage energy-efficient home construction, use energy saving technologies

### ***Flagship 4: Tourism Marketing and Branding Kern County***

This flagship proposes that the Board of Trade become the leading voice for tourism and tourism marketing by establishing a new Countywide brand and working closely with the various local communities on their tourism and marketing strategies. Specific activities include:

- Establish countywide tourism marketing and development entity to conduct tourism strategy coordination.
- Strengthen core assets, expand growing markets (establish tourism packages).
- Work with rural communities.
- Develop county brand (develop branding tool kit and launch a marketing and branding initiative).

### ***Flagship 5: Financing Entrepreneurship and Innovation***

This flagship proposes that CEDD and KEDC develop new programs which respond to the finance needs of Kern County's innovative entrepreneurs. One program will provide micro-enterprise funding for small scale start-ups in the clusters. The second program will develop access to high risk capital to provide support for many of the more technology-based ventures. The second program may be accomplished through expanding the tomatoes on steroids program, establishing a finance advisory/mentorship team, preparing and screening angel and venture deals and producing a Kern County venture forum and angel network.

## **Implementation**

Flagship initiatives require commitment and structure to effectively pursue. Therefore, each Flagship has been assigned to a particular agency or entity willing to take a leadership role in ensuring that the Flagship is pursued. This agency/entity will coordinate the activities of the Flagship and then work to build a supporting team to develop and implement the Flagship. Leadership may include hosting, convening, building collaborative teams and managing strategic decision-making.

The following are descriptions for each of the agencies and their role in the overall strategy management and implementation:

**Resource Management Agency (RMA):** The RMA provides leadership on two Flagships as well as the overall strategy. The key agencies within the RMA are the County's Planning and Community and Economic Development Departments. The specific RMA role is more of oversight while the agencies within the RMA will be chiefly responsible for the specific initiatives.

**Community and Economic Development Department (CEDD):** CEDD functions as the main agency which will oversee the entire strategy implementation while only having responsibility for the Finance, Innovation and Entrepreneurship Flagship (with the assistance of KEDC).

**Workforce Investment Board (WIB):** The WIB is the chief entity responsible for workforce development in the economic strategy. The WIB's staff, Employers' Training Resource, will manage the day-to-day work of the workforce development Flagship at the behest of the WIB

board. The WIB and ETR will engage all other major educational providers in the County to participate in the review and redesign of training programs to more appropriately meet the needs of the clusters (such as CSU Bakersfield, community colleges, private universities and public junior high and high schools).

**Kern Economic Development Corporation (KEDC):** As the County's main economic development arm, KEDC will be responsible for developing and managing the cluster networks and using those relationships to effectively shape its business expansion, attraction and retention programs. This proposal is for an expansion of the current activities of KEDC (which are currently limited to one specific cluster). Further, KEDC will use its "Tomatoes on Steroids" small business program as a vehicle to understand the financing needs of high risk businesses within the County to help inform the Finance Flagship.

**County Planning Department:** The Planning Department within the RMA will be responsible for the land use and infrastructure Flagship. As the leading planning agency for the entire County (due to the large amount of County land and the joint planning authority with the City of Bakersfield on the Metropolitan Bakersfield plan), the County Planning Department is best suited to manage and guide the cluster-based approach to its land-use, transportation and infrastructure planning. The County Planning department will be responsible for managing the meetings of the advisory group and for reviewing and implementing the recommendations in this strategy report.

**Board of Trade:** For the purposes of the implementation of the strategy, the Board of Trade's functions should be entirely focused on developing tourism and organizing a countywide branding strategy. The film activities formerly within the Board of Trade could become part of the County RMA and should be focused on permit assistance. The retirement focus should become absorbed within the tourism or marketing activities as a specific market segment for the County to attract. The Board of Trade (or the new entity it becomes) should identify personnel with expertise in tourism, branding and marketing as well as people with strong relationships throughout the County. It is essential for the tourism focus of Kern to align the various activities across the smaller communities with events in the larger cities.

## Conclusion

Perhaps the most crucial role for Kern County in helping the County to achieve the sustainable prosperity scenario is to ensure that leadership actively focuses on helping move each of the strategic initiatives forward—leading where necessary, supporting where appropriate—and helping to articulate new flagships over time.

Finally, the strategy will only be effective if local officials continue to apply the strategy principles to decisions they make. For each policy decision affecting economic development, local officials should ask themselves:

- How will this investment support the growth of Kern's economic engines, its industry clusters? (Goal 1: Expand Jobs and Overall Prosperity)
- How will this activity or policy result in increasing the participation of Kern's LMI population? (Goal 2: Foster Inclusion and Increased Equity)
- How are these decisions helping us preserve our agricultural heritage and open spaces while moving us into a sustainable 21<sup>st</sup> Century? (Goal 3: Promote Sustainability and High Quality of Life)

To accomplish this, Kern County will help the formation of new industries which are innovative and globally competitive, develop a workforce which is highly skilled and adaptable and able to succeed in the existing and emerging knowledge economy, grow the overall number of jobs in order to ensure that the fast-growing population will have sufficient employment to meet its needs and plan for its future through intelligent solutions to land use conflicts which require some sacrifice in order to ensure a prosperous economy in the future.

Cluster-based economic development strategies are not about reports or committees. Successful strategies are about learning how to change again and again. The actions developed to enhance Kern County's clusters and overall economy are practical and necessary. If there is significant progress on implementing the proposed initiatives, each cluster will advance. Through this strategy participants from the public and private sectors have come to learn that successful economies achieve their goals, not because of an external agency, but because the people and their institutions and organizations are capable of seeing the world around them differently and are willing and able to change. These changes are never easy, but each time a change is accomplished that accomplishment reinforces the value of undertaking further actions. With this strategy, Kern County is on its way to developing a more prosperous, equitable, sustainable and innovative economy. Moving forward, we must reinforce County-wide thinking, focus on our clusters and their local inputs and reward collaboration and innovation. This will enable us to stand here 10 years from now and affirm that we have indeed achieved a sustainable and prosperous future.