

CITYLAB INSIGHTS

# Innovation-Based Economic Development in Stockton, CA

DAVID ZIPPER + ROBERT BOLE | APRIL 2018

# What's Inside

Introduction	3
01 Corporate Engagement and Innovation	7
02 Startups	9
03 Incubators and Maker Spaces	11
04 Creative Collisions	13
05 Investment	15
06 Amenities	17
07 University Engagement	20
08 Tech Training	22
09 Local Government	24
Summary	26
About the Authors	30

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## INTRODUCTION

# About This Case Study



his case study provides an assessment of Stockton's environment for fostering innovation-based economic development, along with a set of programmatic recommendations for city stakeholders. It focuses on the foundational building blocks that can help the city leverage its strengths and local assets to grow innovative businesses from within, rather than relying on corporate attraction, an often expensive and risky proposition.

The case study is intended to inform Stocktonians about ways in which their city shows signs of being relatively more or less sophisticated than peers in the elements that contribute to growing innovative companies. Drawn from these observations, the case study concludes with a set of suggestions to catalyze local innovation-based growth.

It should be stressed that even an optimized economic development strategy represents only one facet of an overall approach to improve quality of life for residents. For example, education, public safety, and municipal finance are all essential—but are outside the scope of this analysis.

Information in this study is drawn from research as well as interviews conducted in Stockton by David Zipper and Robert Bole in February of 2018 at the invitation of Mayor Michael Tubbs.

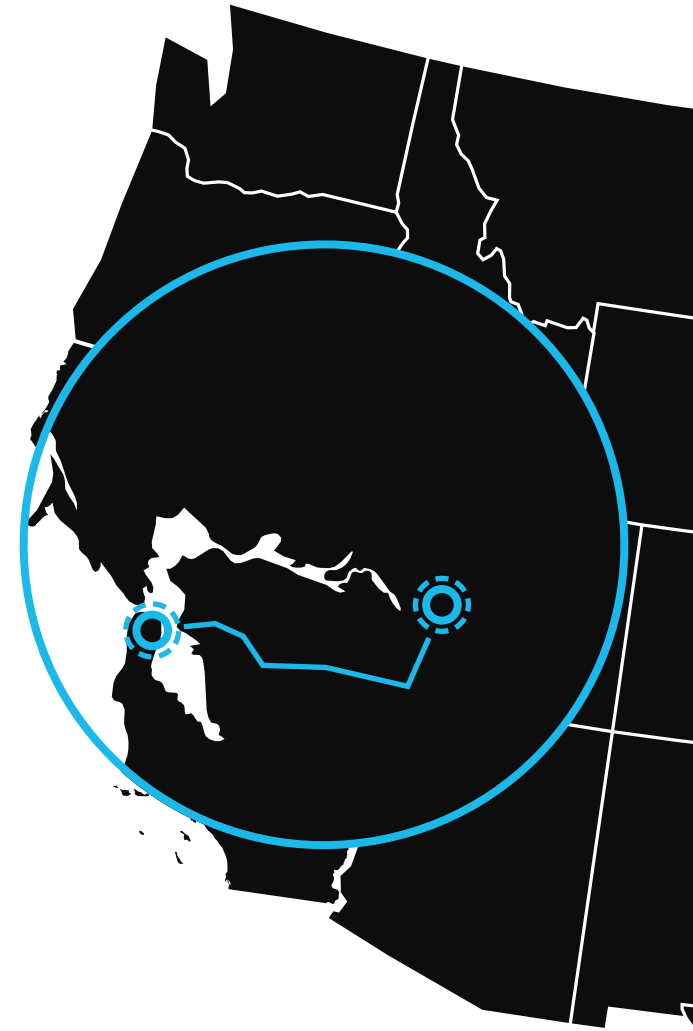


# Executive Summary

**S**tockton has made great strides in the last decade, as the city has grown its population, pulled out of bankruptcy, and reduced both poverty and crime. However, the long-term economic trajectory of the city relies on business growth and job creation that are not assured.

From the perspective of innovation-based economic development, Stockton lacks a number of assets that many other cities take for granted. No Fortune 1000 companies are headquartered in Stockton, no local startup has had a lucrative exit in the last decade, and very few multi-unit housing buildings are luring young professionals or contributing to density downtown. Connections among universities, major corporations, and entrepreneurs are informal and inconsistent, which makes it harder to share ideas and support new ventures.

However, city hall has embraced startups and Stockton's nascent incubators at a time when commuting patterns, philanthropies, and the Bay Area's high cost of living are creating new and promising ties between Stockton and Silicon Valley. Those connections could unlock a new set of opportunities to bring creative minds, startup mentors, and investment capital to Stockton from across the Altamont Pass. The city would be wise to seize this moment.



# Background



place rich in history, Stockton was one of the first three cities incorporated in California in 1849, serving as a

hub for arrivals from the east during the Gold Rush. Some 170 years later, logistics and distribution continue to provide the backbone of the local economy. Stockton's inland port is the centerpiece of a sophisticated network of rail, water, and highway routes used to transport goods throughout Northern California. Stockton also serves as a hub for San Joaquin County's agricultural output, valued at \$2.3 billion in 2016.<sup>1</sup>

Historically, Stockton's location within the Central Valley has given it a unique identity, but that identity is evolving. By virtue of its proximity to the Bay Area and Sacramento—just over an hour's drive without traffic—Stockton is developing new links to those economic centers. Today

68,000 commuters travel daily to the Bay Area, and 10,500 to Sacramento, from the North San Joaquin Valley.<sup>2</sup> Housing prices in Stockton are considerably less expensive than those in either region, attracting service workers and creatives seeking a more affordable home.

Stockton is emerging from a difficult decade, as the city was hit hard by foreclosures and crime in the wake of 2008's financial crisis, and it ultimately declared bankruptcy in 2012. Today the crime rate has fallen, the population is growing (307,000 in 2016), and the poverty rate—long much higher than California's—was, at 23.7% in 2016, roughly the same as California's.<sup>3</sup> The unemployment rate in San Joaquin County was 7.0% in January 2018, compared with over 16% in 2009.<sup>4</sup>

Although the city's economic conditions are much stronger than during the financial crisis, the city must cope with lingering

after effects. The municipal bond market still keeps a close watch on city finances, limiting new investments, and Stockton's reputation for crime and foreclosure has been tough to shake. But the 2016 election of 26-year-old Michael Tubbs brought Stockton positive national press, and more followed when Mayor Tubbs announced the nation's first municipally supported experiment with basic income, attracting \$1 million from the Economic Security Project—backed by Silicon Valley philanthropist Chris Hughes.

<sup>1</sup>NSJV Index 2017: Issues for Regional Integration and Growth

<sup>2</sup>NSJV Index 2017: Issues for Regional Integration and Growth

<sup>3</sup><https://www.census.gov/quickfacts/fact/table/stocktoncitycalifornia/PST045216>

<sup>4</sup>[http://www.labormarketinfo.edd.ca.gov/file/indhist/stoc\\$hws.xls](http://www.labormarketinfo.edd.ca.gov/file/indhist/stoc$hws.xls)

## INTRODUCTION

# The Building Blocks of Innovation-Based Economic Development

**I**nnovation-based economic development refers to strategies that prepare communities to thrive in an economy where

knowledge, technology, entrepreneurship, and innovation are positioned as the driving forces of growth. In pursuit of this growth, leaders look to cultivate forces that drive cross-sector collaboration, foster smart human capital, and establish repeatable processes to build a strong, resilient innovation community. At its core is a defined set of policies and programs at the local level that lead to the increased launch of startups, a higher proportion of them scaling, and a faster rate of growth for larger employers.

