SAN DIEGO NORTH EDC PRESENTS

COVID-19 IMPACTS ON THE 78 CORRIDOR

NOVEMBER 2020 / PREPARED BY W. ERIK BRUVOLD

ACKNOWLEDGEMENTS

In preparing this report we were inspired and borrowed methodology from a report recently released by the San Diego Association of Governments. All errors are solely the responsibility of SDNEDC.

ESTIMATES AND LIMITATIONS

The release of employment data often lags by several months and sometimes years. In addition, most data is initially released at the county level and often is incomplete for smaller political divisions such as cities. To overcome these restrictions, we utilized EMSI's proprietary databases which allow estimates of industry employment changes at the ZIP code level. Since ZIP codes do not precisely correspond to city boundaries, there will be variance between the data reported here and figures from the California Employment Development Department.

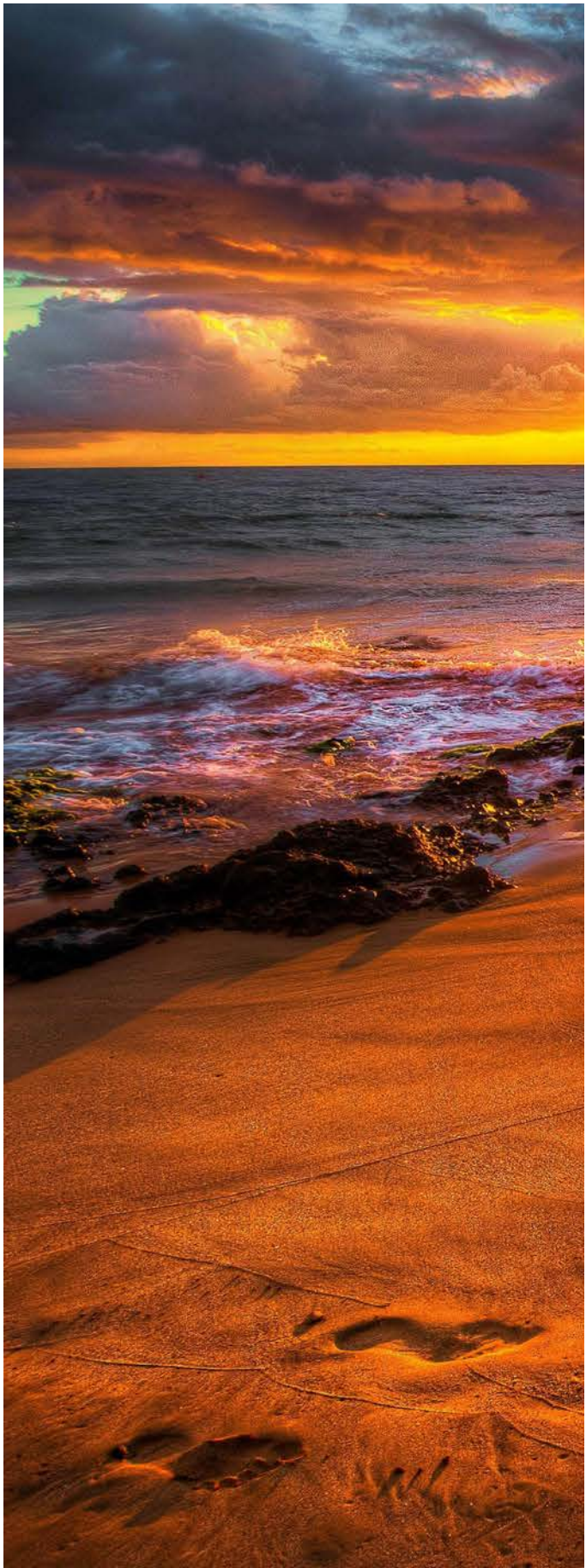
EXECUTIVE SUMMARY

• Across the five cities on the SR 78 Corridor (Oceanside, Carlsbad, Vista, Escondido, San Marcos) more than 36,000 jobs have been lost between August 2019 and August 2020.

• 2/3rd of the job losses have been in four sectors: Arts and Entertainment, Education, Retail, and Hospitality.

• Year-over-year taxable sales during quarter 2 (April through June) declined between 10.1% (Vista) and 28.7% (Carlsbad).

• Comparing the first half of 2019 vs. the first half of 2020, hotel taxes declined 27% in Oceanside. TOT collections for June, July, and August were off 66% in Carlsbad. These two cities represent, by far, the two largest tourism markets on the Corridor.



