

North Bay Economic and Employment Report

Workforce Conference 2004

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Sonoma County Economic Development Board
in partnership with the
Sonoma County Workforce Investment Board

March 9, 2004

The North Bay Economy: Economic Outlook in Lake, Marin, Mendocino, Napa, and Sonoma Counties

March 2004

The Sonoma County Economic Development Board (EDB) conducts research and analysis on the local economic conditions that shape workforce issues in the North Bay. Working with industry and educational leaders, in concert with the Sonoma County Workforce Investment Board, the EDB strives to identify the key economic trends that drive local employment opportunities. The EDB is also active in creating innovative programs in partnership with educational institutions, community groups, and companies to address the challenges of workforce development. A strong economy is built on the availability of good jobs, a skilled workforce, and an environment that encourages entrepreneurship and innovation. The EDB works to meet that goal through a variety of initiatives, which can be accessed at <http://www.sonoma-county.org/edb>.

Overview

The North Bay economy is largely in a holding pattern. Unemployment in most areas of the North Bay has stabilized, and substantial layoffs, while still occurring, are subsiding. The North Bay's economic strengths—wine, tourism, and technology—have not changed, despite the volatility in employment conditions during the past three years. And, with business investment picking up and a weak U.S. dollar, the North Bay's exporting businesses should be in good shape. In addition, emerging sectors, such as biotechnology and specialty or organic food products, will provide opportunities for specialization and local innovation. A potential downside could include a decline in the housing market if interest rates move upward in 2004. Another downside thus far in 2004 is the stagnant employment situation in much of the North Bay. Despite the positive outlook for business investment, few companies are adding to payrolls yet. Thus, the availability of workforce programs will continue to be an important issue in all five counties of the North Bay.

Lake County

- Volatile employment situation, with 9.1% average unemployment rate in 2003
- Weak market for pears and wine grapes has depressed agricultural returns
- Migration from other parts of the Bay Area, in concert with low mortgage rates, is fueling the residential construction and housing sectors, especially for retirees
- Limited access to major transportation routes (i.e. Hwy 101 and I-5) limits the potential for certain types of industrial development

Strengths: Specialty crops, such as wild rice and kiwi fruit offer opportunities for regional specialization; Low housing costs, relative to other parts of the Bay Area, will continue to attract growth and support the construction and development markets

Challenge: Limited presence of high-value industries in the economic base dampens prospects for attracting and retaining a skilled workforce

Marin County

- Unemployment dropped to a two-year low in December 2003
- Equity market rally last year strengthened the county's income-driven economic position
- A notable biotechnology presence—Buck Institute for Aging Research, Biomarin, Amarin, and Marin Biologic—brings with it a reputation for R&D and innovation

- Autodesk, a major employer, laying off 600 people in 2005, with many likely to be in Marin

Strengths: Highly educated residents (>50% have college degree, more than any other county in CA and more than twice the U.S. average); Income growth stemming from continued gains in financial markets will drive consumer spending

Challenge: High business costs and living costs restricts new business activity and limits quality of life options for entry-level, young workers

Mendocino County

- Weak U.S. dollar improves outlook for Mendocino wine sales abroad
- Strong housing and development sectors during the past three years
- Increased tourism activity in 2003, suggesting that slump from 2001 is over
- Positive outlook for employment growth in business and healthcare services

Strengths: Improving prospects for the wine industry will increase demand for Mendocino brands (wine accounts for 15% of Mendocino's gross output), creating an opportunity for increased agricultural and winemaking employment

Challenge: Lack of industrial diversification, particularly in high-value industries, limits the opportunities to attract and retain a skilled workforce

Napa County

- Highest unemployment rate (4.8%) since 1997 in 4th Quarter 2003
- Residential and commercial construction down in 2003
- Weak U.S. dollar improves prospects for the local wine industry
- Proximity to San Francisco will benefit tourism industry, as corporate travel picks up and businesspeople look for weekend excursions this year

Strengths: Educated workforce, venture capital and technology presence will support above average job growth in 2004

Challenge: Continued weakness in manufacturing and service industry labor markets limits some job opportunities for residents

Sonoma County

- Unemployment rate is holding steady around 4.7%
- Stabilization in the telecom and biotechnology sectors improves hiring prospects
- Average hourly earnings are up and hours worked per week are steady in manufacturing
- Weak U.S. dollar will benefit local tourism and wine industries

Strengths: Rebounding technology sector will result in improved prospects for local residents to compete for well-paying jobs in innovative companies; High quality of life and proximity to San Francisco can be helpful for attracting and retaining talent, which fosters entrepreneurship and development of innovative companies.

