

Returning to Prosperity

Challenges to the Economic Growth

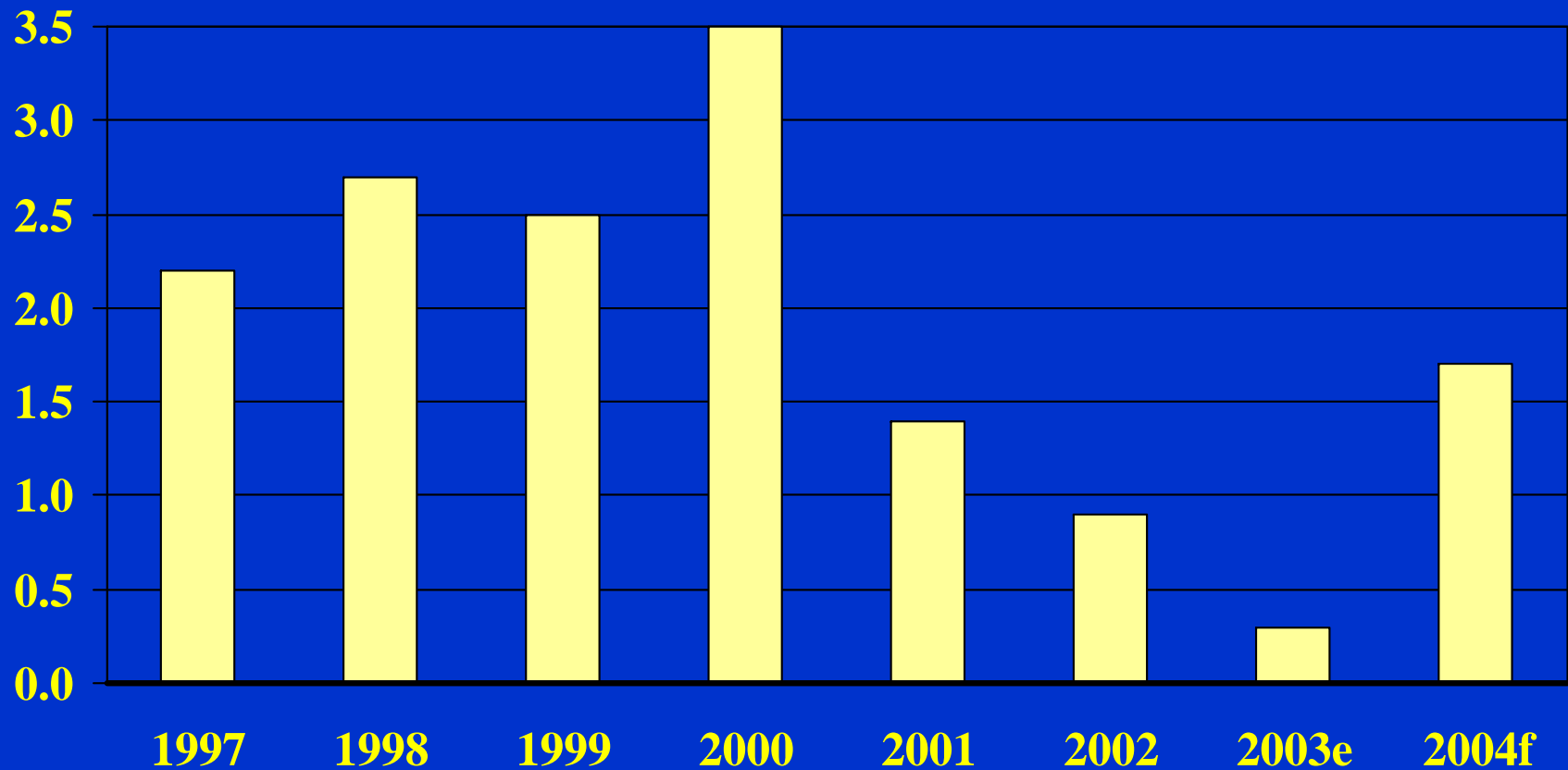
Global Outlook

Projected to expand 4.75%

Driven by gains in U.S., China & India

Eurozone GDP Sluggish

Percent change over prior year



Eurozone

- The European Commission predicts the Continent's economic growth will lag behind much of the world this year 1.7% growth in GDP(U.S.-4.2%, Japan-3.2%, rest of Asia-7%)
- 6 of the 12 eurozone countries-Germany, Greece, France, Italy, Portugal and the Netherlands are predicted to run deficits that exceed the European Union's maximum of 3% of GDP.

Eurozone (con't)

- 10 nations of Eastern and Southern Europe are scheduled to join the EU on May 1st. May be difficult to encourage them to trim large budget deficits.
- Eastern Europe will get major benefits from its conversion to the euro-stability and lower rates- Should in-turn benefit the rest of western Europe through increased competition and cooperation.

Eurozone (con't)

- Russia's economic reforms should gain strength from the upcoming elections. Economic and market prospects remain good.

Dollar forecast to stabilize vs. Euro

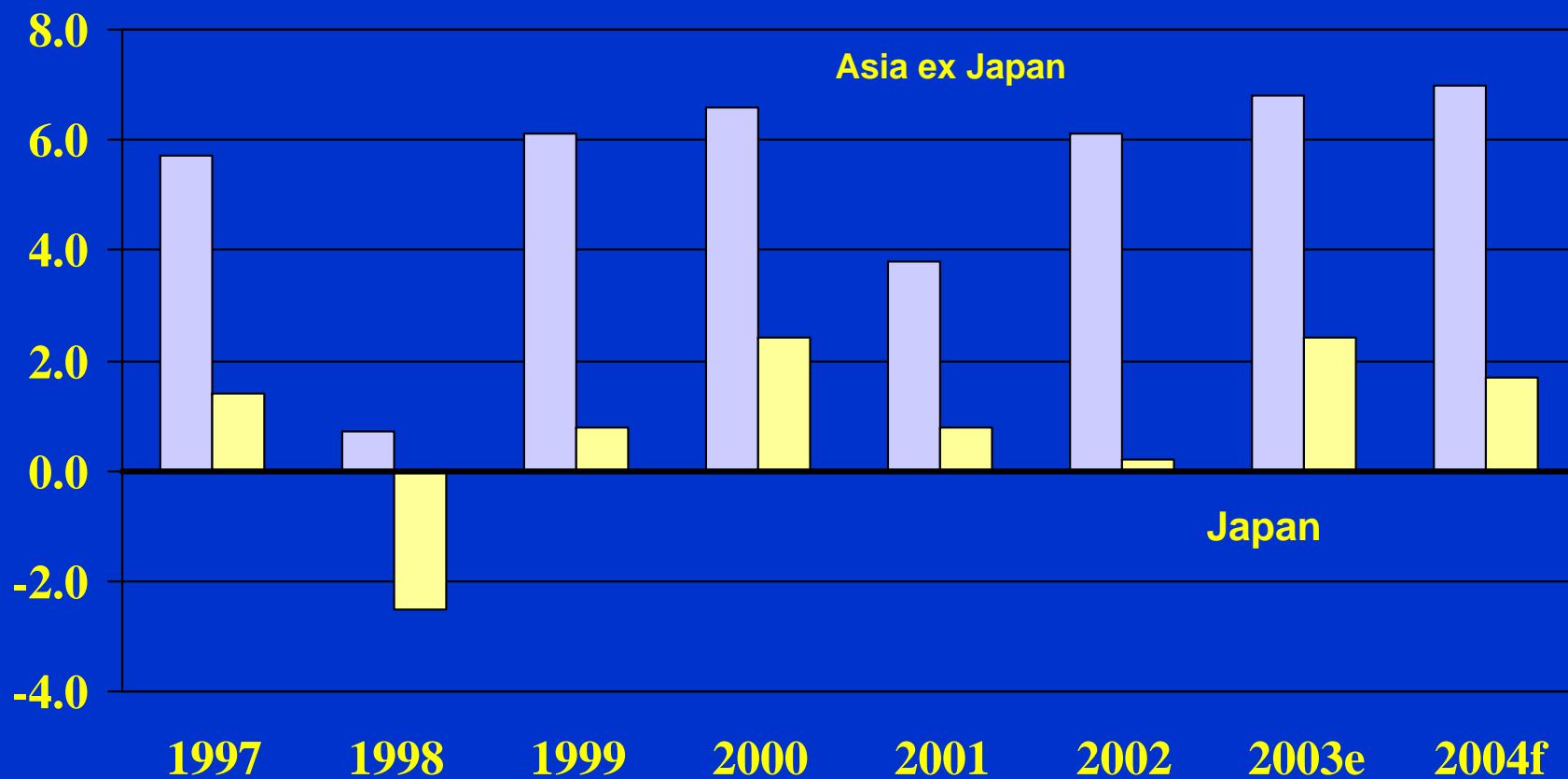
U. S. dollars per Euro, beginning of month



Is the euro strong or the dollar weak? According to Bear Stearns the answer is that the dollar is weak. Euro will strengthen until U.S. raises interest rates, -should end year at \$1.20

Asian GDP Rebounds

Percent change over prior year



Asia-zone

- Japan is becoming a normal economy after 13 years of deflationary distress. 4th Quarter –6.4% annualized GDP growth.
- For all its problems, Japan is the world's 2nd largest economy. It enjoys the world's largest international reserves at \$757 billion and the largest net foreign investment position at \$1.5 trillion.
- Continues to lead the world in many technologies and manufacturing processes.

Asia-zone (con't)

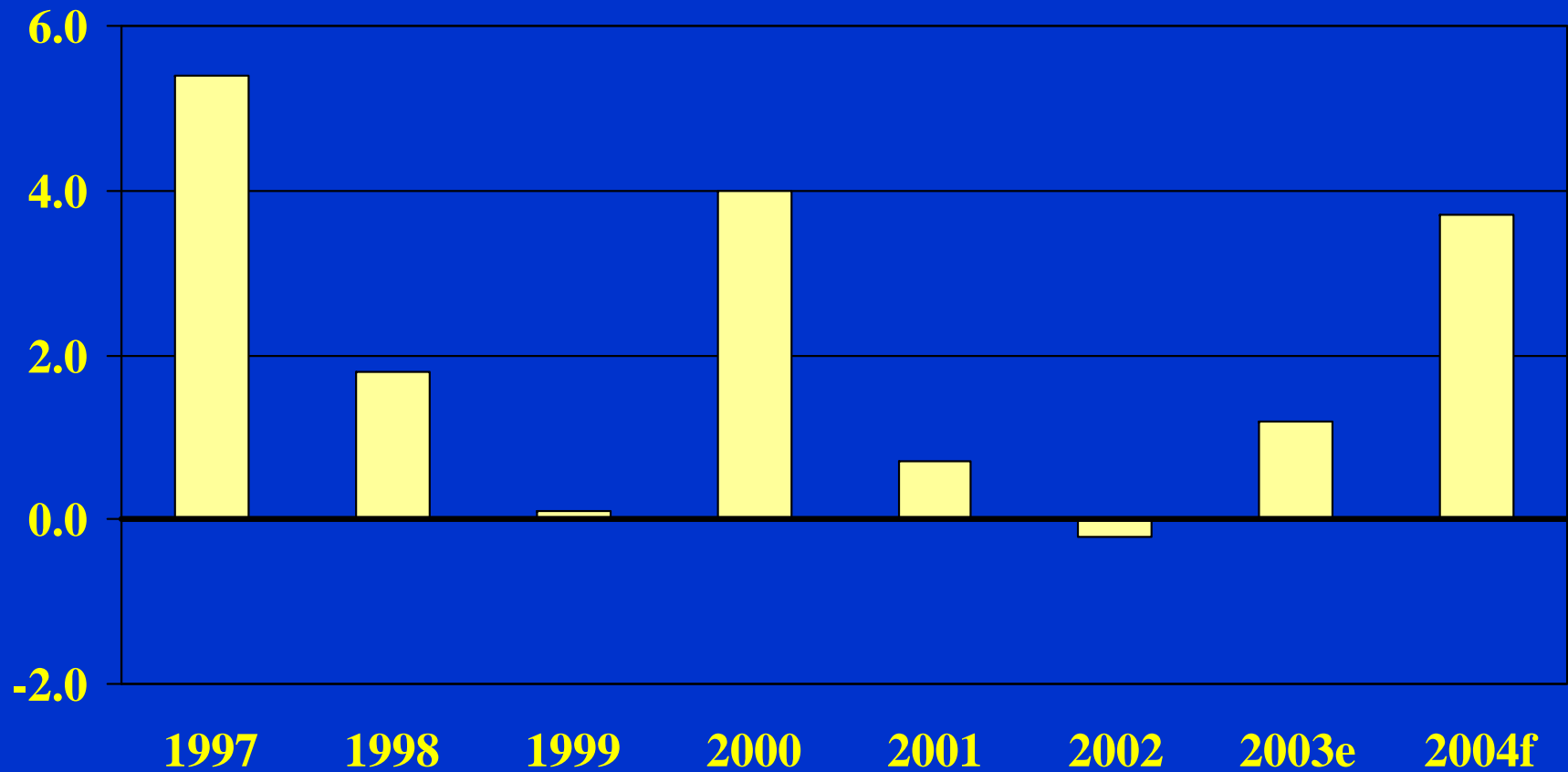
- SARS rebound-China enjoyed 9% growth in GDP-Chinese economy, as a producer and U.S. economy, as a consumer-represent the two main engines in the global economy.
- Inflationary pressures are increasing in China-Corporate Goods Index (measures the price companies pay for goods from other companies) increased 8.3% last month-Could inhibit China's ability to sustain its economic growth. If China stalls, it would be a threat to the global economy.

Asia-zone (con't)

- South Korea-President's impeachment a small step from bad to worse-Adm. Has been beset with high level graft scandals. Economy –rising joblessness, slumping consumption and investment.
- Hong Kong- Strong consumption recovery
- India-Fast growth to continue.

Latin America GDP Gains

Percent change over prior year



Latin America (Brief comments)

- Brazil-Growth too weak, Rates too high, too much political scandal.
- Argentina bounces off the bottom, faces debt restructuring.
- Chile-Economic outlook positive-Industrial production rose and copper production remains strong.
- Venezuela-Recently had a soft devaluation. Government controls imports through a permit system.
- Mexico-Manufacturing recovery-manufacturing exports rose by 10.8% in February-Effects of U.S. rebound are starting to be felt in Mexico. Central Bank on hold.