Innovation-based strategies for growing a local economy contrast with those based on recruiting employers from elsewhere through marketing pitches, tax incentives, and site selection. Economic research has shown that recruitment-based economic development is of limited value to cities due to the cost of incentives and potential

for the relocating company to move again to another jurisdiction.<sup>5,6</sup>

The nine building blocks below represent foundational elements for innovation-based economic development. Together, they describe how the urban environment will be more or less conducive to fostering the growth of startups and larger businesses. While there may be disagreement about whether a city should, for example, focus on growing health care or manufacturing, the building blocks offer a basis for catalyzing internal business development in virtually any sector. Indeed, strong building blocks can enable a successful sector strategy. Drawing from interviews, research, and experiences in other cities, Stockton's relative sophistication in each metric (Beginning, Intermediate, and Advanced) is suggested below, along with a view toward the future. The determinants of sophistication are a mix of qualitative and quantitative factors that are summarized in the Appendix.

## THE BUILDING BLOCKS



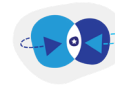
**BUILDING BLOCK ONE**  
Corporate engagement  
around innovation



**BUILDING BLOCK TWO**  
Startups



**BUILDING BLOCK THREE**  
Incubators and Maker Spaces



**BUILDING BLOCK FOUR**  
Creative Collisions



**BUILDING BLOCK FIVE**  
Investments



**BUILDING BLOCK SIX**  
Amenities



**BUILDING BLOCK SEVEN**  
University Engagement



**BUILDING BLOCK EIGHT**  
Tech Training



**BUILDING BLOCK NINE**  
Local Government

<sup>5</sup><http://www.goodjobsfirst.org/sites/default/files/docs/pdf/smartskillsversusmindlessmegadeals.pdf>

<sup>6</sup><http://research.upjohn.org/cgi/viewcontent.cgi?article=1159&context=bookchapters>

# Corporate engagement around innovation

## WHAT IT IS

A new product, an acquisition, or an improved operating process can strengthen a corporate bottom line—and lead to new hiring. Such innovations may come from internal R&D, from networking among corporate executives, or from a partnership with a university—to give just a few examples. Many companies see startups as a source of information about how industries are changing—and how corporate strategy should change as a result. Startups themselves benefit from these interactions with corporations, gaining feedback and perhaps chances to pilot their products.

## STOCKTON'S POSITION: BEGINNING

Stockton today is home to no Fortune 1000 headquarters, unusual for a city its size.<sup>7</sup> There is relatively little R&D taking place locally: the North San Joaquin Valley had 2.1 patents for 100,000 employees compared with a national average of 7.4.<sup>8</sup> Major recent employers like Amazon have primarily brought warehouses and logistics hubs to Stockton, creating relatively few highly skilled roles. No one we met could name a Stockton-based corporation that had spun out a successful startup. That said, the area has in the past given birth to a number of



global companies, including A.G. Spanos Companies, Caterpillar, and Duraflame.

Numerous Chambers of Commerce are present in Stockton and San Joaquin County, but the level of involvement among local business leaders is inconsistent. Several innovative business executives we met lamented potentially missed opportunities to collaborate with similarly creative peers—but they did not feel that their Chambers' traditional business networking events created value for them.

No available program directly ties startups to larger Stockton corporations, although the Greater Stockton Chamber of Commerce is piloting an Economic Gardening program to support small businesses.

<sup>7</sup>[https://en.wikipedia.org/wiki/List\\_of\\_Fortune\\_1000\\_companies\\_by\\_urban\\_area](https://en.wikipedia.org/wiki/List_of_Fortune_1000_companies_by_urban_area)

<sup>8</sup>NSJV Index 2017: Issues for Regional Integration and Growth.

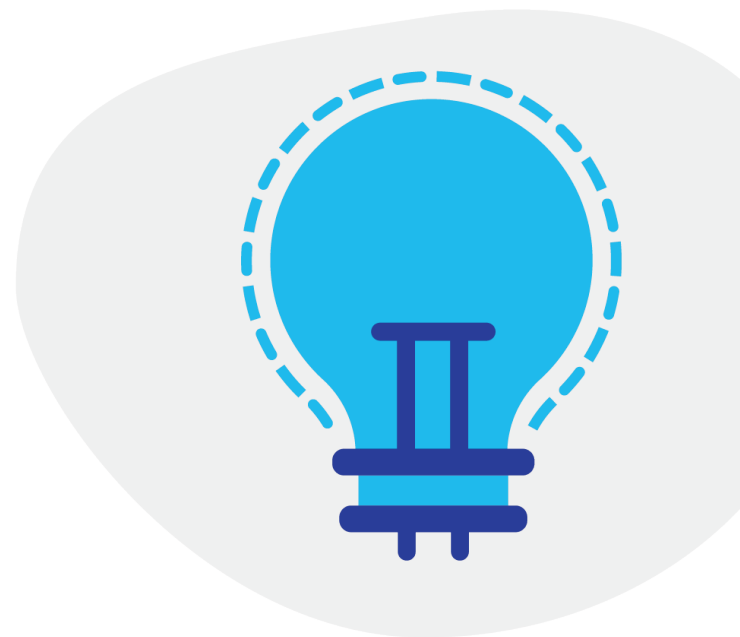
# Corporate engagement around innovation *cont.*

The lack of a strong local corporate base for innovation suggests a limited capacity for the business community to mentor and partner with local startups and aspiring entrepreneurs. For example, the business community's engagement in nascent Stockton coworking spaces such as Huddle has been minimal. To its credit, the San Joaquin Partnership has established the "Greater Silicon Valley" marketing campaign to emphasize the importance of innovation.

## LOOKING AHEAD

Stockton needs its most creative business minds to be engaged in catalyzing innovation and spurring business formation. It is not clear that the existing business structures achieve that goal, or in which institution such an effort should reside—but that is an important question to answer.

Another way to foster corporate engagement lies with Stockton's close proximity to Silicon Valley and Sacramento. There could be chances to invite corporate leaders from those regions to mentor and support local entrepreneurs. Such



connections could pave the way for eventual corporate expansions into Stockton—perhaps attracted by Stockton's relatively low cost of living and strong transportation linkages (see Startups below.)

The city may want to lead a mapping exercise with corporate leaders to chart a path forward to engage corporations, both locally and in the Bay Area, in its innovation-based economic development strategy. Organizations like Huddle, the Downtown Alliance, the Business Council and San Joaquin Partnership would all have valuable perspectives to contribute.



# Startups

## WHAT IT IS

All net new American jobs in recent years have come from startups, rather than Fortune 500 companies.<sup>9</sup> Often developing software or hardware products, such startups are founded by a small team of people with a vision of scaling their products to build a thriving and expanding business. There is a strong case that restoring the economic dynamism of the United States and generating new good jobs rests on encouraging startups and building stronger startup hubs across the nation. A study by the Progressive Policy Institute points to the importance of entrepreneurship in lifting regional economies.<sup>10</sup>

## STOCKTON'S POSITION: BEGINNING

Stockton today is home to a handful of startups taking part in the Entrepreneurs Lab within Huddle. Very few new ventures employ more people than the initial founders or aspire to become much larger companies. We did not find a startup in the city that has recently raised a Series A or later round of venture funding. Nor have there been any recent acquisitions of Stockton-based startups (which can generate new sources of investment capital



and compel early employees to launch new ventures). There also does not seem to be a local “entrepreneurial hero” who has successfully built and exited a company, which can be a powerful motivation for others to pursue their own business ideas.

