

~ *Executive Summary and Findings* ~

Relying upon data from a variety of sources, and comparing Merced County to the state as a whole and five reference counties, *Strategic Choices: Creating Opportunity in Merced County* comprehensively and candidly probes underlying demographic, labor force, economic, and socioeconomic trends and issues. Prepared at the request of the Board of Supervisors, it addresses the key factors that are likely shape human capital and economic development decisions in the foreseeable future.

There are three broad objectives of *Strategic Choices*. The first is to provide the Board of Supervisors, other policy-makers, public sector administrators, business leaders, educators, and a wide range of nonprofit as well as other community stakeholders with the information they need to evaluate existing policies. The second is to recommend policies and policy directions that are connected to the data and findings. The third is to help frame the terms of discussion about the present and future of Merced County.

For Merced County, the only constant the next few years will be change. The new UC campus and the community around it, the planned west side campus of Merced College, the UC medical facility, the development of the Castle Airport Aviation and Development Center, and the requirements of welfare-to-work will undoubtedly impact Merced's economic and human capital landscape. Yet, it is uncertain at this time how the changes will touch the lives of most County residents. The central issue, which is posed in the first sentence of the Preface, is whether there will be "a growing and more diversified economy with a resident population enjoying greater access to economic opportunities or a two-tiered economy and society where some benefit but many do not."

"Divergence" is the central or organizing theme and it has three essential features:

- Since the early 1980s, the economic and social gaps between San Joaquin Valley counties and the rest of California (particularly its metropolitan areas) have been widening. The differences are apparent today in almost all the human capital and job

creation data available, and are not likely to be bridged either in the short-term or as a result of incremental changes in public policy.

- Over the past decade, disparities within the San Joaquin Valley have become increasingly evident. While the gaps have not been either as wide or consistent as those between the Valley and other areas, the trend data suggest that Merced, Fresno, and Madera Counties are becoming more alike demographically and in terms of economic and social performance. In fact, there are a number of differences between these counties and San Joaquin and Stanislaus. Although the three other San Joaquin Valley counties were not part of the study, there are signs that Kern is closer to Merced's neighbors to the north. For Merced, the trends are challenging since the County finds itself falling behind in a region that is trailing the rest of the state. And its lagging performance can be tied to both human capital and job creation issues.

- There also are perceptible demographic, economic, and social differences within Merced County that have had the effect of disconnecting geographic areas and demographic groups. These variations in performance and perspective have tended to foster localized concerns and made it more difficult to build support for policies that further shared interests. There also have been three outcomes of significance to the future of Merced County: (1) the geographic concentration of at-risk residents, especially the increasingly important youth and Hispanic populations; (2) the apparent absence of a "center" that serves as focal point for all County residents; and (3) the lack of consensus about Merced's identity and future.

The twenty-nine tables and thirty-one charts that accompany the text are tangible evidence that *Strategic Choices* is a data rich study. Given the level of detail in the body of the report, it makes sense in this summary to list the bulleted findings that appear throughout the document. The reader can gain a real sense of what these numbers mean by perusing the list, which is organized by topic. Since the table of contents contains the page number where the analysis of a topic begins, it is relatively easy to explore the detailed results.

The Demographics of Divergence

The Demographic Context

- Over the past three decades, Merced County has grown faster than the state as a whole and Santa Clara, slightly faster than San Joaquin and Fresno, and much more slowly than Stanislaus and Madera.
- Although the share of population growth due to net migration declined from 1990 to 1995 in all the areas studied, a consequence of the recession, three counties – Merced, Madera, and Fresno – continued to experience declines from 1995 to 1999. Merced was the only county to have net out-migration in the second half of the 1990s.
- All of Merced’s net population growth during the 1990s was due to immigration and natural increase.
- Internal Revenue Service tax return data indicate that Merced County’s domestic migration patterns were shaped by the presence and closure of Castle Air Force Base, movement to and from nearby counties, and the settlement of Bay Area residents.
- The IRS data point to a possible talent drain, particularly of relatively young people moving to Silicon Valley.

The Consequences of Demographic Change

- Merced County has the youngest population in the state and it is not aging as fast as the rest of the region, state, and nation.
- Merced has a youth dependency ratio (the number of persons under 16 per 100 persons of working age) that is substantially above the ratios for all the other reference areas.
- Not only has Merced County become more racially and ethnically diverse, it also has been diversifying at a faster rate than the state as a whole. The principal sources of diversity in Merced have been Hispanic and Asian/Pacific Islander populations.
- Merced’s relatively young population has been an outgrowth of increased diversity.
- There are important demographic differences among communities within Merced that have shaped the County’s growth and development.
- Population projections point to both continuing age disparities between Merced County and other areas and increasing racial/ethnic diversity. The University of California campus is unlikely to alter the underlying demographics of the County in the foreseeable future.

Divergence and the Labor Market

The Labor Force

- Given the dominant historical demographic trends, it should not be surprising that the available supply of potential workers has been consistently lower in Merced County than in reference areas.
- Even with a lower supply of possible workers, Merced County has lagged on important measures of labor force involvement.

Unemployment

- High unemployment rates have been a persistent feature of Merced County's recent economic development.
- Long-term monthly unemployment rates document the volatility of the Merced County labor market and the emergence of unemployment rate variations within the San Joaquin Valley.
- The reported statistics on unemployment insurance claimants bolster the case for divergence between the San Joaquin Valley and the state and among counties in the region.
- Unemployment insurance benefits cover two groups: those unemployed intermittently who will return to work and those who lose their jobs and do not have prospects of future employment. The two groups differ, and these differences are important in understanding the human capital and job challenges facing Merced County.