The U.S. Economy

Recent Recession

- Recession was unique
- Prior recessions-typically a drop-off in consumer spending and recoveries are fueled by spending
- This recession-High levels of consumer spending fueled by low mortgage rates
- Last year alone, refinancing freed up 100 billion for people to spend on everything from cars to clothes.
- In spite of Consumer spending, there was a drop off in business spending

Recent Recession (con't)

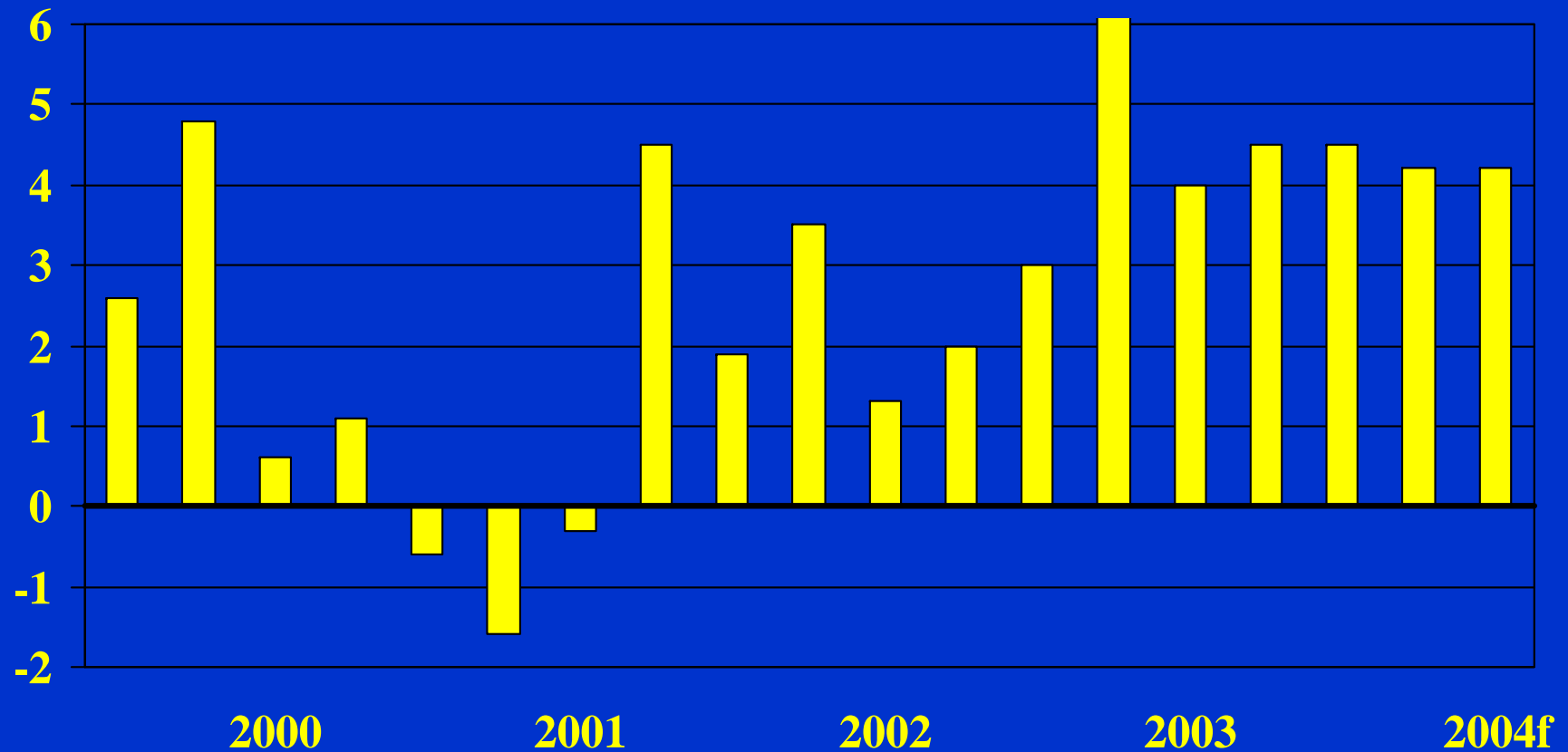
- Business capital spending decreased and most economists believe the best we can hope for is a return to normalcy
- Throughout recession--economy destroyed jobs. (2.3 million lost- Most protracted job-market since Great Depression
- Relentless push for productivity
- American industries, manufacturers, brokerage firms, airlines/hotels adjusting to a new economic order after 90's boom—restructuring dynamic-many jobs not meant to come back
- Intensifying competition from abroad-many U.S. corporations relocating jobs abroad

Recent (con't)

- Low mortgage rates had a powerful impact. The housing sector surged via construction, refinancings and rising prices
- In U.S., home prices increased 38% over the past 5 years

U. S. Real GDP gained momentum in 2003

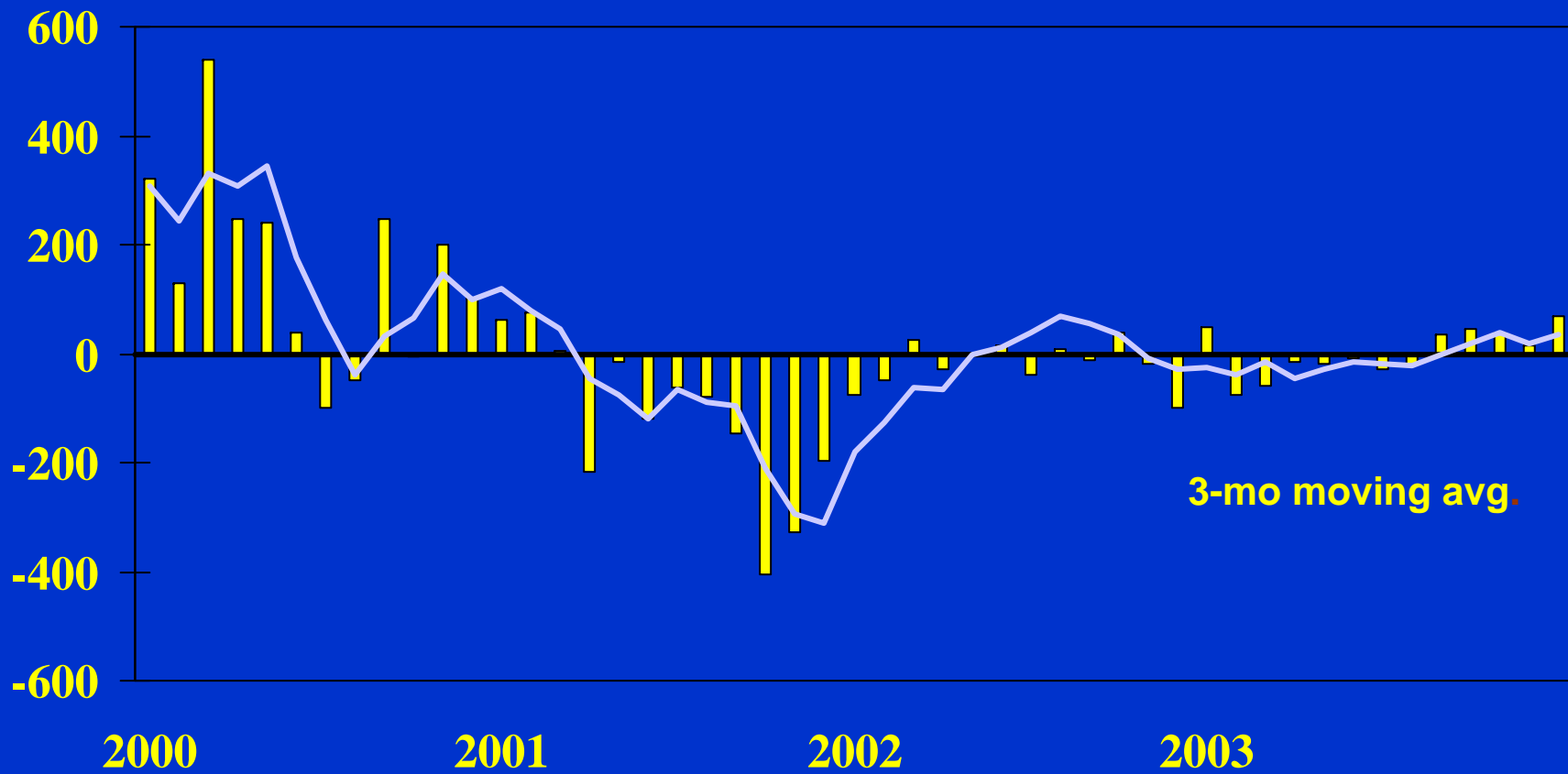
Percent change over prior quarter, annual rate