<sup>9</sup> <http://www.routeifty.com/finance/2018/02/seeking-startups-heartland/145974/>

<sup>10</sup> <https://www.citylab.com/life/2017/04/can-startups-save-struggling-metros/521703/>

## Startups *cont.*

### LOOKING AHEAD

Although Stockton's current level of startup activity is light, the city has the advantage of being just over the Altamont Pass from Silicon Valley at time when telecommuting is on the rise. As housing prices in the Bay Area rise, Stockton could be positioned to attract creatives and startup employees seeking more affordability—which could pave the way for eventual expansions or relocations.

It is not clear to us who on the private sector side should be driving this effort, but Mayor Tubbs is a valuable asset. His growing connections with venture capital firms in Silicon Valley could add a personal touch to these appeals, which may particularly resonate with native Stocktonians who have made the move west to the Bay Area's tech scene. Stockton would be well-served by a group of young leaders working together to join Mayor Tubbs in engaging entrepreneurs and investors in the Bay Area. Stockton community leaders who reflect the profile of people Stockton wishes to attract should be actively sharing networks, targeting strategic conversations, and collaborating to build Stockton's profile.

Since Stockton currently has light startup activity, it is essential that every Stockton-based entrepreneur is afforded access to resources, support, and advice. Later in this case study, we will recommend ideas for supporting incubators and city services. Strategically, Stockton should examine how it supports the lifecycle of entrepreneurship and find ways to make a positive contribution.



# Incubators and Maker Spaces

## WHAT IT IS

Launching a startup is hard enough—doing it in isolation is harder still. Good incubators make the entrepreneurial process a little easier by providing mentors, classes, and shared resources that an entrepreneur would not otherwise be able to access. They also function as critical entry points for people who are thinking about taking the plunge into entrepreneurship, as well as those who want to support them.

## STOCKTON'S POSITION: INTERMEDIATE

In the last several years, Huddle and Café Coop opened their doors, providing downtown coworking facilities and housing the Entrepreneurs Lab, a tech incubator that in 2017 graduated its first class of five startups. Earlier in 2016 and 2017, the Downtown Stockton Alliance partnered with Oakland-based Centro Community Partners to offer entrepreneurial training classes to small businesses in the city. Current efforts are underway to continue that program in a new format.

Huddle in particular is seen as an entry point for those interested in starting a business in the city. Current programming at these incubators is relatively limited, with



occasional local speakers but no regular mentors or classes. The mayor has been a frequent visitor to and refers to these hubs often in public. However, involvement has been inconsistent from universities and the corporate sector—critical supporters of prominent incubators in midsize cities like American Underground in Durham and Cintrifuse in Cincinnati.

# Incubators and Maker Spaces *cont.*

## LOOKING AHEAD

Most small incubators struggle to provide substantial value-added services to members due to limited budgets. It will be easier for Huddle and Café Coop to provide new services (and increase their value to tenants) if they can expand. For that reason, startups and new entrepreneurs should be encouraged to locate within their facilities. The city, universities, and colleges can all nudge prospective members to join the hubs. And employers can strengthen the new incubators by sponsoring programming and encouraging employees to serve as mentors. Finally, it should be noted that although there are relatively few successful entrepreneurs within Stockton equipped to mentor startups, Silicon Valley has a virtually boundless supply.

An additional resource is the work that is happening through the County Office of Education, which includes a growing technology focus with a newly opened Fab Lab, expanding technology/STEM training,



and its own education technology-based business. The efforts in the public school systems should be treated as a farm league for future entrepreneurs and a trained innovation-based workforce. The Fab Lab could also be a strategic partner to Huddle in developing prototypes for entrepreneurs going through that program.

# Creative Collisions

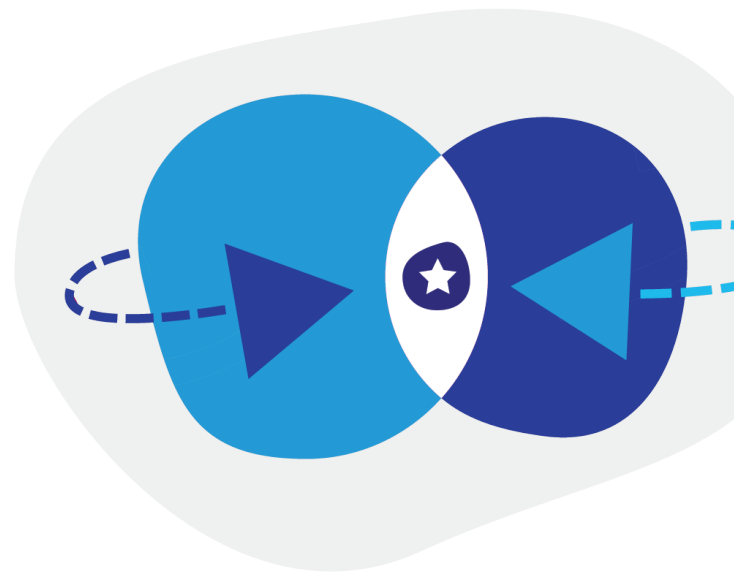
## WHAT IT IS

Happenstance interactions are a lifeblood for innovation. A chance conversation between a PhD student and a corporate researcher might nudge the company's R&D in a new direction; two strangers who meet at a health tech event might decide to launch a new business together. These kinds of unexpected collisions can take place at industry or entrepreneurial events, through community networks, and at convening places like bars and coffee shops. The more people are interacting with each other, the higher the likelihood of creative collisions—especially if activities are curated to introduce people with complementary interests.

The starting point for these fortuitous collisions starts with a dense, vibrant downtown. Stockton has historic precedents regarding how transportation hubs connected to dense city cores have driven innovation.<sup>11</sup>

## STOCKTON'S POSITION: INTERMEDIATE

Stockton has a small but growing number of spaces that facilitate interactions of entrepreneurs and creatives such as Huddle, Cast Iron, Papa Urbs, and Channel Brewing. Downtown-oriented groups



like Third City act as conveners for native Stocktonians as well as transplants. But there are few locally organized communities for entrepreneurs or individuals passionate about a particular sector like health care or software development, and no highly visible event for startups that could attract attention throughout Northern California like a Startup Weekend.

Those interested in growing businesses and launching new ventures in Stockton seem most often to meet through informal networks, which can make it hard for outsiders to know how to break in. Through its online newsletter, Visit Stockton takes a more active role publicizing local community gatherings than most cities' visitors bureaus.<sup>12</sup> However, we could not

<sup>11</sup><https://www.citylab.com/design/2015/12/the-historic-link-between-cities-and-innovation/422226/>