IMPACTS OF COVID 19 ACROSS THE 78 CORRIDOR

Like the rest of San Diego County, the COVID-19 pandemic and public health responses have had a major impact on the SR 78 Corridor's economy. SDNEDC estimates that over the course of the past 6 months, the Corridor has seen all job gains achieved since 2014 erased, with more than 36,000 North County residents having lost their jobs. Much of this impact is concentrated in four key industries: Hospitality, Retail, Arts and Entertainment, and Educational services. These service sector businesses have born the main brunt of social distancing requirements and changed consumer preferences.

Pre-Pandemic

Over the past 5 years the 78 Corridor has enjoyed strong job growth, fueled by a robust and diverse set of industries. As measured by payroll jobs, the region added almost 26,000 jobs between 2014 and 2019. While North County remains a net job "exporter" (more people commute out of the Corridor for employment than commute in), that gap has closed significantly over the past 2 decades as employment opportunities along the Corridor have grown. [1]

TABLE 1
SR 78 PAYROLL JOBS (2015- 2019)

2014 Jobs	2015 Jobs	2016 Jobs	2017 Jobs	2018 Jobs	2019 Jobs
261,396	266,691	273,596	279,334	283,328	287,236

Source: EMSI; SDNEDC

SOURCE: EMSI; SDNEDC, 2020

Moreover, this employment growth has been diversified as the Corridor saw significant employment growth over this period of time in Manufacturing (+5,800); Healthcare (+4,700), Tourism (+4,700) and Finance, Insurance, and Real Estate (+1,000). Pre-Pandemic, the California Economic Development Department estimated that unemployment among the five cities on the Corridor averaged 3.1%.

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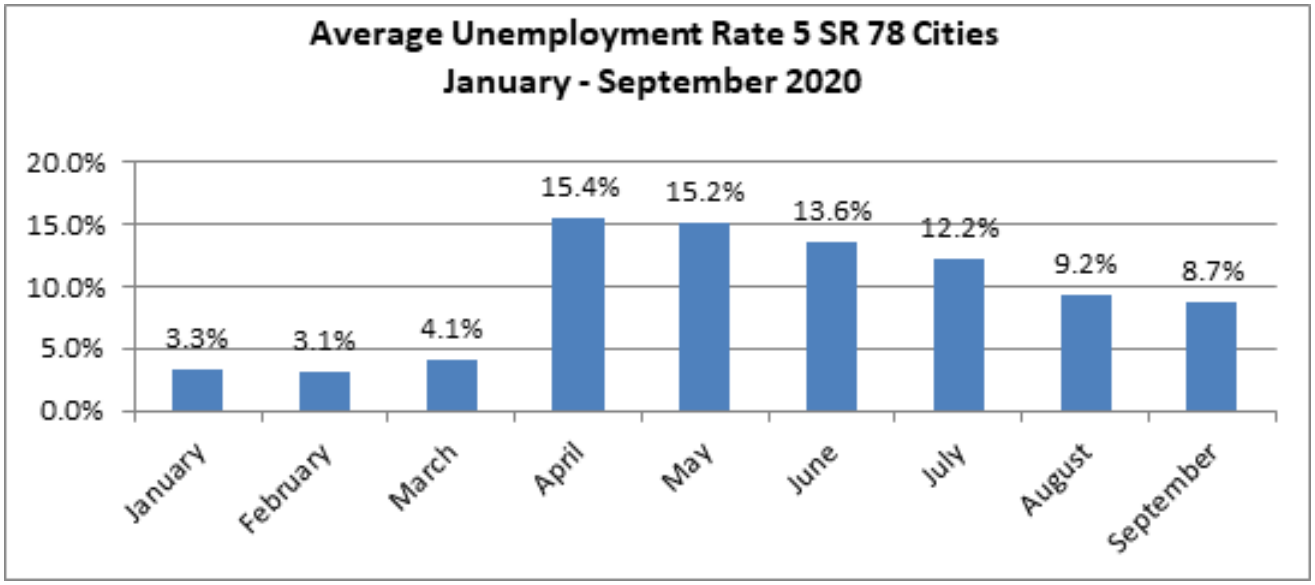
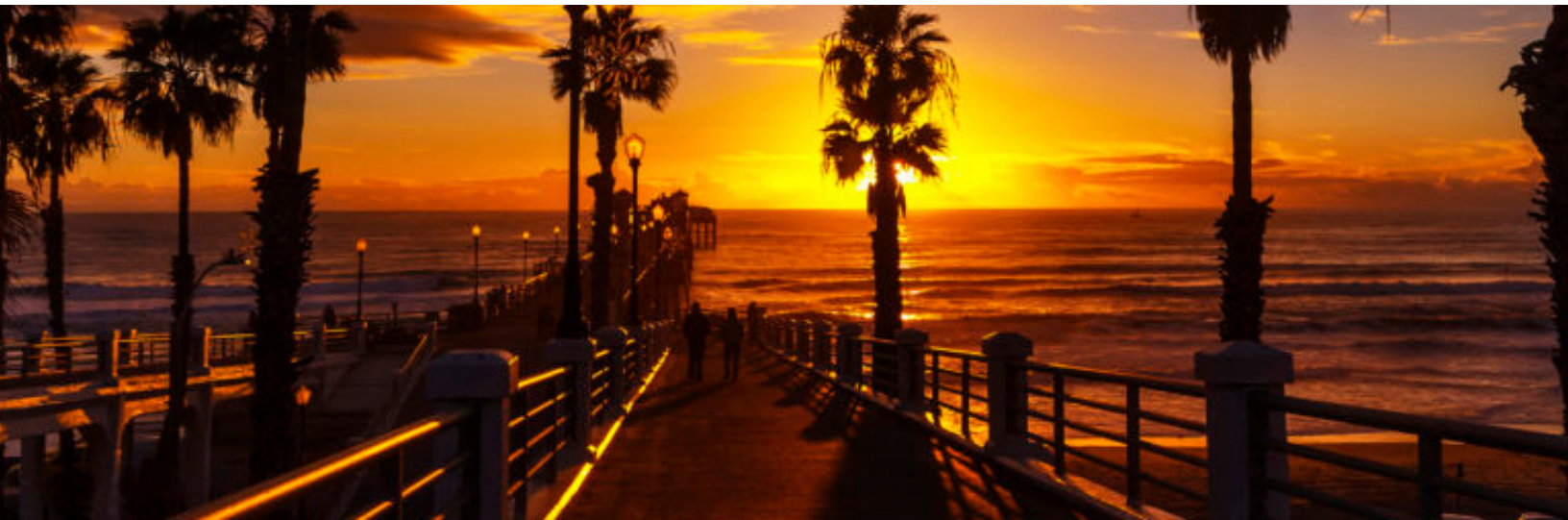
[1] . See analysis from the Annual North County Indicators Report. (https://www.sdnedc.org/wp-content/uploads/2020/05/2020-NCI-Draft-Report-FINAL.pdf)