2004-projection-1st Q-4.5, 2nd Q-4.4%, 3rd Q-4.1%, 4th Q-4%

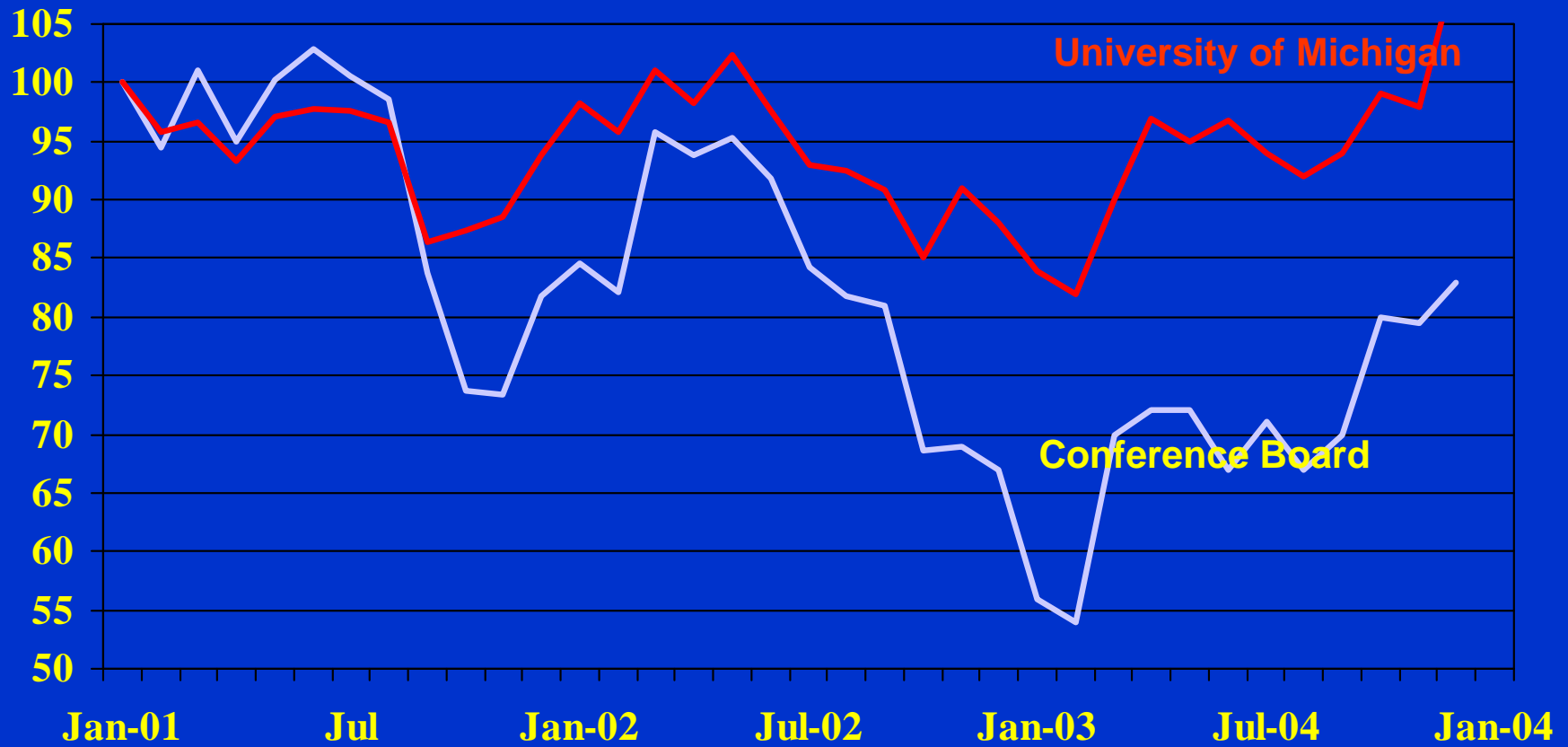
Economy slowly adds jobs

Change in monthly payrolls, thousands



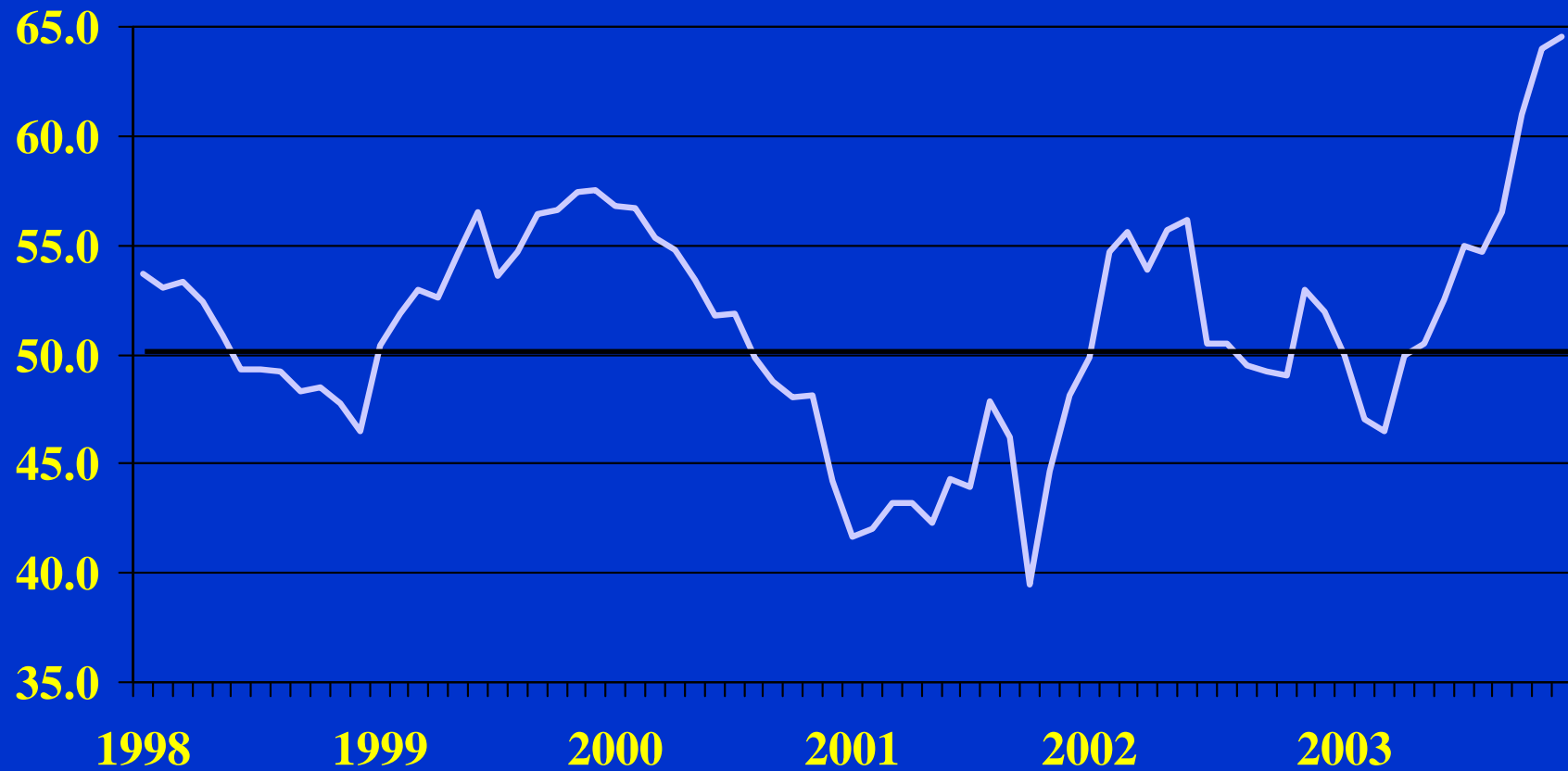
Consumer confidence recovers

Index January 2001 = 100



ISM* Manufacturing Index surges

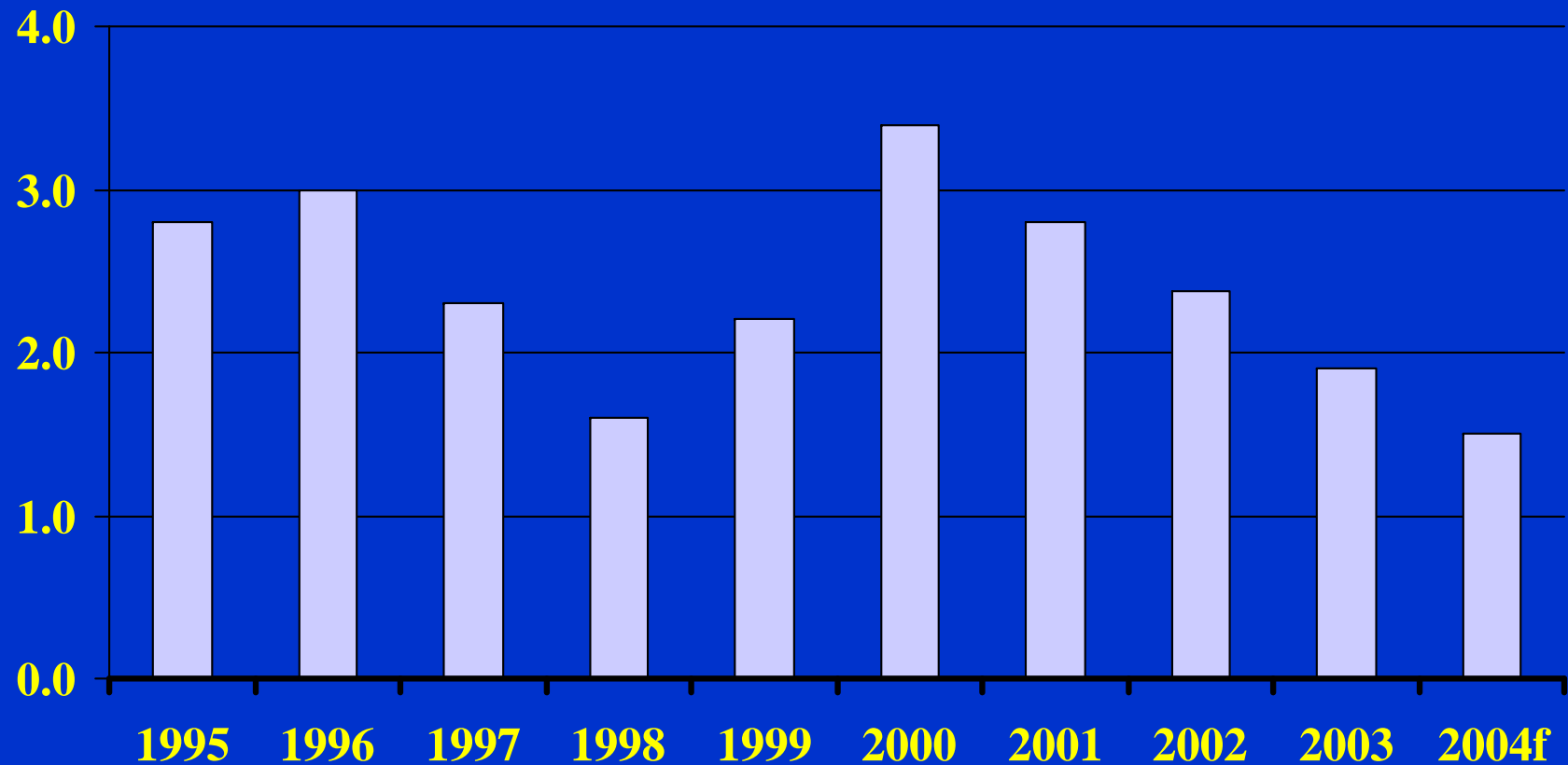
Monthly, percent



*Institute for Supply Management- In March 04-16 year high-19 of 20 industries reporting gains-fallen so low because of low capital spending, weak exports, red. Inv..

Inflation low, but no deflation

Percent change in Consumer Price Index over prior year

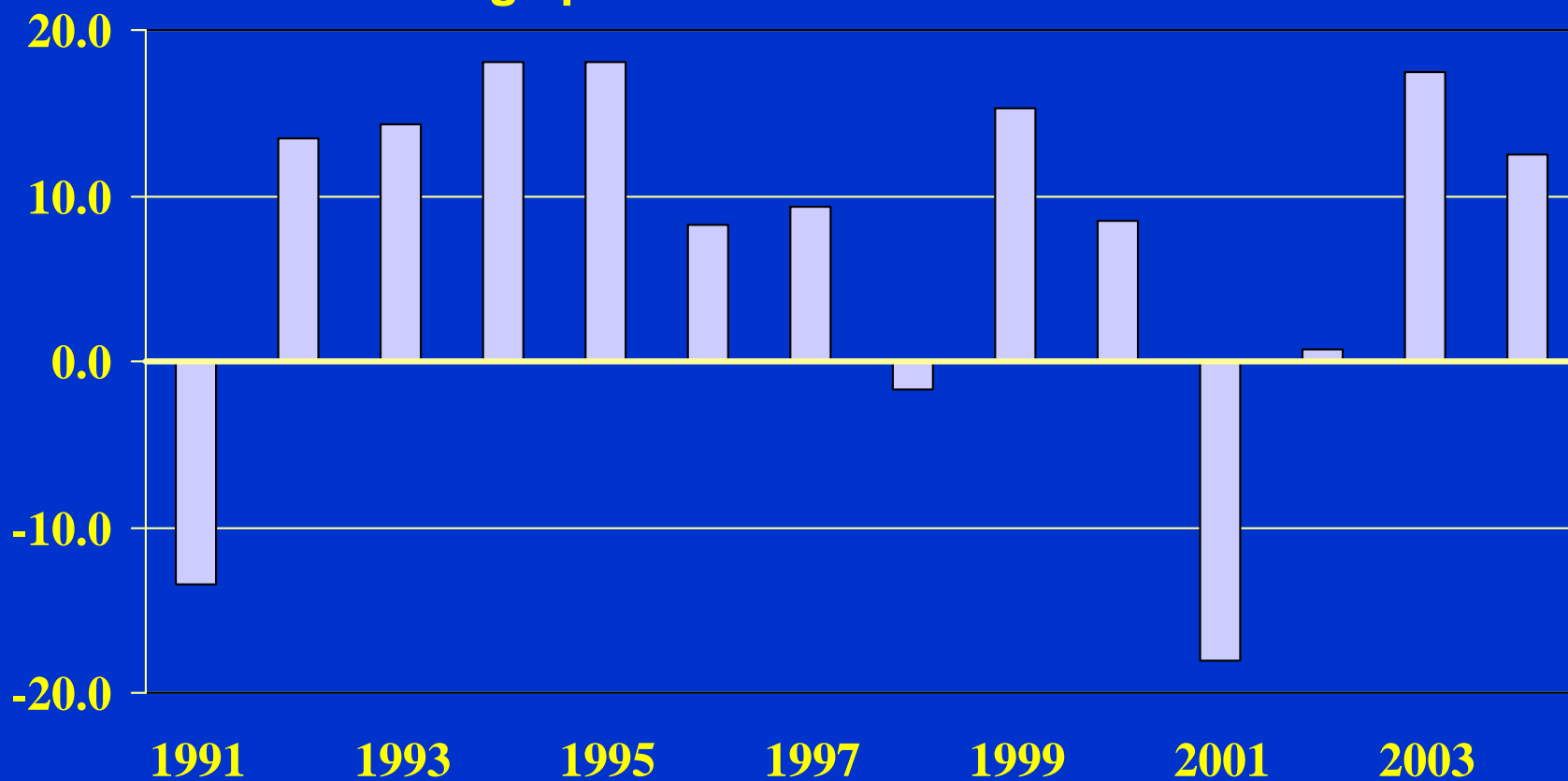




Financial Markets

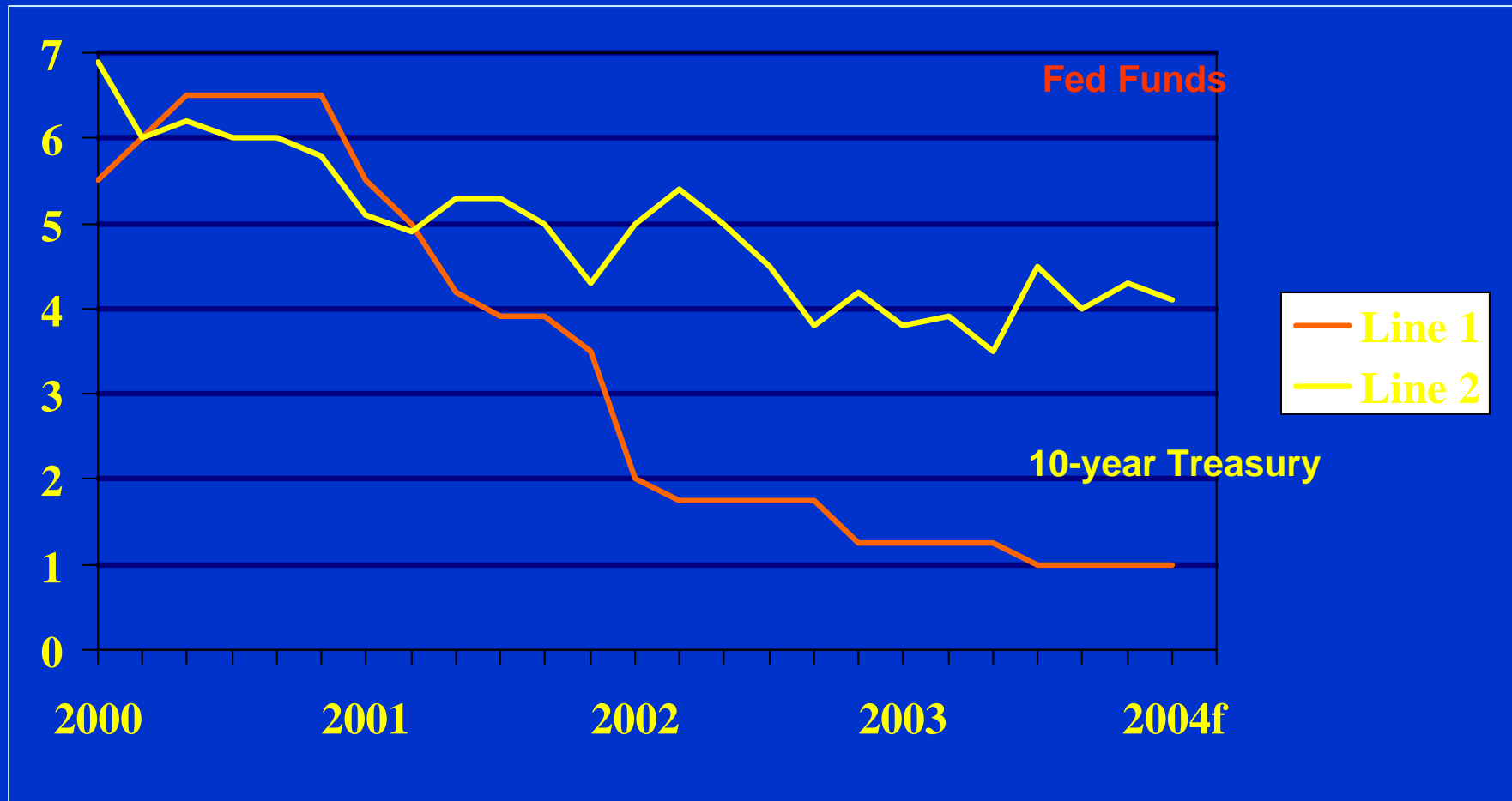
Profits turn higher

Annual percent change in S&P operating earnings per share



Treasuries forecast to lead funds rate higher

Month-end, percent



Current forces affecting the outlook

Positive Forces

- Accommodative monetary policy
- Tax refund and accelerated depreciation
- Weaker Dollar
- Favorable financing conditions
- Low inventories

Risks/Constraints

- High energy prices
- Terrorism or external shock
- Dollar plummets
- China “boom-bust”
- Job growth

Final Thoughts on U.S. Economy

- U.S. still represents 22% of global GDP
- Tax cuts and interest rate stimuli have run their course
- Economy will be hard pressed to find other economic “drivers” to keep expansion going
- Most likely source of economic fuel lies in business spending and the exports sector (over the last 6 months, exports increased 20%)
- March jobs data-Economy added 308,000 jobs-largest # of new jobs since April of 2000-Unemployment at 5.7%

Final Thoughts on U.S. Economy (con't)

- Nation's office vacancy rate declined in the first quarter for the first time in more than three years.
- Nation's apartment market continues to struggle (highest level in 17 years because of low interest rates- luring renters to become homeowners).
- . The consumer keeps spending---so does the government (record deficit).
- In recent months-capital spending, exports and inventory restocking have all begun to improve.

Final Thoughts on U.S. Economy (Con't)

- Outsourcing--Since 2001-690,000 jobs lost abroad (188M –services and 502M in manufacturing)- Small fraction of 58.6 million layoffs during 2001 and 2003. Vast majority of layoffs replaced by new hiring.
- Many economists believe that “outsourcing is being overblown”. While some jobs have been shipped abroad, others are coming back home or are being created in U.S. by foreign companies.