<sup>12</sup><https://www.visitstockton.org/events/annual-events/>

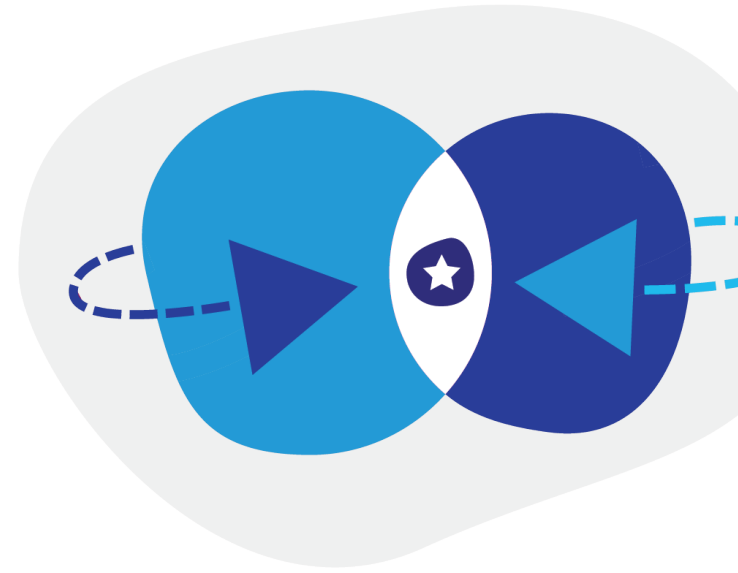
## Creative Collisions *cont.*

identify a group or organization outside of Huddle that hosts informal startup gatherings. In other cities, entrepreneur-led Facebook groups and meetups often fill this role. For example, in Omaha, Silicon Prairie News was started to help entrepreneurs connect with each other, and in the process, promote their own success.<sup>13</sup>

A close relationship often develops between artistic communities and tech communities, as artistic events can bring together creative and tech-oriented people (an example: SXSW in Austin started as a music event and morphed into a tech event). Stockton has a growing number of art gatherings, such as Stock Market pop-ups and Stockton Arts Week, that are actually an economic development asset for the future.

### LOOKING AHEAD

The recent emergence of coworking spaces and the growing number of food and drink establishments suggest that Stockton's capacity for productive collisions is growing—at least downtown with programming from groups like Goodstock Productions. The easier it is for Stocktonians and newcomers to access these networks—through social platforms, meetups, and newsletters—the better. At the same time,



the budding artistic scene in downtown offers a base from which to grow. The Downtown Stockton Alliance could be an important organization to nurture this with events and activities.

It is important to ensure not only affluent people are productively “colliding” with one another. In Philadelphia, the city has strived for a balanced place-based innovation strategy by building job programs in innovation centers that are specifically oriented toward those historically excluded from economic growth.<sup>14</sup>

<sup>13</sup> <https://www.citylab.com/life/2012/11/blog-igniting-omahas-tech-scene/3769/>

<sup>14</sup> <https://www.citylab.com/equity/2017/06/does-innovation-equal-gentrification/529839/>

# Investment

## WHAT IT IS

Without funding, many otherwise promising startups will wither on the vine. Angel and seed funding helps new businesses launch, while venture capital and conventional financing can support late-stage startups that have shown initial success. Local angel networks can be particularly helpful to early stage entrepreneurs that have not yet shown enough traction to attract external venture capital. The availability of local capital can also nudge prospective entrepreneurs to launch their startups, confident that they have a chance to gain investment.

## STOCKTON'S POSITION: BEGINNING

There are no venture capital funds in Stockton, and the one well-known local angel fund, San Joaquin Angels, actually directs much of its funding to startups located outside San Joaquin County. In theory, such local expertise and financial support could be uniquely valuable if focused on Stockton's community. However, it is not clear that there are enough local investable startups at present to warrant a venture capital fund or even an angel network solely focused on homegrown opportunities.



## LOOKING AHEAD

There is often a chicken-and-egg tension between local startups and investors, as each group thinks the other bears responsibility for holding back the growth of a local entrepreneurial ecosystem. In Stockton's case, it seems difficult to claim that the lack of investors is currently restraining startup activity. If the local incubators are able to scale and universities nudge students and faculty to turn their ideas into new ventures, then investment availability could be a bottleneck. But that time has not yet arrived.

# Investment

## LOOKING AHEAD CONT.

What may be of more immediate value is to adopt an expansive definition of “investment” and devote resources toward community enhancements that can support an innovation ecosystem. This includes increased housing density downtown (see Amenities below), support for the growing creative community, and support for nascent entrepreneurs, especially in South Stockton, including helping informal businesses ready for growth to access mentoring, working capital, and marketing/operational support. The San Joaquin Community Foundation could play a critical role in spurring such community investment.





# Amenities

## WHAT IT IS

If growth revolves around innovation, a city will need places where people can innovate—even if they do not realize that is what they are doing. Beyond tech incubators and R&D labs, bars, restaurants, cultural events, and coffee shops become places where connections are forged, ideas are exchanged, and new relationships are built. Better yet is if these places are packed closely together and reachable without driving by car. Young and mobile professionals place a high value on access to the kind of amenities that improve their quality of life, and they flock toward neighborhoods that offer them.<sup>15</sup> Places that offer density of people and activities are more likely to attract younger, well-educated people who could find employment most anywhere—and can serve as the lifeblood of innovative ventures.

## STOCKTON'S POSITION: BEGINNING

Stockton's downtown has the kind of "bones"—attractive older buildings, a rich history, and nascent creative community—that have attracted millennials to cities nationwide, but many are now underutilized or vacant. There is also a shortage of multi-unit housing downtown,



popular with many millennials, which can create density to sustain more restaurants, bars, and retail (while serving as a deterrent to crime). Stockton's local construction industry has historically focused on single-family homes, so downtown's growth of multi-unit dwellings is new and essential for creating a stronger center for innovation companies and networks. As a prime example, Roanoke, Virginia, has become what many cities of its size, geography, and history want to be. It started by bringing housing to a deserted downtown.<sup>16</sup> In many midsize cities, the critical component has been the growth of new residential and entertainment options in the downtown core, not just entertainment or cultural facilities.<sup>17</sup>

<sup>15</sup> <https://www.citylab.com/life/2014/02/what-cities-really-need-attract-entrepreneurs-according-entrepreneurs/8349/>

<sup>16</sup> <https://www.citylab.com/solutions/2017/12/roanoke-virginia-downtown-housing-revitalization/547589/>

<sup>17</sup> <https://www.citylab.com/life/2017/07/jobs-in-smaller-cities-private-sector-growth/535329/>

## Amenities *cont.*

With a strong car culture, there is no public bikeshare system in Stockton. Options for biking are relatively limited, although the city is preparing to implement its bike plan that will link downtown to multiple surrounding neighborhoods. The popularity of the first PARK(ing) Day, in which local artists and businesses set up temporary installations in a handful of downtown parking spaces, suggests an untapped desire for creative use of city space.<sup>18</sup>

The creative community in Stockton is an emerging asset that supports an increasingly popular downtown. Stockmarket and its founder, Goodstock Productions, are part of the network of artists and artisans that are making smart use of the downtown, as well as nearby neighborhoods, to create a welcoming culture for innovation, entrepreneurship, and community.<sup>19</sup> An especially promising sign was the 2015 purchase of a fixer-upper at 726 E. Weber Ave by a San Francisco couple who moved their furniture business to downtown Stockton.<sup>20</sup>

### LOOKING AHEAD

With a focus on downtown redevelopment, the city is moving aggressively to build connectivity and density in the heart of



Stockton. These efforts are laudable, as are public and private ventures to build bike lanes, construct multi-unit housing, hold arts events, and launch new restaurants in the area. Private companies and nonprofit organizations can help as well by locating in the area and generating more foot traffic and street activity. Given all the catalytic work that the San Joaquin Community Foundation does in the area, it was surprising to learn that the organization had recently moved its offices out of downtown.

<sup>18</sup> <https://cvbj.biz/2017/09/11/sj-bike-coalition-hosting-stocktons-first-parking-day/>  
<sup>19</sup> Other downtown arts programs include: reat Big Read, Stockton Restaurant Week, Chinese New Year Celebration, monthly Stock Market pop ups, including cultural and holiday festivals, such as Cinco de Mayo Family Festival, Stockton Pride Festival, Stockton Black Family Day Culture Fest, and Stockton Arts Week.