The impact of COVID-19 was dramatic on the Corridor as stay-at-home orders reduced demand and employment in numerous sectors. The San Diego Association of Governments estimates that during 2020 there will be greater than a $12 billion dollar impact to the region's economy. Unemployment on the Corridor spiked to 15.4% in April.

TABLE 2



SOURCE: CA EMPLOYMENT DEVELOPMENT DEPARTMENT: LOCAL AREA EMPLOYMENT STATISTICS



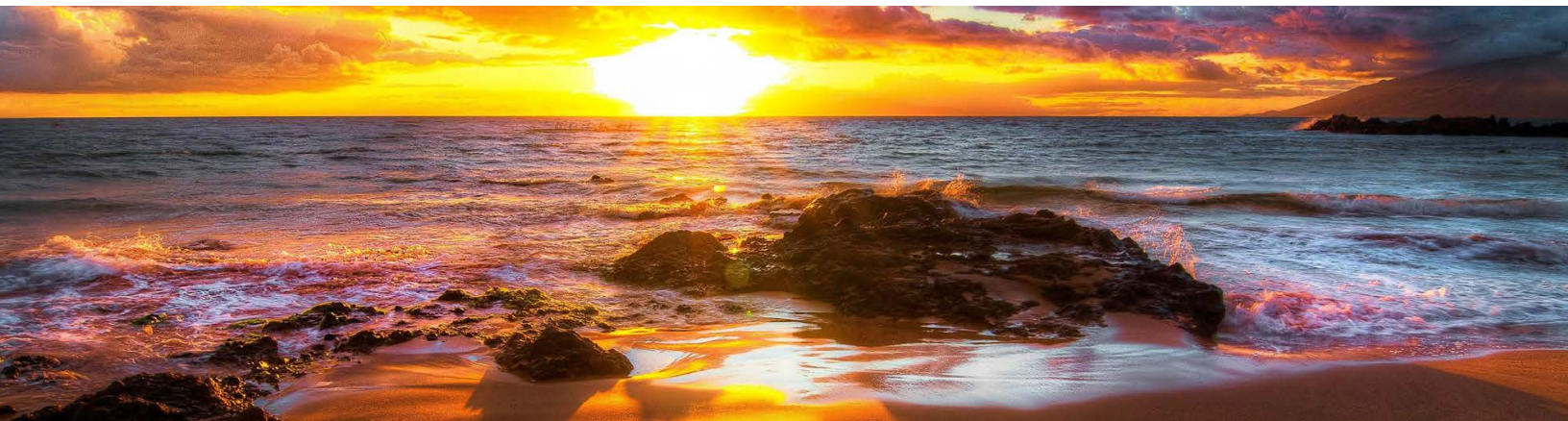
Much of this job loss has been concentrated in the industries most impacted by social distancing rules and restrictions.