About 14 million jobs , or 11% of the U.S. total have been identified as being at risk of being sent abroad

Types at risk:

Telephone Call Center

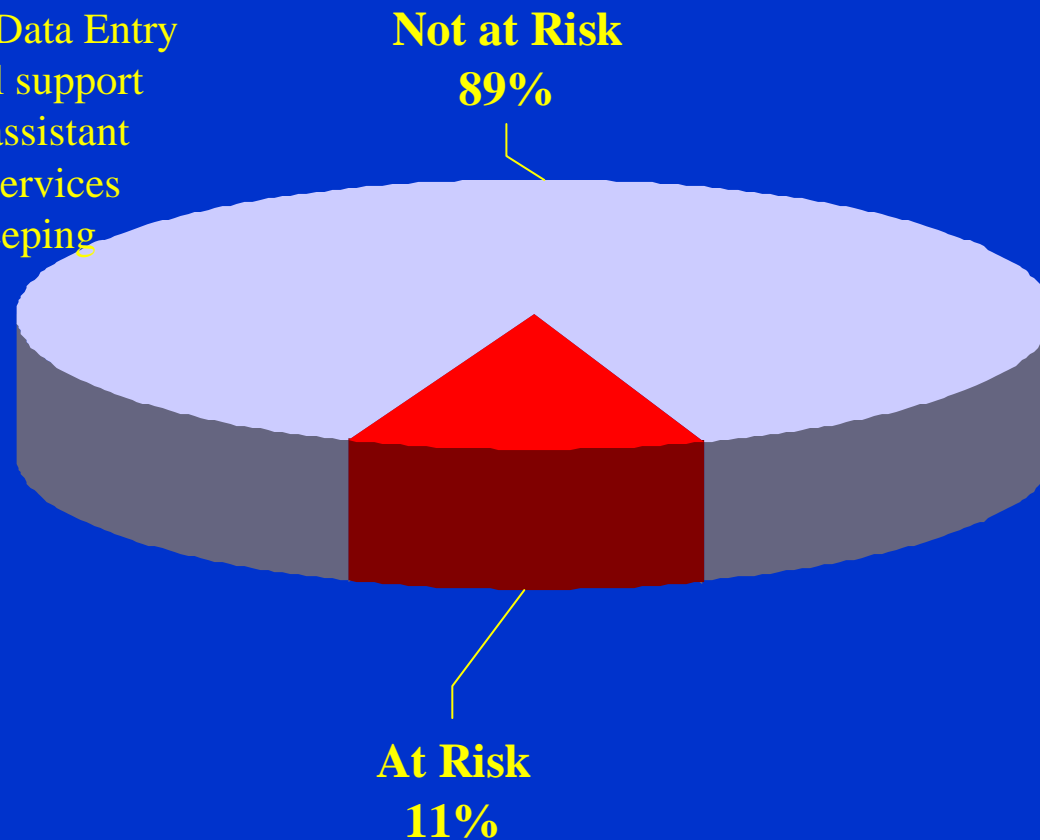
Computer Operator Data Entry

Business & financial support

Paralegal and legal assistant

Diagnostic support services

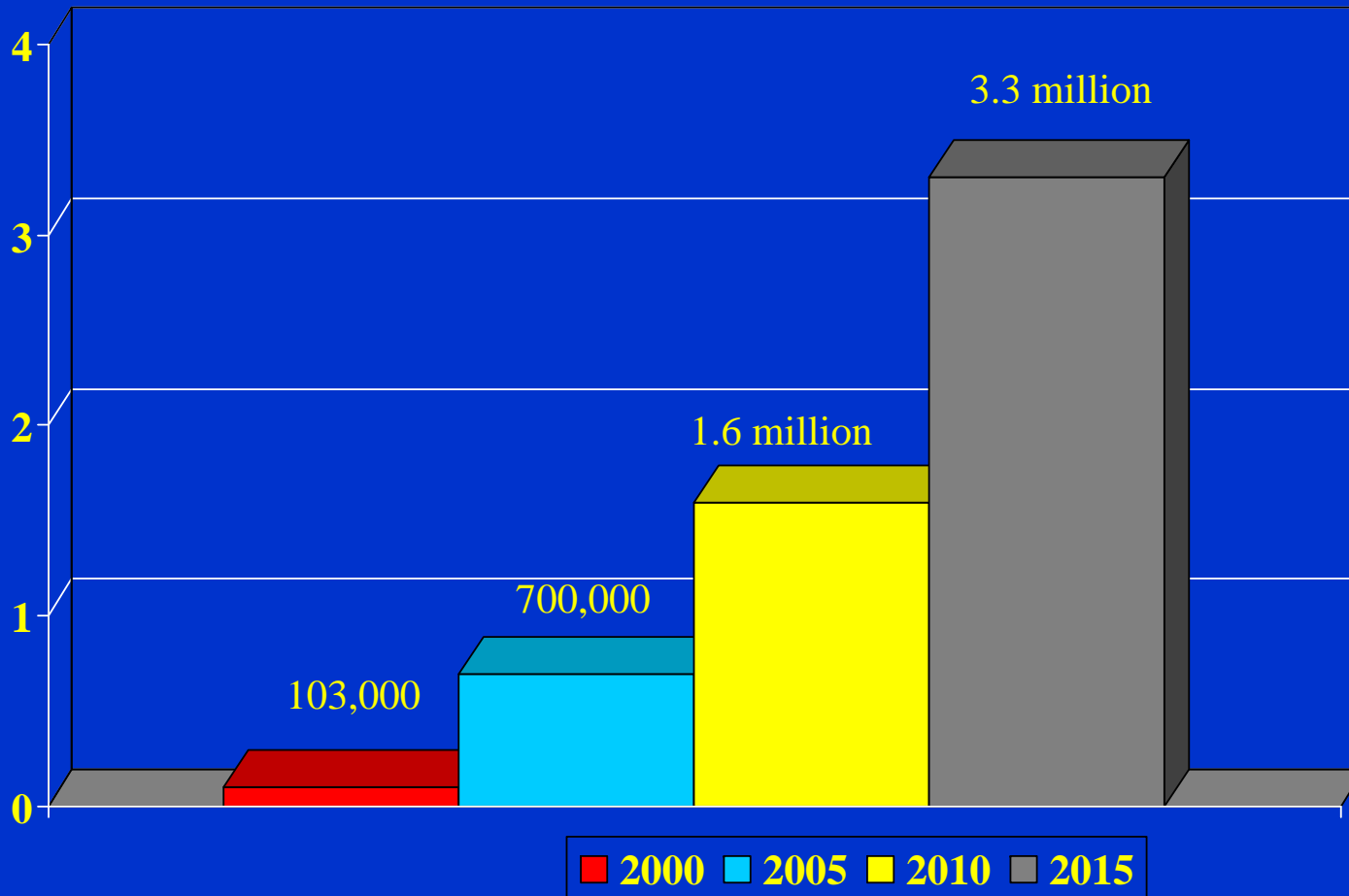
Accounting, Bookkeeping



University of
California

More than 3.3 million U.S. jobs are projected to leave U.S. by 2015

In Millions



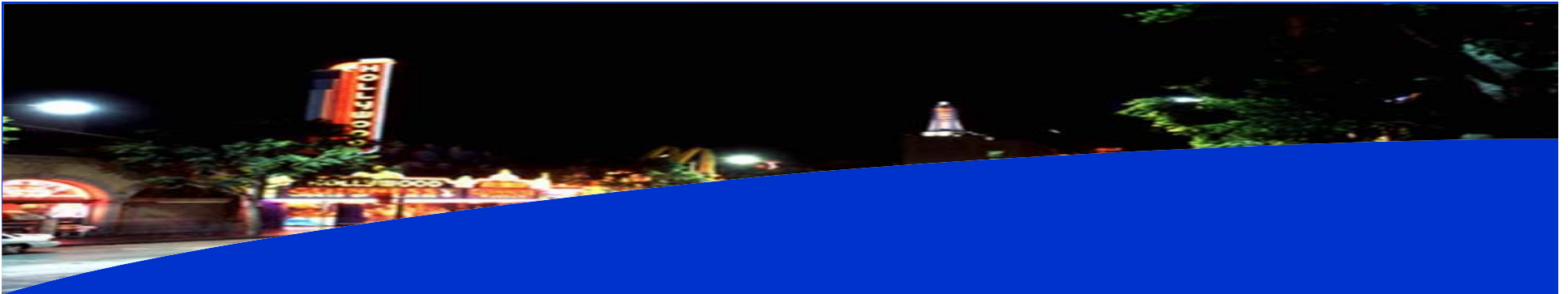
Source: DOF-Census 2000

Typical Annual Salaries of Programmers

Philippines	8,000	
Malaysia	8,500	
Russia	8,500	
Poland	8,500	
China	9,500	
India	11,000	Up to 11,000
Canada	29,000	
Ireland	37,000	
Israel	39,000	
U.S.	80,000	Up to 80,000

U.S. Forecast

- 12% increase in exports
- Steady GDP growth of about 4.2%, with a higher rate if exports exceed the 12% level
- Payroll jobs will grow at 125,000 per month
- Inflation will decline to the 1-1.5% level through 2005



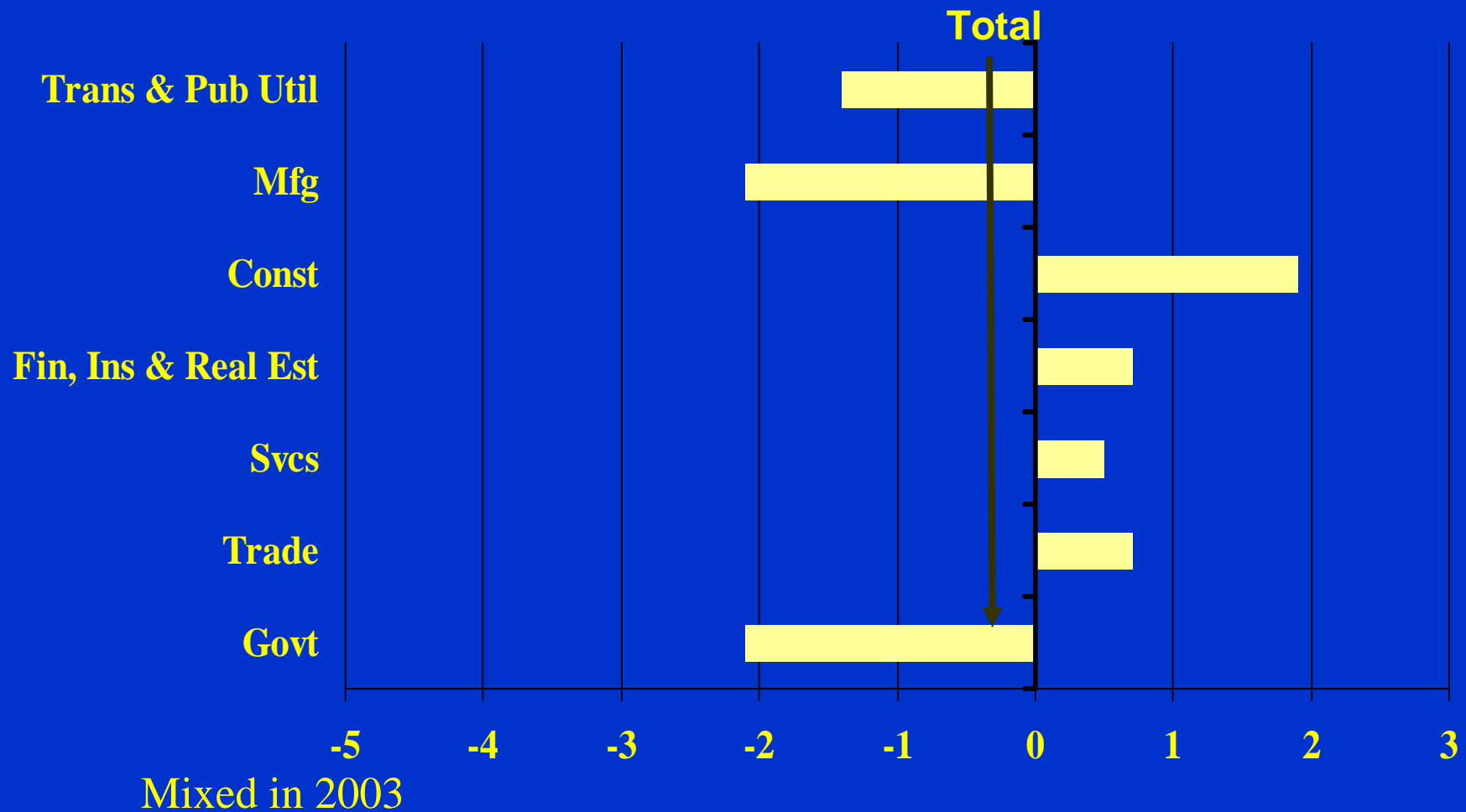
California

Recent Dynamic

- California moving out of the trough of recession
- We have seen job growth for a few months
- Taxable sales are stronger
- Housing remains strong-both in sales and construction

2003 California Job Growth by Industry

Percent change, Dec 2003 over Dec 2002



California Positive Forces

- Defense spending
- Recovery in Technology
- National recovery
- Tourism
- Asian economies-Foreign Trade

California Constraints

- State and local budgets-cuts will reduce public sector jobs by 25,000 over the next 15 months
- Housing prices
- Surging gasoline prices
- High cost of doing business
- Workman's Compensation

Constraints (con't)

- Weak dollar that make imports more costly
- High household debt will limit new purchase of cars and other durables for the foreseeable future

Final Thoughts on California Economy

Highlights and Lowlights

- Strongest sectors are education, health services and finance.
- Education and health services expanded by 10% over the past three years
- Growing senior population and preventative medicine research will continue to stimulate health care growth
- Vitality in financial sector is tied to the still robust real estate market.

Final Thoughts (Con't)

- The housing market will remain strong. Low interest rates will continue to fuel the residential resale market while strong growth in homebuilding will ease because of upward pressure on home prices.
- Information and telecommunications lost 23% of its payroll jobs during the past 3 years—This sector will rebound slightly but remain weak.
- Durable and non durable manufacturing is down more than 400,000 jobs since 2000. Economists are predicting growth in this area is at least one year away.

Final Thoughts (Con't)

- Despite the passage of Propositions 57 & 58, California must still cut about \$12 billion from its fiscal 2004-2005 budget. UCLA economists are predicting that hiring freezes and cuts should cost the state about 25,000 jobs in state and local governments.

Mendocino County

Mendocino County

- County is traditionally last to experience the effects of a boom and last to experience effects of a recession
- County is economically fragile
- County continues to be in economic transition
- Limited industry-becoming more of bedroom community

Who lives in Mendocino County?