<sup>20</sup> <http://www.recordnet.com/article/20150825/NEWS/150829771>

## Amenities *cont.*

After undergoing considerable turnover in recent years, the Downtown Stockton Alliance can play a central role establishing temporary pop-ups, festivals, and activities that bring Stocktonians and visitors downtown and catalyze its development. Using the arts as a tool of economic redevelopment is one of the oldest tricks in the book, especially for smaller, post-industrial cities.

Two such examples, although they are taking different paths, include the small city of York, Pennsylvania, which bet big on artists to boost economic development.<sup>21</sup> The second is Laramie, Wyoming, which is supporting the small creative community to make its downtown more inviting for people to not only visit, but stay.<sup>22</sup> Similar activities, albeit at a larger scale, are core programs of business improvement districts that have fostered the emergence of the neighborhoods of Capitol Riverfront in Washington, DC, and DUMBO in Brooklyn, New York. Stockton would be well-served in uniting the creative community with the Downtown Alliance and local funders to expand cultural activities and creative live-work spaces while supporting the growing arts community.



<sup>21</sup> <https://www.citylab.com/life/2017/09/the-difference-a-diy-cultural-revival-can-make/538812/>

<sup>22</sup> <https://www.citylab.com/equity/2017/09/tactical-urbanism-comes-to-outlaw-country/537429/>

# University Engagement

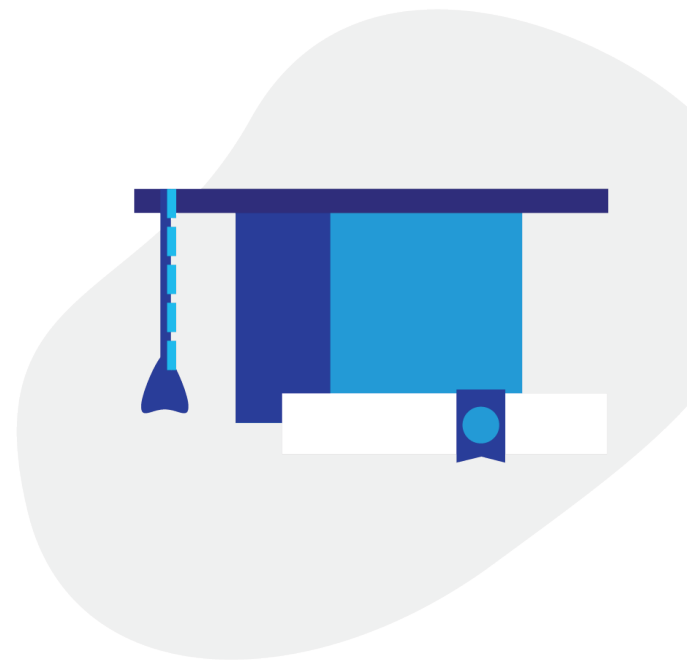
## WHAT IT IS

As anchors of higher education, universities serve a critical role in catalyzing innovation-based economic development. A university campus is a unique space that connects multiple disciplines where business students can collaborate with computer science or engineering students to create a new service or product. The infrastructure of campuses is also a force multiplier for innovation, where professors can be mentors and event partners, and clubs form around classes. University research and development work can spin out new companies or support creative new directions for large employers.

A study by the London School of Economics details just how a big a role universities play in urban economic development.<sup>23</sup> It finds that universities themselves have a demonstrable impact on economic output, and even on democratic values that promote equity and civic engagement that make communities more attractive.

## STOCKTON'S POSITION: BEGINNING

Two major institutions of higher education are located in Stockton—University of the Pacific and Delta College—and a third, California State University, Stanislaus, is establishing a campus in Stockton.



Currently, no prominent resource center or incubator is present on these campuses serving students and faculty curious about converting their ideas into a business (Delta College's Small Business Development Corporation primarily serves those from outside the higher ed community).

Connections with off-campus incubators like Huddle are not institutionalized, meaning that students and faculty must find them on their own. There is no recent example of a successful business being spun out of local institutions of higher education, nor did we find evidence of major R&D being conducted on behalf of local employers. Significant agricultural research is more concentrated to the south, at Fresno State.

<sup>23</sup> <https://www.citylab.com/equity/2017/11/how-universities-foster-economic-growth-and-democracy/545051/>

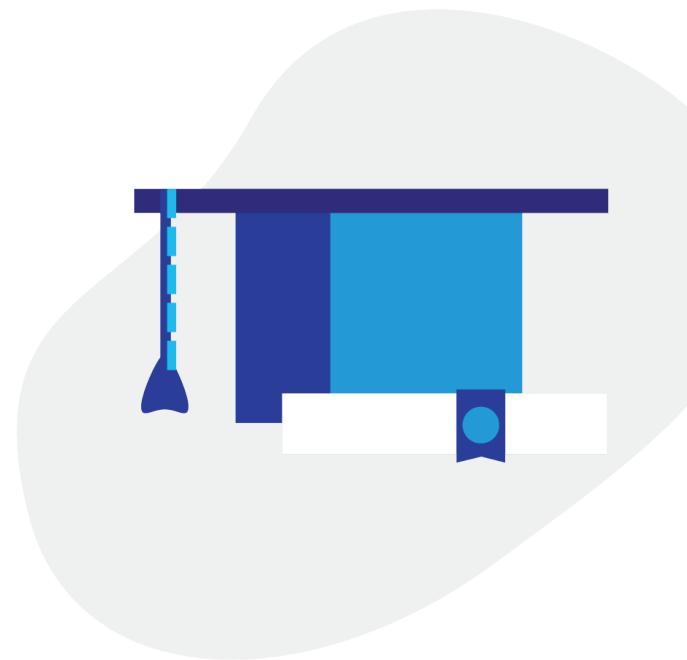
# University Engagement *cont.*

## LOOKING AHEAD

It is hard to think of an economically thriving city where universities are not at the heart of the innovation ecosystem. As an initial step, it is in Stockton's interest for university students and faculty to give a consistent answer when asked, "Where can a student go to get help launching a business?" Building ties to incubators and local R&D efforts can also help.

The most prominent new opportunity is the establishment of the California State University extended campus in Stockton. The mayor and local businesses, as well as the San Joaquin Community Foundation, should think carefully about how to engage the campus in identifying programs that can contribute to the innovation economy. These efforts could become a catalyst toward building a network of programs at all institutions of higher education that connect students/lecturers/professors to entrepreneurs, including enhanced connections with public education facilities and programs (like the new Fab Lab). The University of California, Merced is also a new potential source of engagement, with the expansion of its Venture Lab to Stockton. While its resource level is unclear at the moment, it is a potentially important

new resource to work with the community, especially to engage the growth of "grey economy" businesses in South Stockton. As a model, Stockton can look to how the University of Minnesota has turned research into local business opportunities.<sup>24</sup> Its programs include pairing university researchers with local entrepreneurs and business leaders to develop ideas into commercially viable practices, allowing businesses to invest up-front into university-sponsored research, and tapping local business connections to help the university qualify for federal grants for commercialized research.



# Tech Training

## WHAT IT IS

Beyond public schools and higher education, software training programs and tech internships play important roles preparing local residents—especially younger residents—to work in an economy whose evolution is increasingly powered by software and design. Companies like General Assembly provide intensive classes for adults pivoting into a career of software development, while coding classes and tech internships can nudge high school students toward future tech employment.