Applicants for Job Training

- The PITD applicant pool is composed disproportionately of young at-risk populations who face serious barriers to employment. There are marked differences between the applicant pools in Merced and Stanislaus Counties.

Employer Survey and Focus Groups

- Private and public employers in Merced County are generally concerned about the skills of the workforce, but they have even more reservations about the skills of the unemployed and welfare recipients. Employers assess their workers more positively than potential new hires and express support for job training.
- The observations of business and community focus group participants about worker skills were generally similar to the employer responses in the survey, but there also were concerns raised about a talent loss, unemployment, and the possible development of a two-tiered workforce. The potential benefits of County assets were addressed as well.

Divergence and Economic Performance

Economic Structure

- Merced County's economic structure is defined by agriculture and related processing industries. This agricultural cluster, which is the only clearly established cluster, attracts outside dollars that ripple through the local economy and creates employment opportunities in other industry sectors.

Employment Change and Distribution

- Since the early 1980s, Merced County's employment growth has trailed all reference areas. Slow growth was particularly evident between 1992 and 1996 in non-farm service producing jobs.

- During the 1990s, industry employment was shaped by population driven jobs in retail trade and services, manufacturing jobs tied to the agricultural cluster, cutbacks in government jobs, and the addition of call center jobs. Equally significant, particularly for economic development, was the slow growth in business service employment. Even with these and other changes, agriculture and government in 1999 claimed almost two-fifths of all jobs. Employment statistics point to an apparent lack of job diversity in private nonfarm industry sectors.

Wage/Salaries and Earnings Per Worker

- Inflation adjusted wages and salaries per job and earnings per worker fell in Merced County and all Valley reference areas between 1970 and 1998, except for earnings in Stanislaus County. The positive growth for the state and Santa Clara County during this period widened the gaps between these areas and Valley counties. Uneven growth rates within the Valley, particularly in the 1990s, point to the emergence of gaps within the region as well, with Merced, Madera, and Fresno lagging San Joaquin and Stanislaus. Merced County industries with lower earnings per worker tended to experience more employment growth from the mid-1970s to 1998.

Employer Survey and Focus Groups

- Employers believe employee skills and government regulation are key challenges to job creation. They consider the area's quality of life to be Merced County's leading asset.

- Focus group participants generally agree that infrastructure, workforce development, business growth, and quality of life are keys to future economic development. They also believe that UC Merced will increase educational access and enhance Merced County's economic development potential.

Divergence and Socioeconomic Performance

Income and Poverty

- Income trends reveal that Merced, Fresno, and Madera Counties have lagged other areas in personal income growth. In contrast, transfer payments and poverty rates have been higher in these counties. Measures of income also highlight divergence between San Joaquin Valley counties and the rest of the state, emerging gaps within the region, and differences within Merced County.

Participation in Government Support Programs

- San Joaquin Valley residents are more likely to participate in government assistance programs than residents in Santa Clara and the state as a whole. Merced and Fresno Counties have higher participation rates than other San Joaquin Valley reference areas. Valley counties have higher participation rates than the state and Santa Clara.

Merced County TANF Cases

- TANF cases are not evenly distributed among communities and groups in Merced County

Surveys: TANF Recipients, Unemployment Insurance Recipients, & Service Providers

- TANF recipients and unemployment insurance claimants differ demographically and in terms of family situation, work history, training, and skills. They also have differing perceptions of the employment obstacles they face.

- Social service providers in Merced County believe that TANF recipients face situational, structural and attitudinal/behavioral impediments to sustainable employment. Unlike recipients, they express more concern about motivation. Like employers, service providers express concerns about the skills of the unemployed and welfare recipients.

- Educational attainment and performance data in Merced County and other Valley reference areas point to key challenges in raising expectations and outcomes. The proportion of high school students planning to attend four year colleges and universities is lower in Merced County than reference areas and test results are lower as well.

Avenues to Opportunity

The following represent the an outline of the policy recommendations:

- Support coordinated job training and human capital investment.
- There should be a two pronged approach to job creation that simultaneously addresses the employment needs of the less skilled and the more highly educated and skilled.
- Given the lack of job diversity documented in this report, there is a need for Merced County to broaden its economic base.
- Continue efforts to improve the business climate in Merced County.

- Creating a supportive environment for entrepreneurial activity should be a priority.
- Merced County officials should use the policy tools and resources at their disposal to promote a culture of learning and high expectations.
- The racial and ethnic diversity of Merced County should be considered economic and community development assets.
- Given age trends in Merced County, there is a need to invest in youth – Merced County’s future workforce.
- Merced County has a port, and it happens to be an airport located at the Castle Airport Aviation and Development Center.
- Since Merced County is considered the “Gateway to Yosemite,” there should be a concerted effort to promote tourism.
- Commuters on the west side of Merced County are a potential economic development asset.
- Pursue a study of the transportation needs of TANF recipients.
- Establish a visioning process that is both inclusive and focused.
- A “centering strategy” will reap economic development benefits and facilitate County efforts to overcome the fragmentation that invariably hinders the pursuit of the shared interests of residents, regardless of where they live or the nature of their group identities.
- With the development of the UC Merced campus, infrastructure will be a key issue on the policy agenda.