- Race Statistics
 - 67.5% White
 - 16.5% Latino *
 - 6.6% Nat. Amer.
 - 1.8% Asian
 - 1% Black
 - 6.6% Other

***Mendocino County Office of Education -2002/2003-25.8%**
Ukiah Unified School District-2003/2004-39.9%

General Statistics

- 52.4% are married
- 13.3% divorced
- 5% widowed
- 73% live with family members
- 27% live alone-31% of which are seniors
- 12% of families are women head of households
- 15% of County's residents are veterans
- Population appears to be aging-18% over 50 years old

Mendocino County Wages

- 18% of Mendocino County residents live below 2002 poverty levels (\$8,860 for 1 person and \$18,100 for a family of 4)
- The County is rated 36th among all California counties for personal income
- 10.5% of households earn less than \$10,000
- Roughly 18% or 5,981 of the County's 33,331 households make less than \$15,000 a year
- 29% of the County's children live in poverty

Educational Statistics

- 81% of adults graduated from high school (4% higher than state average)
- 20% have bachelors degrees (6% lower than state average)
- 8% have earned graduate or professional degrees

Mendocino County Income

- Less than \$10,000 10%
- \$10,000 to \$14,999 7%
- \$15,000 to \$24,000 17%
- \$25,000 to \$34,999 14%
- \$35,000 to \$49,999 17%
- \$50,000 to \$74,999 18%
- \$75,000 to \$99,999 8%
- \$100,000 to \$199,000 7%
- Over \$200,000 2%

How do we compare?

◆ California Labor Market

- Over 17.4 million people in the labor force
- Over 1.1 million employers (Third Quarter 2002)
- Unemployment Rate 6.7 Percent

2003 annual average

◆ Mendocino County Labor Market

- 43,930 people in the labor force
- 4,148 employers (Third Quarter 2002)
- Unemployment Rate 7.1 Percent

2003 annual average

Data Source: EDD/LMID

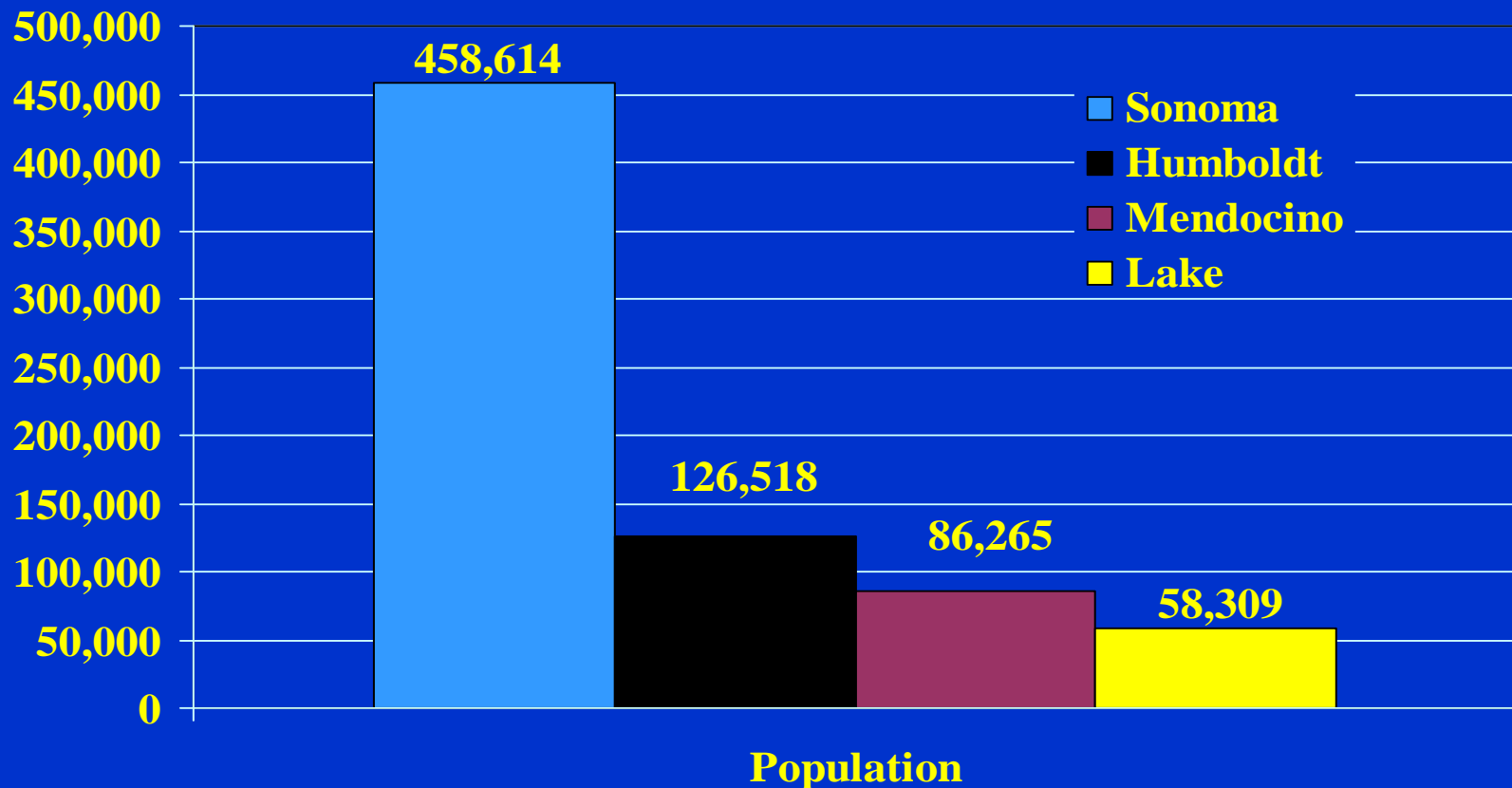
Mendocino Co Population

- *Estimated July 2003 Population*
89,100
- *7.4% change between*
1990 & 2000

Source: Census 2000/DOF (Provisional February 2004)