## STOCKTON'S POSITION: BEGINNING

There is currently no for-profit coding academy in Stockton that augments the computer science classes available at the University of the Pacific and the The San Joaquin County Office of Education. That said, we were impressed by the County Office's Center for Educational Development and Research, which provides software and services for over 5,000 school districts and 120,000 educators. This is the type of "hidden" innovation that needs to be celebrated, but also needs to be connected to broader training (and



entrepreneurship) initiatives in the city. We believe there could be hidden opportunities with sectors like health care, agribusiness, and banking.

As of writing, no citywide tech internship program exists, perhaps because of the relative dearth of established tech companies within the city. But as of the Stockton Scholars launch in January 2018, Code HS announced that they will begin providing 2 years of free coding resources to the entire city of Stockton.

## Tech Training *cont.*

### LOOKING AHEAD

The success of coding academies and tech internship programs hinges on employers participating by hiring graduates and interns. Because few companies in Stockton at the moment specialize in technology, it may be difficult to create these programs from scratch. However, it's also worth exploring the internal technical needs and tech pain points of existing companies; some of the regional healthcare companies we spoke to expressed extreme challenges around recruiting for technology and data roles.

There could be opportunities to explore how Stockton can provide incentives that engage business to develop targeted technology training. For example, Amazon has developed a strategic partnership with Maricopa Corporate College to provide training to its employees in fulfillment centers.<sup>25</sup> FedEx has similar programs with its own associates that enable e-learning, as well as partnership with local community colleges for on-site classes before or after shifts.



# Local Government

## LOOKING AHEAD

Local government can enable business formation by making it easy for entrepreneurs to gain necessary licenses and permits, and also by acting as a disseminator of information for resources available across agencies. Many entrepreneurs value having a person or office they can contact with questions about navigating government. City leaders also can be vocal boosters for local entrepreneurs, providing valuable validation of their products with pilot tests and media exposure with press quotes and mayoral visits.

## STOCKTON'S POSITION: INTERMEDIATE

Stockton's economic development office has made resources available on its website such as its New Business Checklist.<sup>26</sup> But local entrepreneurs and creatives seem unaware of the information, suggesting a gap in communications. No one we met identified a "front door" in Stockton city government that they could approach with questions. No individual in city hall is specifically tasked with supporting or engaging with startups (such a dedicated role may be infeasible given the many responsibilities and limited staffing managed by the economic development department).



That said, Mayor Tubbs has clearly made innovation and startups a priority, and he is a frequent visitor to local incubators. In summer 2017, the Mayor's Office launched a partnership with Kiva to bring their crowdfunding platform to Stockton and offer no-interest loans to small businesses in the city. His efforts to build bridges to Silicon Valley have also earned the city credibility in the Bay Area. Local entrepreneurs and creatives are confident that they have the city's support, even if navigating government gives them headaches.

The city has not yet established clear policies to support startup growth, such as, for example, committing the mayor to meet with any startup that raises over \$50,000 of capital or using social media and press releases to help local startups gain valuable external validation.



# Local Government *cont.*

At present, no program is in place to help local startups pilot products with the city.

The city certainly recognizes the importance of conveying information clearly to entrepreneurs and local businesses and has taken steps to put such information online. Given the mixed feedback from intended recipients of such information, it could be useful to survey local creatives and entrepreneurs to see how they perceive the information's availability and ask how its delivery could be improved. A model for this work is in LA where a new online portal is guiding entrepreneurs through layers of bureaucratic red tape.<sup>27</sup>

City leaders can support startup-fueled economic development in many ways, without dipping into public coffers.<sup>28</sup> An easy process for business licensing and registration can nudge prospective entrepreneurs to take the plunge. Creating a startup advocate position within city hall—as Seattle has done—can give founders a useful “front door” when they have questions about setting up shop or navigating city government.

The city can leverage Mayor Tubbs' growing national visibility to give a



spotlight to local ventures, and it could also create a program to help startups pilot with the city directly. Mayor Tubbs could also venture to the Bay Area to meet startups—especially those whose founders have ties to San Joaquin County—to invite them to visit the city and potentially establish a presence there.

For these efforts to succeed, Mayor Tubbs will need external allies who share his vision to build new local businesses and tap into the Bay Area's economic engine. Whether a “kitchen cabinet” (informal sounding board for startups) or something more formal, private support can ensure that Stockton's new innovation-based approach toward economic development endures when public leadership changes.

<sup>27</sup> <https://www.citylab.com/solutions/2016/09/los-angeles-boost-to-small-businesses/500966/>

<sup>28</sup> <https://www.citylab.com/solutions/2017/11/the-right-way-to-support-your-citys-local-startups/546764/>

## SUMMARY

# Bringing It All Together

**B**y almost any standard, Stockton is a much healthier city than it was during its fiscal crisis six years ago. Today the population is growing, the poverty rate is falling, housing values are increasing, and schools are improving. The city is grabbing national headlines for its visionary basic income demonstration instead of for its rates of crime or foreclosure. A number of bars, cafés, and apartment buildings have emerged in downtown Stockton—with bike lanes arriving soon. As the neighborhood develops and densifies, its appeal is likely to grow for the millennials and college graduates who in the past have tended to leave the city.

As encouraging as these signs are, Stockton faces real challenges compared with peer cities in leveraging innovation to power its economy. It is a red flag that no one seems to know of a successful startup exit or a growing Stockton venture that has spun out of the Port, a university, or a major local employer.

The absence of Fortune 1000 headquarters—striking in a city Stockton’s size—limits the city’s capacity to provide mentors and corporate guidance for aspiring entrepreneurs. While Stockton does have a small and enthusiastic community of aspiring entrepreneurs, no local startup seems to have recently raised a funding round over \$500,000. The distribution and logistics employers that have lately gravitated toward Stockton seem unlikely to spin out new businesses either, since much of their employment is low-skilled. Companies that rely on higher-skilled workers seem concerned about the quality of the schools and workforce, suggesting that the city’s focus on education with the Stockton Scholars is wise from the perspective of economic development as well.

But the city does have one asset that few peer cities can match: proximity to Silicon Valley, one of the world’s greatest sources of

business formation and growth. Although Stockton has historically identified as being part of the Central Valley, the city may want to consider strategies to strengthen ties to the Bay Area—especially at a time when skyrocketing housing costs are pushing residents east, and as teleworking gains popularity. If tech workers are commuting from Stockton to San Jose three days a week and teleworking for the other two, perhaps they could be induced to launch their own ventures in Stockton and spare themselves the trip. It should also be noted that creative companies have started moving to Stockton from the Bay Area.<sup>29</sup> Artistic communities being harbingers of tech communities has become a common phenomenon nationwide.<sup>30</sup>

Broad interest in Mayor Tubbs is also an asset in building local companies. Though many young residents of Stockton leave after college, by all accounts they maintain a deep loyalty to their hometown.

<sup>29</sup> <http://jllcampaigns.com/jlltechspec/articles/fringe-neighborhoods>

<sup>30</sup> Artistic communities being harbingers of tech communities has become a common phenomenon nationwide

## Bringing It All Together *cont.*

The mayor, perhaps along with groups like the San Joaquin Partnership, could host events for the “Stockton diaspora” in the Bay Area to tell them about the recent good news coming from Stockton, and to invite them to support the city’s turnaround by expanding their business there—or at least coming back to mentor local startups (particularly important given the relatively shallow local pool of mentors). The city or San Joaquin Foundation could perhaps organize a city tour for such returnees.