TABLE 3

Sector	Employment August 2019	Employment August 2020	Year over Year Change in Employment	Percentage Change
Construction	22,268	21,155	-1,113	-5.0%
Manufacturing	39,295	33,794	-5,501	-14.0%
Wholesale Trade	13,534	12,262	-1,272	-9.4%
Retail Trade	**33,341**	**28,340**	**-5,001**	**-15.0%**
Finance and Insurance	5,167	5,012	-155	-3.0%
Real Estate and Rental and Leasing	4,372	4,241	-131	-3.0%
Professional, Scientific, and Technical Services	17,079	17,130	51	0.3%
Management of Companies and Enterprises	3,772	3,549	-223	-5.9%
Administrative and Support and Waste Management and Remediation Services	16,749	16,863	114	0.7%
Educational Services	**3,838**	**3,032**	**-806**	**-21.0%**
Health Care and Social Assistance	29,155	27,405	-1,749	-6.0%
Arts, Entertainment, and Recreation	**8,079**	**4,185**	**-3,894**	**-48.2%**
Accommodation and Food Services	**31,775**	**20,018**	**-11,757**	**-37.0%**
Government (non-education)	21,803	22,091	289	1.3%
K-16 Public Education	**16,904**	**14,243**	**-2,662**	**-15.7%**
Other/MISC	20,517	17,984	-2,532	-12.3%
Total	**287,647**	**251,304**	**-36,343**	**-12.6%**

SOURCE: EMSI; SDNEDC, 2020

Of the 36,000 net job losses, 66% (24,120) are in four sectors; Hospitality, Retail, Arts and Entertainment, and Education.



HOSPITALITY

Pre-COVID the Hospitality Sector (hotels, motels, restaurants) employed 38,600 workers in the 78 Corridor or 13.4% of employment. These figures also exclude the thousands of jobs at North county Native American gaming establishments and hotels. It is estimated that the industry contributes $2.2 billion the Corridor's gross domestic product.

During the initial period of the COVID-19 response, most hotels were closed to all but essential workers. While most have been able to restart some operations, the negative impacts on the industry are profound. SANDAG estimates that 37% of the jobs in the sector have been lost. Several key drivers of demand – conventions, group meetings and youth sports have been essentially shut down in the county and vacancy rates remain at extremely elevated numbers. Visit Oceanside reported that Transient Occupancy Tax (TOT) between January through June 2020 was down 27% compared to the same period of 2019. [2] The City of Carlsbad reported that TOT collections for June, July and August were off by 66%. [3]

RETAIL

COVID-19 has also accelerated changes in the retail sector. Opportunity Insight (www.tracktherecovery.com) estimates that retail sales in the county declined by 32% immediately following the outbreak and now have stabilized at approximately 7% less than before the March shut down orders.

These trends are also evident in taxable sales data. Comparing quarter 2, 2019 vs. quarter 2, 2020 taxable sales data at the city level which shows dramatic declines.

TABLE 4

City	2019 Quarter 2 Taxable Sales	2020 Quarter 2 Taxable Sales	Year over Year Change
Carlsbad	$ 811,926,046	$ 579,273,249	-28.7%
Escondido	$ 826,540,520	$ 654,918,025	-20.8%
Oceanside	$ 469,106,275	$ 384,910,698	-17.9%
San Marcos	$ 374,817,037	$ 290,278,629	-22.6%
Vista	$ 385,313,974	$ 346,405,035	-10.1%

SOURCE: EMSI; SDNEDC, 2020

[2] . Visit Oceanside

[3] . Correspondence with Visit Carlsbad, 10/27/2020

There has also been changes in what consumers are buying. Taxable sales at full service restaurants throughout the state were down -61.2% from Quarter 2 2019 to Q2 2020. Meanwhile sales at home improvement stores showed a 12.1% increase. County-wide there has been a double digit increase in “unallocated” taxable sales – likely largely attributable to increased on-line purchases.