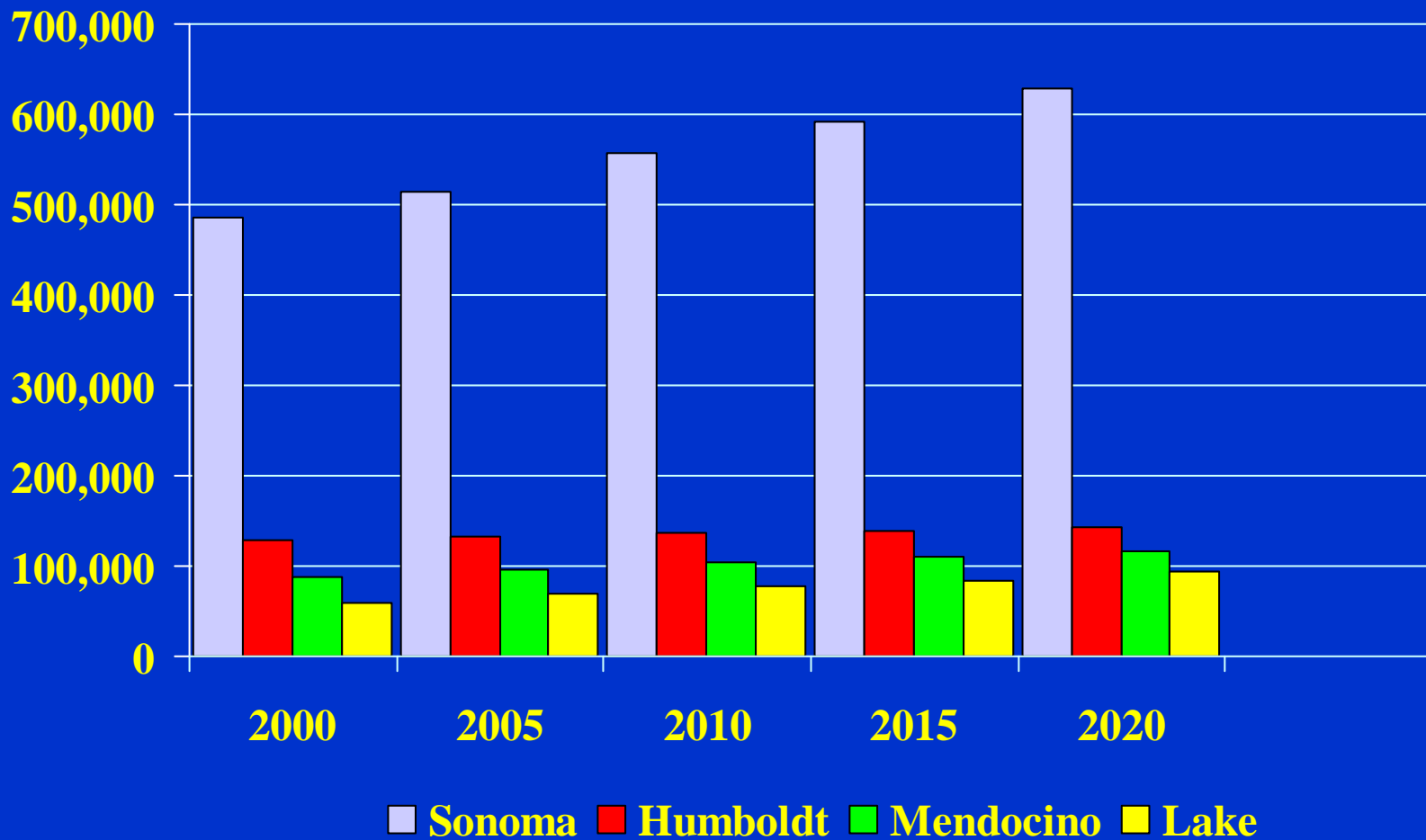
Population Comparison

January 2000



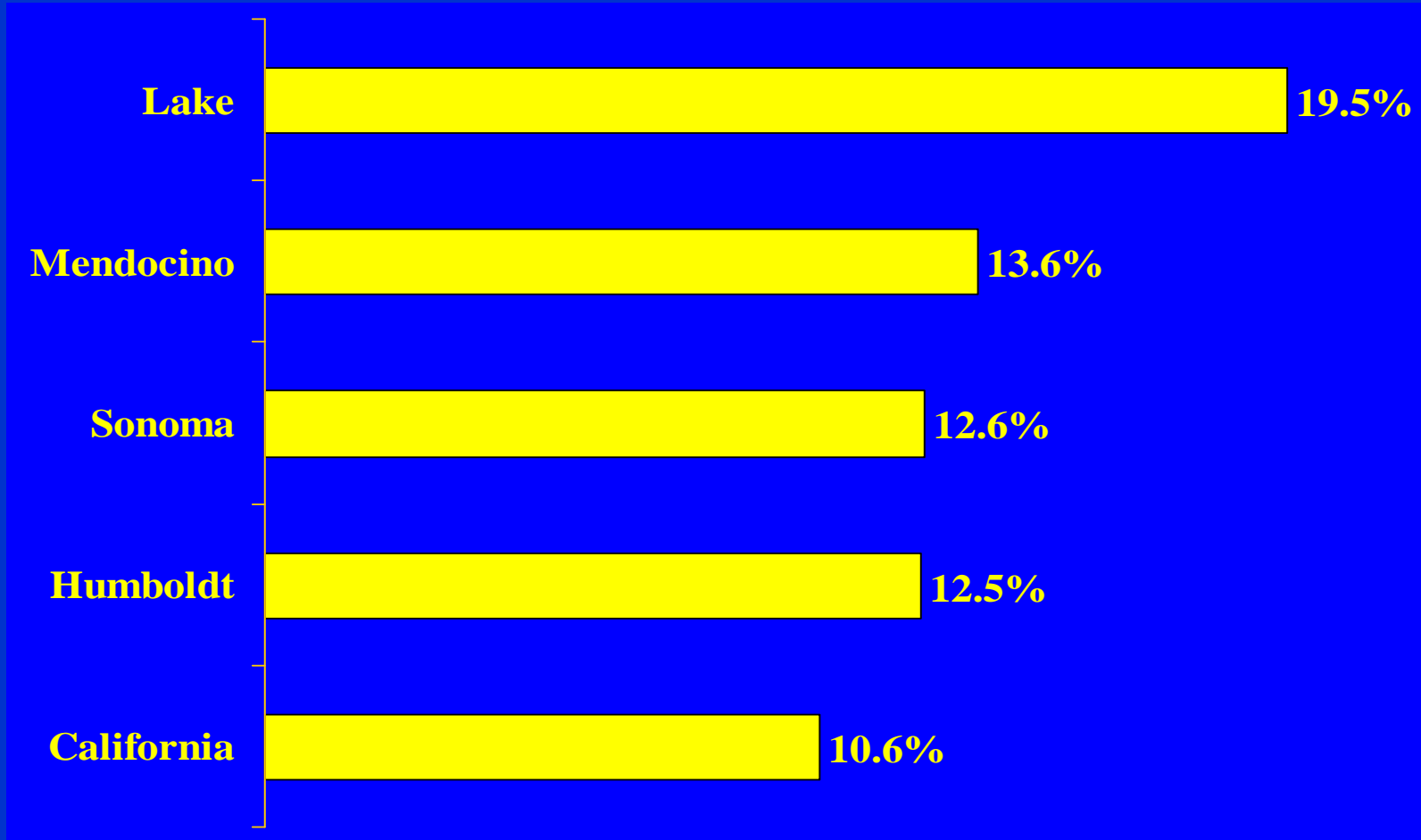
Source: Census 2000

County Population Projections



Source: Department of Finance 7/2000

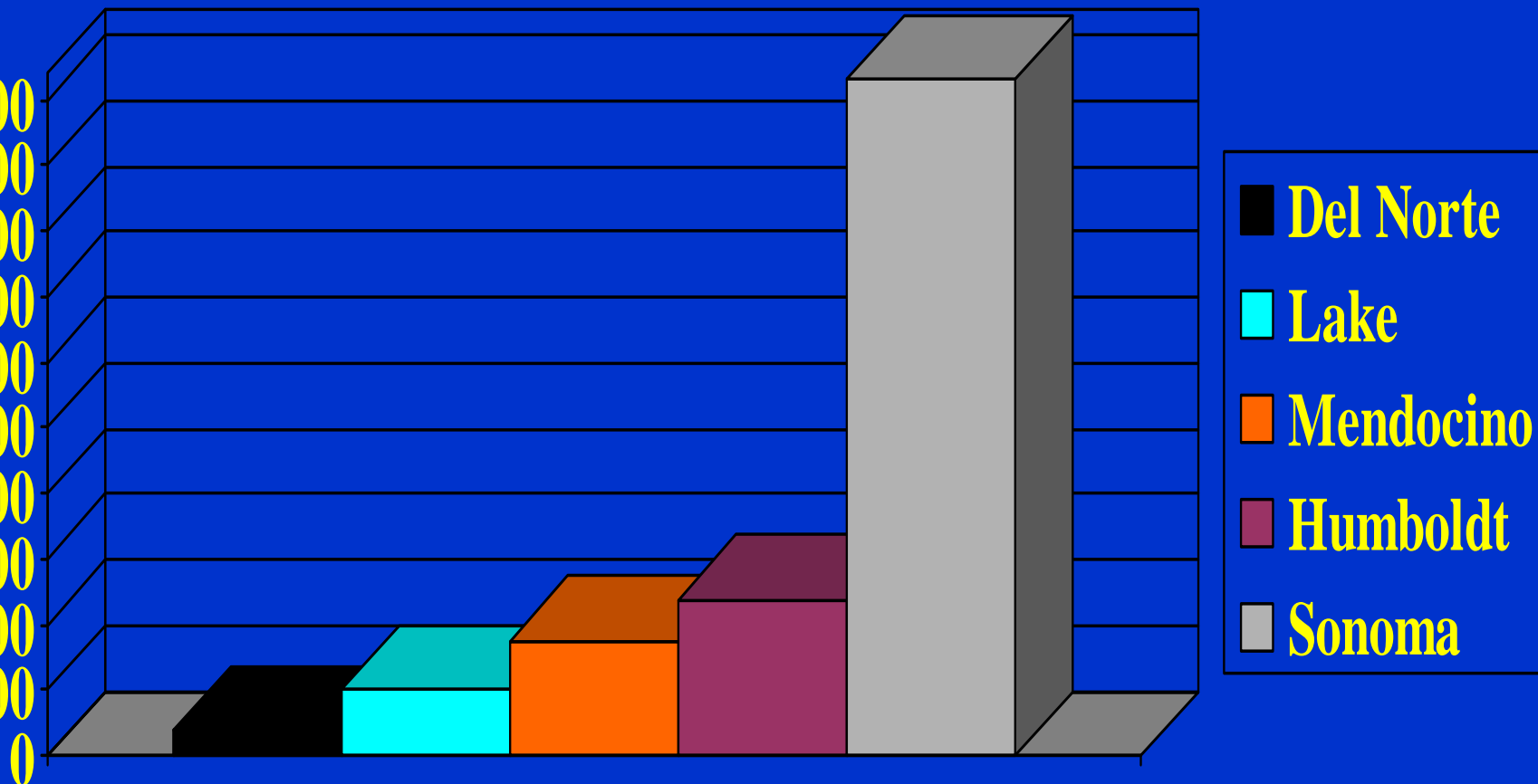
Percent of Individuals Age 65+ Age 65+ Years ~ 2000