While deepening connections to Silicon Valley is a wise long-term strategy, Stocktonians can take a number of immediate steps to increase the likelihood that new ventures form and grow. The city could ask local entrepreneurs how it can better disseminate information about how startups and creatives can obtain permits and navigate agencies. The Downtown Stockton Alliance can organize events and activities that generate more “collisions”

that subtly spur economic activity.

Transportation leaders can explore ways to expand mobility options to and from the Bay Area, such as commute-friendly Amtrak service to Oakland. Universities and colleges can jointly develop resources to help faculty and students explore whether their ideas might turn into scalable businesses. And civic leaders from all sectors can encourage people with expertise to support the city’s nascent incubators.

Stockton does not currently have some of the innovation building blocks that other cities take for granted, like sizable corporate headquarters or locally focused angel investing groups. But if nothing else, the creativity of Stockton Scholars and the basic income demonstration have shown that Stocktonians are prepared to embrace risk and invest in the city’s future workforce. There is every reason to believe the city can build an economy for the future as well.

# Summary of Top Observations/Recommendations

- Growing ties between Stockton and Silicon Valley are a tremendous opportunity. Consider personal outreach from Mayor Tubbs to Valley tech leaders, events in the Bay Area targeting Stocktonians who have moved east, and tours of Stockton to educate those curious about local philanthropic and professional opportunities.
- Stockton's downtown is a critical environment for innovation-based economic development. Bringing new housing density to downtown is a long-term, capital-intensive investment, but in the near term, the Downtown Alliance can promote adaptive reuse of buildings, activities and markets for artists, and temporary activation of assets like parking spots and vacant storefronts.
- Stockton struggles to retain well-educated young people, and employers considering expansion express concern about the city's supply of managerial and technical talent. Improving the public schools and building a vibrant downtown with multimodal transit options will help.
- Stockton does not have certain assets that many other cities do, such as the presence of Fortune 1000 headquarters or large philanthropies. Given those constraints, Mayor Tubbs' outreach to Silicon Valley benefactors is a smart strategy to bring resources to the city—especially those oriented toward innovation.
- Huddle and Café Coop, Stockton's fledgling incubators, are beginning to serve as entry points for creatives and entrepreneurs. Corporations, universities, and the city can support them with visibility, sponsorship, and mentors.
- While city officials believe that the information about licensing, permitting, and launching a business is easy to find online, those outside government do not share that view. Officials should ask small business owners and creatives what information they most need, and how it could be most easily delivered.
- There is no physical or virtual "front door" allowing a newcomer to Stockton to access opportunities around the local startup scene or events targeting creatives. Such a platform could be as simple as a user-maintained Facebook group or Slack channel.

## Summary of Top Observations/Recommendations *cont.*

- Local universities support entrepreneurship, but there is no obvious place where faculty or students can go to get help exploring whether they want to turn their ideas into viable businesses. Such a resource—which could potentially be tied to Huddle and Café Coop—would be beneficial to many institutions.
- The city needs a cadre of Stockton representatives that can supplement and support Mayor Tubb’s outreach to the Bay Area. This outreach should not only reflect formal economic development “recruitment,” but also the nature of the innovation economy itself by mixing social, cultural, and business networks.

# About the Authors



David Zipper is a Fellow at the German Marshall Fund's Urban and Regional Policy Program. From 2013–17, Zipper was the managing director for Smart Cities and Mobility at 1776, a global entrepreneurial hub with over 1,300 member startups. As managing director, Zipper connected hundreds of entrepreneurs to urban leaders eager to deploy their solutions, and he closed millions of dollars in partnerships with cities and corporations worldwide. He continues to support 1776's mission by serving as a partner in the 1776 Venture Fund, where he oversees investments in smart cities and mobility startups. Zipper previously served as the director of Business Development and Strategy in Washington, DC. Zipper served as executive director of NYC Business Solutions in New York City under Mayor Michael Bloomberg. Zipper holds an MBA with highest honors from Harvard Business School, an MPhil in Land Economy (urban planning) from the University of Cambridge, and a BA with high honors from Swarthmore College. He has been selected as a Truman Scholar, Gates Scholar, and Lang Scholar.



Robert Bole is the General Manager, CityLab and Director of Global Strategy at The Atlantic, focused on assisting their growth in international markets. He has played similar roles at The New York Times and The Broadcasting Board of Governors, a federal agency that oversees five regional media networks. He is also a Senior Fellow for Public Diplomacy at the American Foreign Policy Council and a Board Member of Internews, a global NGO protecting and promoting a free and independent press.

## APPENDIX

# Building Blocks of Innovation-Based Economic Development

These are the basic building blocks of innovation-based economic development, along with the criteria for determining the level of a city's sophistication in each building block.

## CORPORATE ENGAGEMENT

### Beginning

1. Corporations concentrate R&D within their own offices
2. No corporate engagement with incubators
3. No structured relationships linking corporations with local universities

### Intermediate

1. Corporate sponsorship of incubators, but limited programming for corporate staff there
2. Programs linking individual corporations to relevant university programs for R&D purposes

### Advanced

1. Curated mentoring programs connecting entrepreneurs and corporate executives
2. Programs (often at incubators) that connect researchers at various local corporations to one another
3. Organized and value-added services to startups from local associations or chambers of commerce
4. Regular “switch pitch” events in which corporate leaders present challenges to groups of entrepreneurs who can offer suggested solutions

## STARTUPS

### Beginning

1. No well-known startup champion
2. No recent startup exits (i.e., sale of a startup to another company or going public)
3. No clear mechanism to communicate with other startups or publicize startup-oriented events within the city
4. Events for startups are very few, and lightly attended

### Intermediate

1. Some informal and formal organized events for startups and local entrepreneurs
2. Informal newsletters, Slack channels, Facebook groups, etc., for local entrepreneurs
3. Occasional exits from local startups

### Advanced

1. Regular activities and gatherings for startups, including those for particular sectors (health, gaming, etc.)
2. Very active online communities for entrepreneurs
3. Visible, well-attended annual event to showcase startups throughout the city
4. Presence of a well-regarded “startup champion” who has launched a very successful company and is engaged in the local ecosystem
5. Regular cadence of local startups successfully exiting



## INCUBATORS AND MAKER SPACES

### Beginning

1. No local shared workspace with programming specific to entrepreneurs
2. No active or sparsely attended networks of entrepreneurs or technology groups
3. No maker space open to the public, or to paying members

### Intermediate

1. One or two shared workspaces open to entrepreneurs and others.
2. Weekly programming at the sites with mentors from local area
3. Limited corporate partnership
4. Limited (if any) engagement with local universities and other institutional research or anchor institutions

### Advanced

1. At least one shared workspace specifically dedicated to entrepreneurs
2. Robust schedule of events that appeal to people of different backgrounds (entrepreneurs, corporate executives, investors, general public, etc.) and to curate connections among them
3. Regular visits from high-level investors and public/private leaders from outside the area
4. Programming for members to team the basics of launching a business
5. Daily meetings arranged between members and mentors
6. Data collected about members' growth
7. Widespread acknowledgment that an aspiring entrepreneur new to the area should visit the incubator first
8. Engagement that goes beyond sponsorship with major employers and the public sector
9. Robust social media presence

## COLLISIONS

### Beginning

1. R&D activities within corporations are siloed, as is university research
2. Hiring at corporations for creative roles generally done internally, or from people out of the area

### Intermediate

1. Occasional programs like pitch events that bring together people from across employers and sectors
2. Job boards that help people learn about opportunities at nearby companies