In respect to employment, the retail sector along the Corridor has declined by 15% or approximately 5,000 jobs. This may understate impacts in commercial areas as many personal service workers (barbers, stylists, nail salons, etc.) work as independent contractors or sole proprietors and have seen their earnings significantly decline.

ATTRACTIONS AND ENTERTAINMENT

COVID-19 also led to the shutdown of Legoland California and a multi-month closure at the San Diego Safari Park. Vista’s Moonlight Amphitheater and the California Center for the Arts in Escondido both largely cancelled most of their 2020 in-person events. The sector has lost 48.2% of employment or nearly 3,900 jobs. Again, as with other service sector clusters, these losses may underestimate the impact given that many that work in the arts industry do so as independent contractor or sole proprietors.

EDUCATION

Between August 2019 and August 2020 the education sector along the SR 78 Corridor shed nearly 3,500 jobs. Many of these are in educational support functions, such as instructional aids, adjunct and contingent faculty, and support staff. A significant concern is that future cuts to K-16 funding in 2021 and 2022 will serve to drag down the economic recovery of the region.

MOVING FORWARD

Many economists have suggested that this recession is very different from prior downturns. The United State entered 2020 with a relatively robust economy and, unlike many prior recessions, there was no “supply shock" related to overproduction. [4] With that in mind, there are four areas where policy makers and economic developers may wish to focus their recovery efforts.

1) Coordinated and increased investments in leisure tourism marketing

As noted above, the hospitality industry has experienced a profound decline in demand. Coming out of the recession it is important to recognize North County’s strengths as a hospitality destination and how to leverage that to help accelerate the recovery. Most notably, the 78 Corridor’s tourism sector is characterized by a heavier reliance upon leisure travel from our “drive” markets when compared to the City of San Diego, which is much more reliant upon group and convention travel and which attracts guests from further away.

Moving forward it is critical to continue to invest in marketing to drive markets such as Phoenix, Las Vegas, and the rest of Southern California that constitutes most of the visitors to visit North County. This is all the more true as 2021 is likely to be a hypercompetitive market given the challenges that COVID-19 is presenting to convention centers and meeting organizers. Essentially every tourism destination in the country will be trying to attract leisure travelers. Policymakers would be wise to understand North County’s competitive advantages and continue to prioritize investments that will drive that business (tourism marketing, beach sand replenishment, beach access, continued investment in retail areas along our coastline, availability of vacation rentals for larger families and groups, etc.)

We would be remiss if we did not mention the negative impact the continued closure of Legoland California continues to have on North County’s visitors industry. Largely closed since March, we believe that until the theme park is allowed to reopen it will be difficult, if not impossible, to replace the hundreds of thousands of room nights generated by the theme park. Local policy makers would be wise to continue to press the Governor to more proactively engage with the park and the rest of the theme park industry and craft policies that appreciate the difference among various theme parks in our state.

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[4] . See, for example, https://www.forbes.com/sites/johnmauldin/2020/08/20/what-makes-this-recession-different-from-the-rest/#5c8e010e3665

2) Adaptive reuse retail centers

COVID-19 accelerated the existing trends in retail that has seen both a shift toward on-line purchases as well as changing demographic preferences (as a population ages typically demand shifts away from tangible goods and toward more services, such as health care). Retail vacancy rates have increased and it is very likely that retail property owners will push Corridor jurisdictions to allow additional uses on existing retail centers.

3) Resiliency for Small Businesses

According to Opportunity Insights, since January 2020 there has been a 27% decline in the number of small businesses in San Diego County. Moving out of the recession it is important to consider ways to improve small business resiliency, such as increased educational programming, greater investments in connecting small businesses with best-in-class service providers, and enhancing peer-to-peer small business networks.

A number of efforts are underway on this front. SDNEDC has applied to the U.S. Economic Development Administration for a grant to create a North County Small Business Resiliency Lab. In partnership with the San Diego Regional EDC and the other "sub regional" EDCs, we have also applied for a technical assistance grant that would support small businesses. The San Diego/Imperial County Small Business Development Centers have increased their educational offerings and actively exploring grant opportunities to expand services.

4) Greater opportunity for up skilling and career counseling

This recession has impacted younger workers and workers without college degrees to a much greater extent than other members of the workforce. Moreover, many public health officials now believe that it could be another 9 to 12 months before all restrictions are lifted. Given that, it is imperative that institutions and actors involved with North County's workforce development efforts examine opportunities to help retail and hospitality workers, in particular, upskill and examine additional career options. Some of those jobs will return but in the interim it is important to provide options for workers displaced by the pandemic.