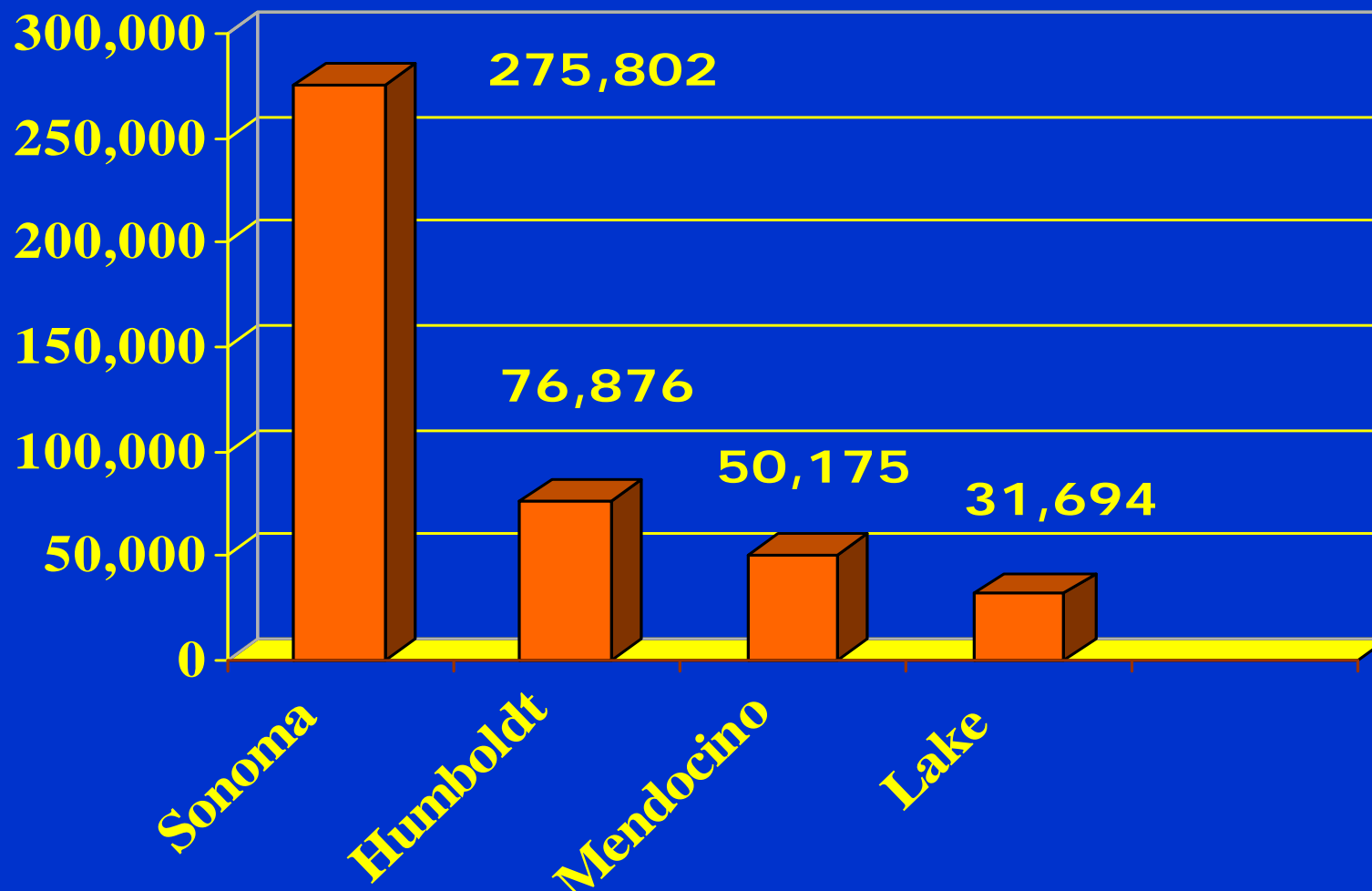
Source: Census 2000

Labor Force Comparison

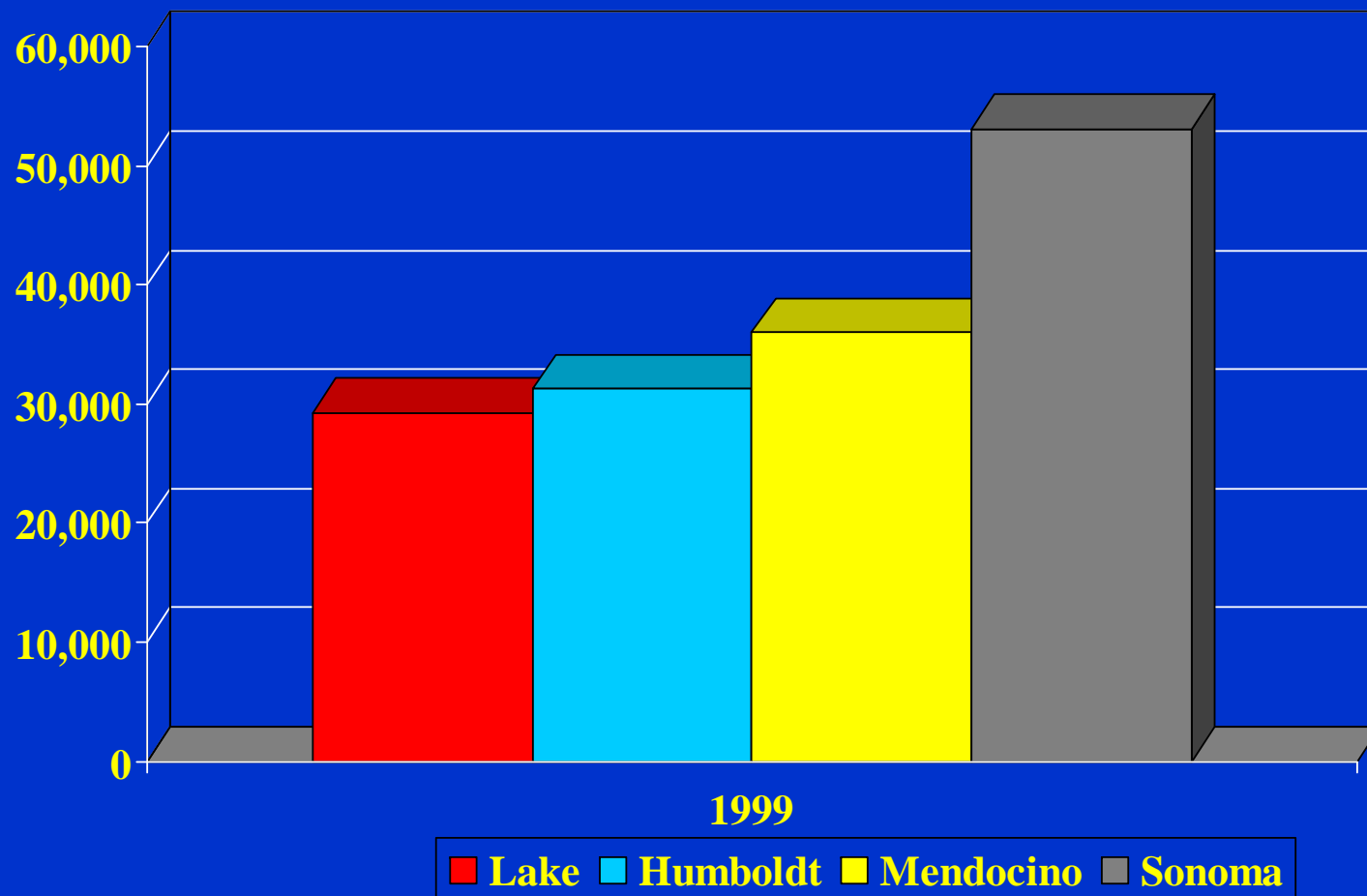
2003 Annual Average



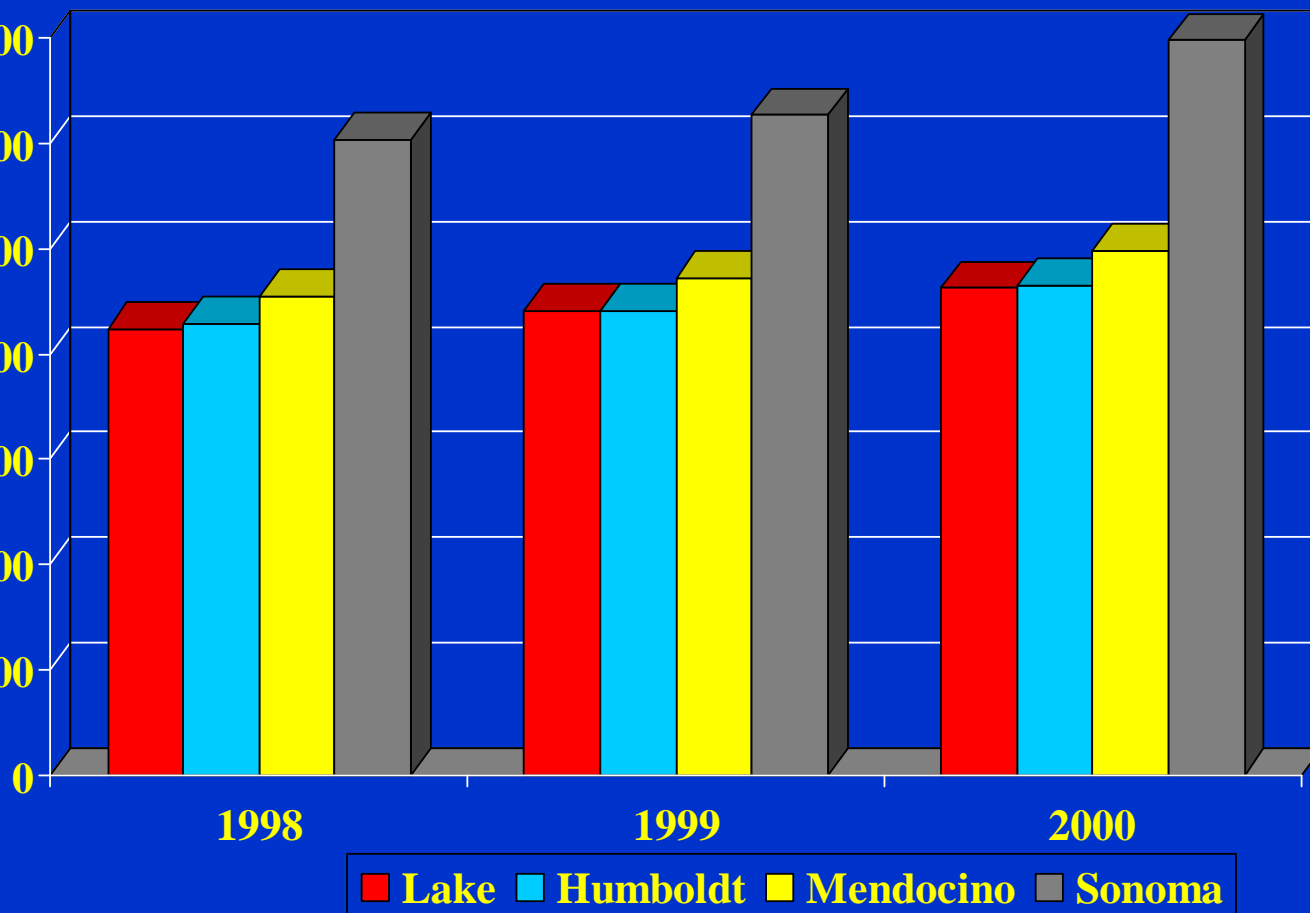
Working Age Population: 20 - 64



Median Household Income



Per Capita Personal Income



Average Wage 2003

Humboldt **\$27,992**

Lake **\$23,100**

Mendocino **\$23,577**

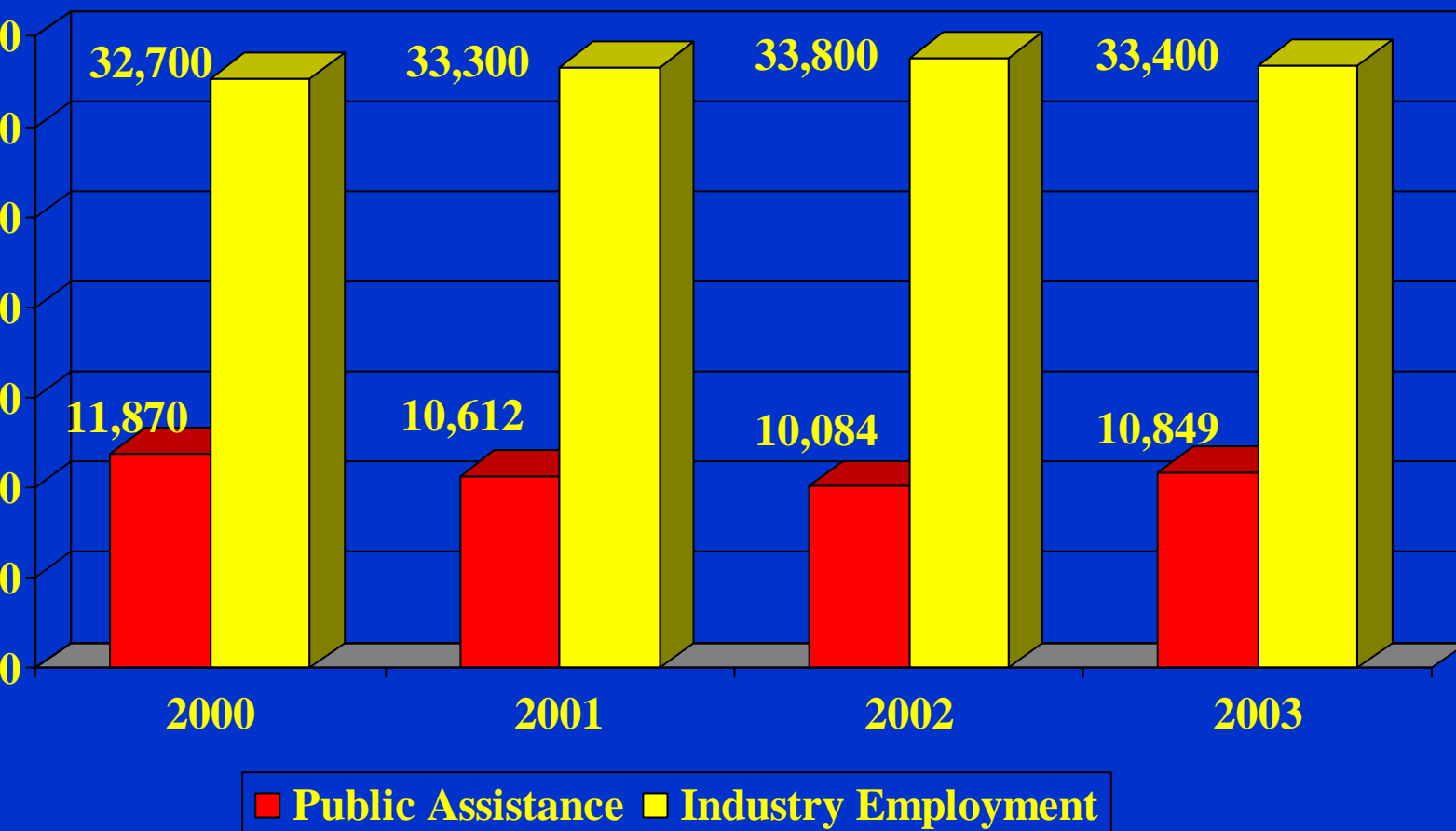
Sonoma **\$36,052**

California **\$40,415**

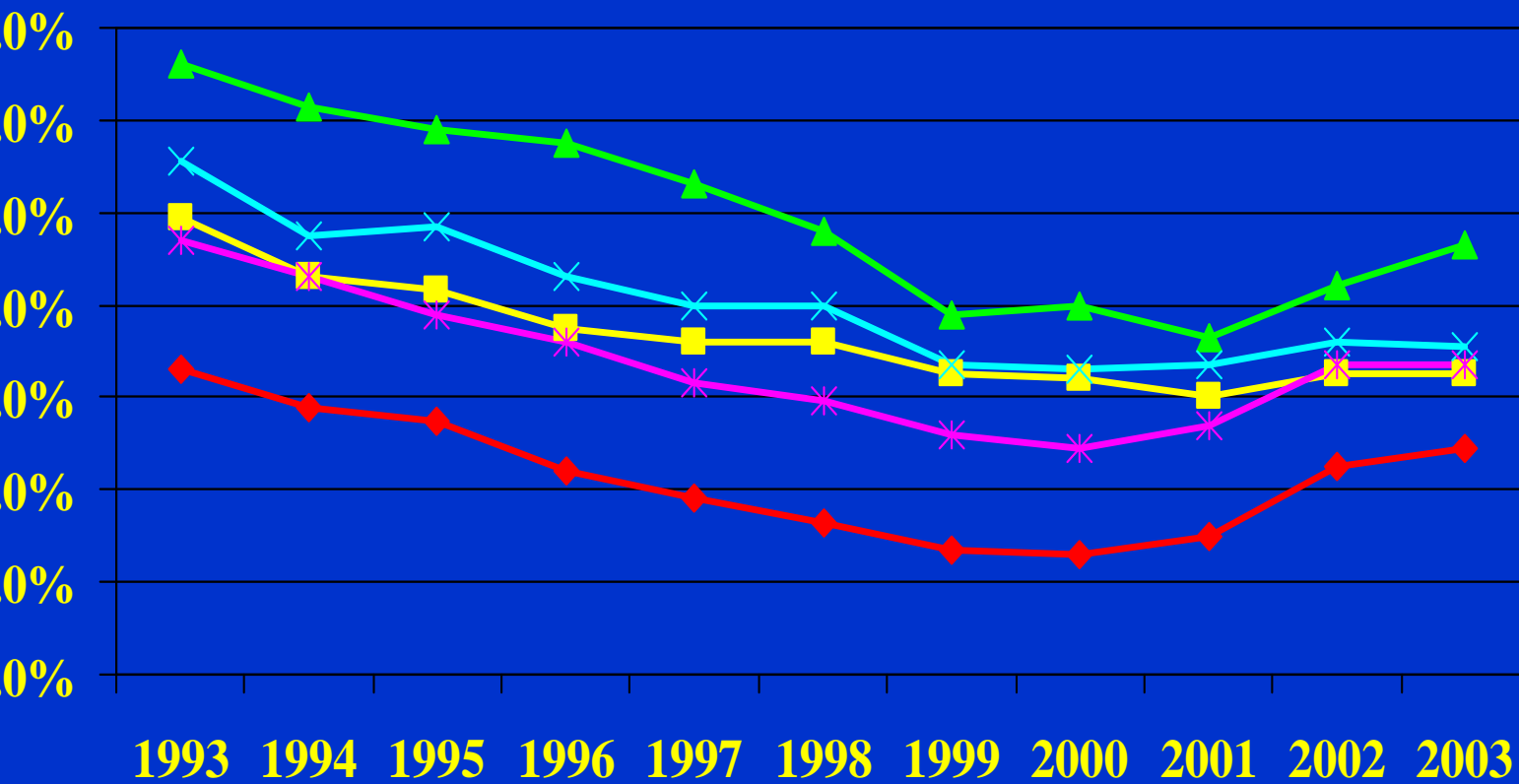
(2002 latest available)