### Advanced

1. Ongoing mix of meetups for creatives with particular interests around a sector (i.e., energy innovation) or professional goal (i.e., prospective co-founders meeting one another) Ideally these are managed by a mix of various people, though there is a unified way to disseminate information
2. Events at an incubator or chamber that nudge seasoned corporate leaders to meet creatives they never otherwise would (i.e., switch pitches)

## INVESTMENT

### Beginning

1. No active angel networks
2. No local VC offices
3. No successful entrepreneurs reinvesting locally
4. No events that draw out-of-town VC's
5. Very few people with disposable income invest in startups

### Intermediate

1. An angel network meets, but limited investment activity
2. There are institutional investors in the local area, but you have to know the right people to reach them

### Advanced

1. Multiple angel networks compete with external networks (and each other) to invest in local startups
2. Pattern of successful entrepreneurs reinvesting money and know-how into new ventures
3. VC's regularly and publicly visit local entrepreneurs to explore venture opportunities
4. Regular pitch events attract current and prospective investors
5. Robust on-ramps for locals to make their first venture investments
6. Presence of a community venture fund

## AMENITIES

### Beginning

1. Lack of downtown activity after hours (bars, restaurants, entertainment)
2. Difficulty navigating the downtown core without a car

### Intermediate

1. Limited hours of mass transit; bike lane network constrained
2. Downtown core with limited entertainment options
3. Presence of a business improvement district responsible for building amenities in downtown areas

### Advanced

1. Robust bikeshare system in downtown core
2. Multiple neighborhoods offering affordable multifamily housing as well as proximity to grocery stores and entertainment districts
3. Well-used public transit system
4. Heavily used parks and public meeting places

## UNIVERSITY ENGAGEMENT

### Beginning

1. Universities have no incubators (and support no incubators off campus)
2. Universities have minimal tech transfer programs, and licensing revenue from investments is minimal
3. No R&D-based partnerships with local employers

### Intermediate

1. Tech transfer programs exist, but are not heavily utilized by professors or graduate students
2. Incubator on campus that functions mainly as coworking space

### Advanced

1. Programs bring researchers from different institutions together to further research and launch products leveraging departmental strengths
2. Robust R&D-based partnerships with universities and local employers
3. Graduate students and professors have programs (and potentially a space) to collaborate with startups, corporate R&D, and like-minded people at other schools
4. Universities invest—along with the city and employers—in local neighborhoods of innovative activity (like Kendall Square in Cambridge)
5. Programs designed to compel students and faculty to live in the city

## TECH TRAINING

### Beginning

1. Outside of universities, colleges, and high schools, no local classes to train residents in programming and software development

### Intermediate

1. Availability of some programming classes at a local community college or a private company.
2. Informal links between major employers and programming classes lead to graduates occasionally being hired
3. Residents have choices of providers for particular programs

### Advanced

1. Multiple providers offering classes in computer programming as well as related topics like design
2. Well-attended local hiring fairs for program graduates
3. Transparent data available about placement and retention rates for program graduates.

## LOCAL GOVERNMENT

### Beginning

1. No clear “front door” for startups to ask questions of city government or understand municipal purchasing programs
2. Cumbersome procurement rules that drive away prospective vendors, especially small businesses
3. Government leaders (including the mayor) cannot identify the biggest or fastest growing startups in their city
4. No personal connection between most city startups and city officials
5. Lack of entrepreneur development on mayor’s economic development agenda

### Intermediate

1. Identification of a government representative to serve as a liaison to startups but unclear what clout or capacity the person has
2. Effort by city to publicize procurements and familiarize the process to local startups
3. Clear articulation of development of the innovation ecosystem and entrepreneurial development in mayor’s goals and policies
4. Occasional visits from city officials to top startups and pitch events
5. City press offices responsive to requests for publicity around milestones like a funding round, new product, etc.
6. Regular conversations between city leadership and entrepreneur community on governmental challenges and health of the local entrepreneurial community
7. Personal outreach from senior city officials to every local startup that raises capital or exits

### Advanced

1. Empowered person/ office to handle inquiries from startups wishing to work with the city
2. Needs-based procurement
3. Easy-to-follow registration and regulatory information online regarding permitting and startup registration
4. Transparent standards guide city officials’ approach to engaging with startups that want to work with the city, including streamlined process for piloting
5. Active engagement of entrepreneur community in thinking strategically about governmental challenges and innovative solutions
6. City officials proactively introduce local startups to corporate leaders, others who might partner with them
7. City officials proactively provide quotes and tweets to help local startups build credibility
8. Mayor publicly promotes the city at strategic private events—not necessarily tech events like SXSW—that reflect the city’s core strengths around innovation

**CITYLAB INSIGHTS**

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# Innovation-Based Economic Development in Stockton, CA

In February 2018, David Zipper and Rob Bole of CityLab conducted an assessment of Stockton's environment for fostering innovation-based economic development, along with a set of programmatic recommendations for city stakeholders. The following is a simple balance sheet of the ways in which Stockton shows signs of being relatively more or less sophisticated than peers in the elements that contribute to growing innovative companies.



## CORPORATE ENGAGEMENT (BEGINNING)

Established businesses are engaged in catalyzing innovation and spurring business formation. The lack of a strong local corporate base for innovation suggests a limited capacity for the business community to mentor and partner with local startups and aspiring entrepreneurs.



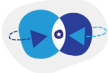
## STARTUPS (BEGINNING)

There is a strong case that generating new good jobs rests on encouraging startups and building stronger startup hubs across the nation. Stockton currently has light startup activity, it is essential that every Stockton-based entrepreneur is afforded access to resources, support, and advice.



## INCUBATORS + MAKER SPACES (INTERMEDIATE)

Good incubators make the entrepreneurial process a little easier by providing mentors, classes, and shared resources that an entrepreneur would not otherwise be able to access. Huddle and Café Coop form the foundation, but more assistance, in particular by local universities could launch the next level of support.



## CREATIVE COLLISIONS (INTERMEDIATE)

Happenstance interactions are a lifeblood for innovation. These kinds of unexpected collisions can take place at industry or entrepreneurial events, through community networks, and at convening places like bars and coffee shops. Stockton has a strong, but informal network that is developing new opportunities for smart, helpful collisions.



## INVESTMENTS (BEGINNING)

Without funding, many otherwise promising startups will wither on the vine. It is not clear that there are enough local investable startups at present to warrant a venture capital fund or even an angel network solely focused on homegrown opportunities.



## AMENITIES (BEGINNING)

If growth revolves around innovation, a city will need places where people can innovate, even if they do not realize that is what they are doing. Stockton's downtown has the kind of "bones" - attractive older buildings, a rich history, and nascent creative community - but there is need for additional investment in the downtown, especially dense, mixed-income housing to support a new class of entrepreneurs.



## UNIVERSITY ENGAGEMENT (BEGINNING)

As anchors of higher education, universities serve a critical role in catalyzing innovation-based economic development. Stockton is blessed with a number of university campuses, including additional programs that are in development. There is a good opportunity to knit these assets together to support entrepreneurs, downtown development and start-up spaces.



## TECH TRAINING (BEGINNING)

Beyond public schools and higher education, software training programs and tech internships play important roles preparing local residents—especially younger residents—to work in an economy whose evolution is increasingly powered by software and design. There are encouraging signs within public schools and universities, but more needs to be done.



## LOCAL GOVERNMENT (INTERMEDIATE)

Local government can enable business formation by making it easy for entrepreneurs to gain necessary licenses and permits, and also by acting as a disseminator of information for resources available across agencies. City leaders have been visible on this issue, but they need broader community support and clear policies to favor entrepreneur development and innovation.