US **\$36,764**

Employment Compared to Public Assistance Recipients Mendocino

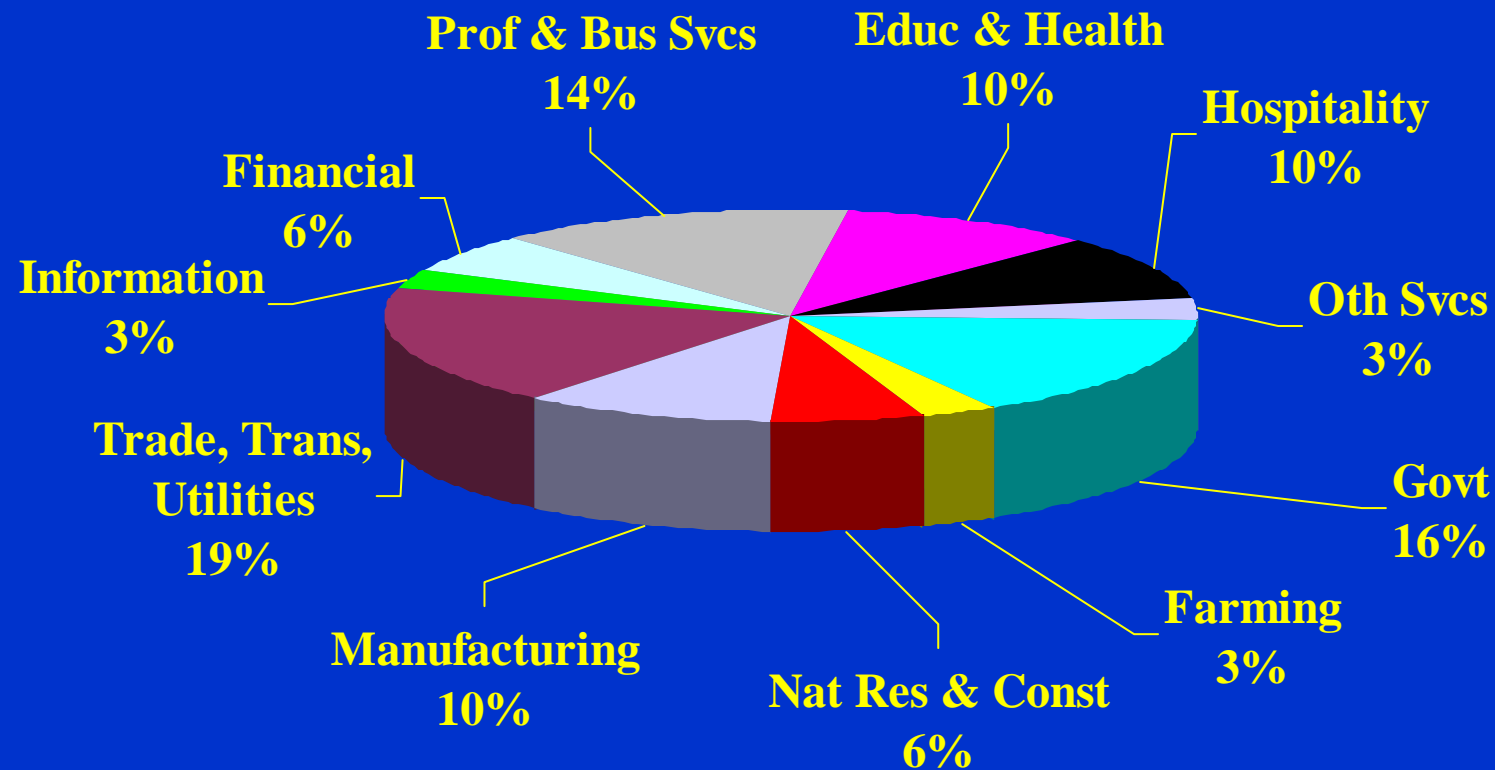


Annual Average Unemployment Rates

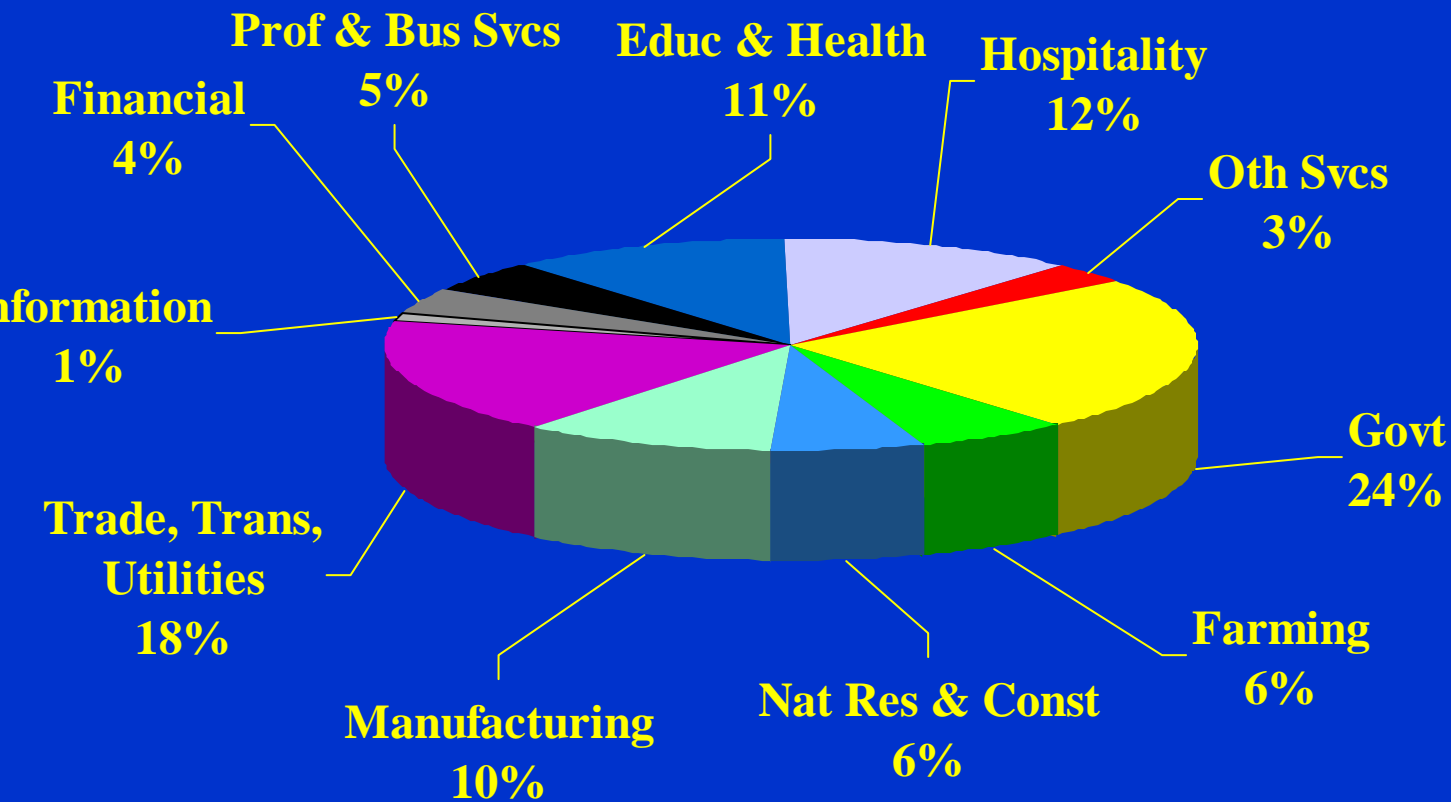


◆ Sonoma ■ Humboldt ▲ Lake ✕ Mendocino ✱ California

2003 Employment Distribution California



2003 Employment Distribution Mendocino

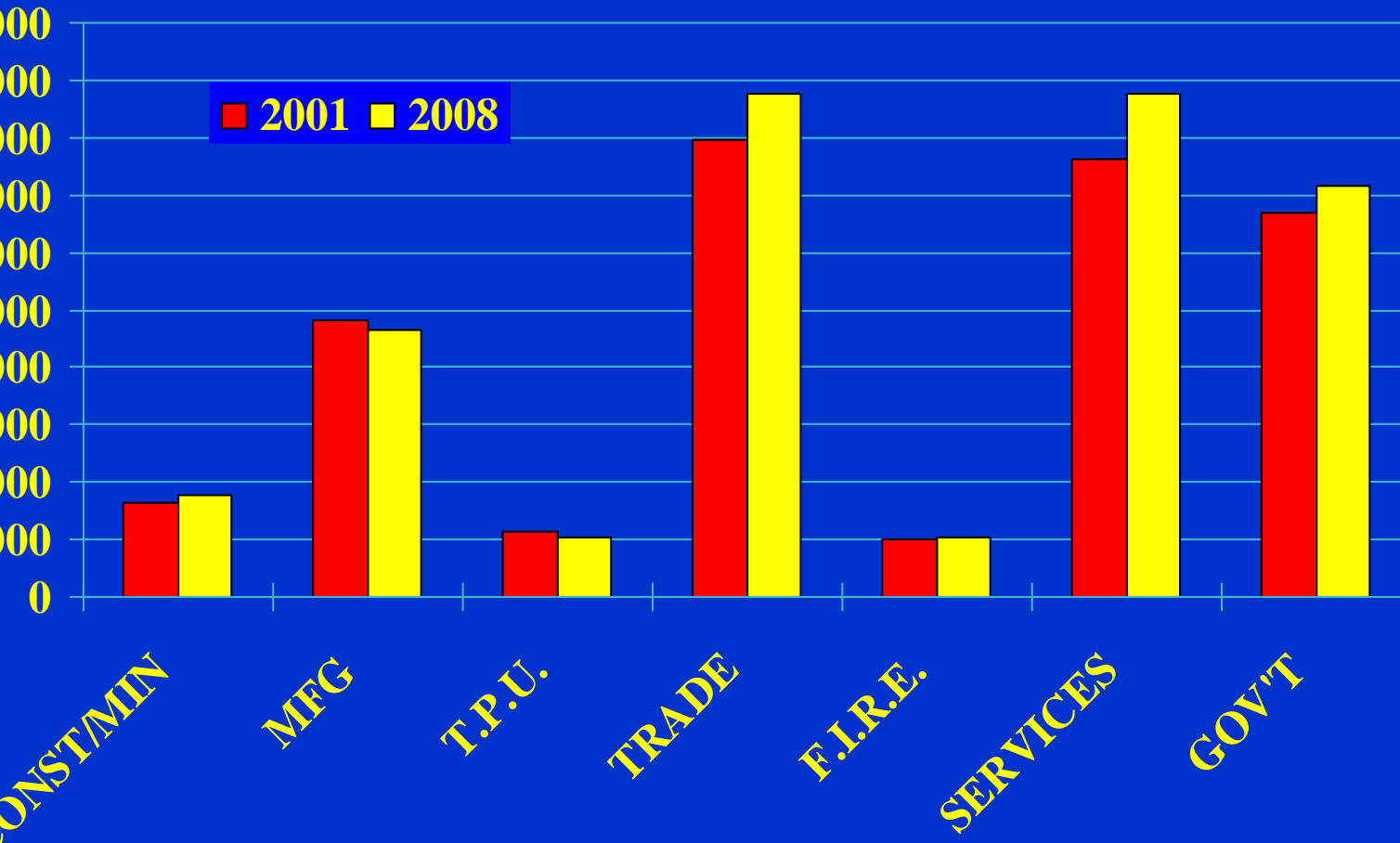


2003 Employment Distribution Comparative

	<u>Mend. County</u>	<u>California</u>
Prof. & Bus. Services	5%	14%
Education/Health	11%	10%
Hospitality	12%	10%
Financial	4%	6%
Information	1%	3%
Trade/Trans/Util.	18%	19%
Manufacturing	10%	10%
Nat. Res. & Const.	6%	6%
Government	24%	16%
Farming	6%	3%
Other Services	3%	3%

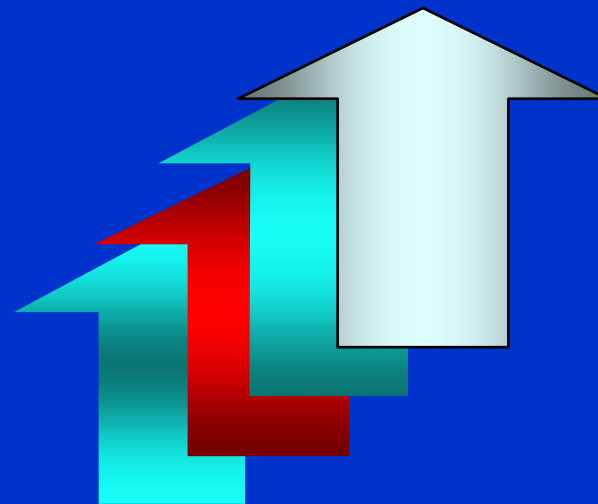
PROJECTED INDUSTRY GROWTH

Mendocino County 2001 - 2008



Growth Sectors

- ❖ **Services**
- ❖ **Retail**
- ❖ **Construction**



Specific Business Sector Analysis

Agriculture

Mendocino County Agriculture

	2000	2001	2002
Wine Grapes	87,960,000	87,678,400	81,286,000
Timber	145,798,400	80,072,500	53,942,500
Bartlett Pears	10,658,500	12,548,800	12,003,200
Cattle & Calves	5,443,500	7,749,800	7,869,600
Milk	3,730,000	4,703,000	3,805,000
Nursery	2,550,000	2,790,000	3,267,000
Pasture	3,412,800	1,806,800	2,430,900
Bosc Pears	1,135,000	1,346,400	1,791,800
Range	1,640,100	1,160,800	1,384,500
Vegetable	N/A	1,111,500	1,050,000

2003 Red Wine Grape Crush Report

Red Grape

<u>Varietal</u>	<u>Tons</u>	<u>%</u>
Barbera	214	1
Cabernet Franc	107	n/a
Cab. Sav.	7,324	24
Carignane	1,341	4
Charbono	38	n/a
Dolcetto	48	n/a
Gamay	29	n/a
Grenache	163	1

Red Grape (con't)

<u>Varietal</u>	<u>Tons</u>	<u>%</u>
Merlot	7,904	26
Petite Sirah	1,048	3
Pinot Noir	4,550	15
Sangiovese	421	1
Syrah	1,698	6
Zinfandel	5,536	18
Other Red	<u>176</u>	1
Total	30,597	

2003 White Wine Grape Crush Report

White Grape

<u>Varietal</u>	<u>Tons</u>	<u>%</u>
Chardonnay	21,081	77
Chenin Blanc	601	2
French Colom.	190	1
Gewurz.	863	3
Muscat Blanc	125	1
Pinot Gris	200	1
Sauv. Blanc.	3,223	11

White Grape (con't)

<u>Varietal</u>	<u>Tons</u>	<u>%</u>
Viognier	534	2
White Ries.	271	1
Other White	<u>275</u>	<u>1</u>
Total	27,363	100%

2003 Red Wine Grape Price Report

Red Grape

<u>Varietal</u> <u>ton</u>	<u>Ave Price per</u>
Barbera	1,233
Cabernet Franc	1,076
Cab. Sav.	1,765
Carignane	676
Charbono	1,004
Dolcetto	1,101
Gamay	799
Grenache	1,776

Red Grape (con't)

<u>Varietal</u>	<u>Ave Price per tons</u>
Merlot	1,265
Petite Sirah	1,631
Pinot Noir	1,361
Sangiovese	1,390
Syrah	1,383
Zinfandel	1,243
Other Red	n/a

2003 White Wine Grape Price Report

<u>Varietal</u>	<u>Ave Price per ton</u>
Chardonnay	1,066
Chenin Blanc	766
French Colom.	659
Gewurz.	909
Muscat Blanc	1,392
Pinot Gris	1,259
Sauv. Blanc.	934

<u>Varietal</u>	<u>Ave Price per ton</u>
Viognier	1,211
White Ries.	1,030
Other White	n/a

Varietal Insights

Chardonnay—Getting better-Inventory getting balanced-world is short

Sauvignon Blanc-Thin market-limited new plantings

Pinot Grigio-Extremely tight market-Light crop in Italy

Cabernet Sauvignon-Still a big problem-planted everywhere

Merlot-Calif's red wine-light crops

Syrah-medium problem-World competition-Blendable

Zinfandel-Cult following-Exportable-No new plantings

Pinot Noir-Potential train wreck-Low yield for 2 years

Petite Syrah- Good future-Stand alone variety-Tough to grow

Tourism

Mendocino County Bed Tax

<u>Year</u>	<u>Bed Tax Revenue</u>	<u>% Chg.</u>
1996-1997	2,751,011	.4%
1997-1998	3,064,770	11.4%
1998-1999	3,858,277	(6.6%)
1999-2000	3,602,598	7.2%
2000-2001	3,974,095	10.3%
2001-2002	3,769,962	(5.1%)
2002-2003	3,551,463	(5.8%)

10% tax rate

Ukiah Bed Tax

<u>Year</u>	<u>Occupancy Tax</u>	<u>Total Room Sales</u>	
1997	195,131	2,439,138	
1998	192,974	2,412,175	
1999	211,468	2,643,350	
2000	233,224	2,915,300	
2001	274,077	3,425,963	
2002	297,293	3,716,163	
2003	390,237	4,877,963	+ 31%

8% tax rate (Hampton Inn and Best Western on Orchard opened)

Willits Bed Tax

Year	Occupancy Tax	Total Room Sales
1997	137,382	1,526,467
1998	145,116	1,612,400
1999	151,380	1,682,000
2000	168,330	1,870,333
2001	197,778	2,197,533
2002	197,413	2,193,478
2003	196,356	2,181,733 (1%)

9% tax rate

Fort Bragg Bed Tax

<u>Year</u>	<u>Occupancy Tax</u>	<u>Total Room Sales</u>
1997	779,521	7,795,210
1998	807,053	8,070,530
1999	898,946	8,989,460
2000	1,093,236	10,932,360
2001	1,239,627	12,396,270
2002	1,344,586	13,445,860
2003	1,298,471	12,984,710 (3.4%)

10% tax

Commerce

Business Licenses Issues Unincorporated Area

Wholesale	433
Retail	695
Service	707
Contractor	216
Restaurant/Inn Tavern	111
Retail Food Store	55
Motel/Hotel/Vacation	<u>382*</u>
Total	2,599

* Includes vacation home rentals

Sales Tax Comparatives

1995	7,120,201
1996	7,445,811
1997	8,039,806
1998	8,241,499
1999	9,071,312
2000	9,916,336
2001	10,090,822
2002	10,512,506
2003	10,680,221

Mendocino County Housing

Mendocino County Housing

Shortage of affordable housing is a constraint on County growth—If they come, where will they live?

Mendocino Council of Governments 2002 draft plan –County should have built 3,397 housing units between January 1990 and July 1997—In actuality, the net increase was 1,280

Housing continued

Ukiah-should have built 780 units between 1995 and 2000-In actuality the net increase was less than 100

Department of Housing and Community Development estimates County will need more than 8,000 new units over next 20 years

Affordable housing gap continues to grow given appreciation in housing prices and the fact that wages have increased at a lower rate.

Residential Building Permits

<u>Category</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Mobile County	21	21	30	32	37
Dwelling County	368	325	291	243	243
Dwelling City of Ukiah	<u>13</u>	<u>9</u>	<u>14</u>	<u>5</u>	<u>24</u>
TOTAL	402	355	335	280	304

Housing continued

Currently 33 homes in Ukiah area available for sale (\$513,998 average price). 27 homes with contingent offers (\$ 376,575 average sales price) and 20 homes with pending offers (367,870 average sales price).

During the past six months, 67 homes have sold in Ukiah at an average price of \$327M

During 2003, 283 Ukiah residential units sold with an average \$318,861 sales price (2004-51 units have sold average price of 318,324)

Housing continued

During 2003, 638 Mendocino residential units sold with an average \$321,527 sales price (2004 YTD \$334,565)

Rental Market

351 N. Main	1/1	675	Apt.
302 Banker Blvd	1/1	675	H
141 Cresta Dr	1/1	725	H
1493 N. Main	2/1	775	Apt
2350 N. State	2/1	800	Apt
1210 Carrigan	2/1.5	1,100	Duplex
807 Maple	2+/2	1,200	House
1050 Crystal	4/2	1,500	House
7150 Lorene	4/3	2,000	House

Mendocino County Jobs and Housing Balance

Indicators, 2002

Source-Applied Development Economics

Presumes 20% DP 7.75% rate and 30 year loan

<u>Region</u>	<u># of Jobs</u>	<u>Ave. Wage</u>	<u># of Housing units</u>	<u>Median Value</u>	<u>Wages required to purchase</u>	<u># of wage earners required</u>
101	14,671	23,699	15,265	190,625	49,351	2.08
N Coast	6,741	20,533	9,820	312,400	80,878	3.94
I County	4,387	26,781	8,400	117,771	30,490	1.14
S Coast	1,368	22,193	2,302	235,000	60,840	2.74
and. Val.	<u>916</u>	<u>24,130</u>	<u>1,150</u>	<u>250,500</u>	<u>64,853</u>	<u>2.69</u>
Total	28,084 *	23,361	36,937	211,062	54,642	2.34

I MID maintains that total # of jobs is 43,930

Mendocino County Jobs and Housing Balance Indicators

Presumes: Ukiah - \$318,861 sales price 20% DP 6% rate and 30 year loan
 Mendocino County-\$321,527 sales price, 20% DP, 6% rate, 30 year loan

<u>Region</u>	<u># of Jobs</u>	<u>Ave. Wage</u>	<u># of Housing units</u>	<u>Median Value</u>	<u>Wages required to purchase</u>	<u># of wage earners required</u>
Ukiah	14,671	23,699	15,265	318,324	69,475	2.93
County	28,084	23,361	36,937	321,527	70,122	3.00