Challenge: High cost of living can present challenges to entry-level, young workers

LAKE COUNTY

EMPLOYMENT GROWTH

2003-05

1.7%

2003-08

1.7%

HIGH SCHOOL & ABOVE

77%

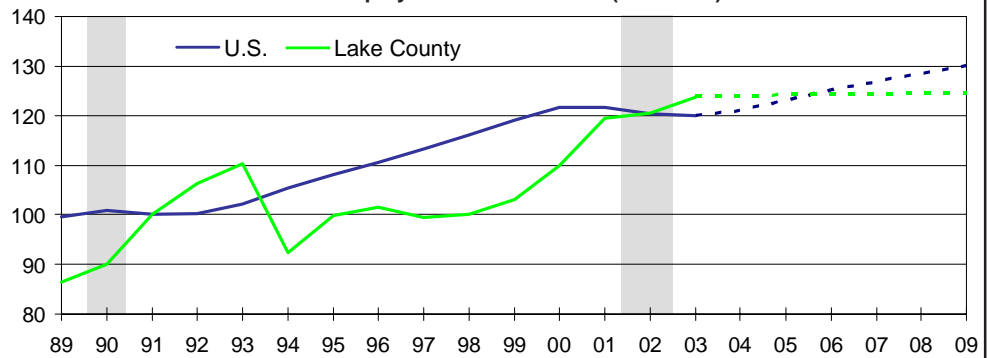
U.S. = 80.4%

COLLEGE & ABOVE

12%

U.S. = 24.4%

Relative Employment Performance (1991=100)



1996	1997	1998	1999	2000	2001	2002	Indicators	2003	2004	2005	2006	2007
0.6	0.6	0.7	0.7	0.7	0.9	1.0	Gross Product (C\$B)	1.0	1.1	1.1	1.2	1.2
-3.8	1.9	4.6	2.0	4.3	35.5	4.5	% Change	4.7	5.6	2.5	5.6	5.2
16.4	16.0	16.1	16.6	17.7	19.2	19.4	Total Employment (000)	19.9	20.2	20.6	21.0	21.4
1.7	-2.2	0.6	3.0	6.7	8.8	0.9	% Change	2.7	1.5	2.0	2.0	1.5
11.5	10.6	9.6	7.7	8.0	7.3	8.4	Unemployment Rate	8.5	8.5	8.5	8.3	8.3
5.4	4.0	6.3	4.6	7.6	5.2	3.3	Personal Income Growth	4.0	5.1	4.5	4.7	5.0
56.3	56.3	56.7	57.2	58.6	60.4	62.0	Population (000)	63.0	64.0	65.0	65.9	66.7
101	97	93	174	132	102	301	Single-Family Permits	359	282	221	196	164
2	0	6	8	0	0	12	Multifamily Permits	24	1	0	0	3
120.3	125.3	133.6	143.1	156.4	170.3	192.8	Existing Home Price (\$Ths)	261.9	290.6	312.3	347.0	390.0
156.0	171.1	317.4	249.6	197.5	453.6	616.3	Mortgage Originations (\$Mil)	841.1	335.2	215.0	234.3	250.2
0.3	0.1	0.6	0.7	1.6	2.0	1.8	Net Migration (000)	1.1	1.2	1.1	1.1	1.0
286.0	334.0	325.0	299.0	247.0	248.0	218.0	Personal Bankruptcies	194.4	136.1	142.0	171.5	200.7

STRENGTHS & WEAKNESSES

STRENGTHS

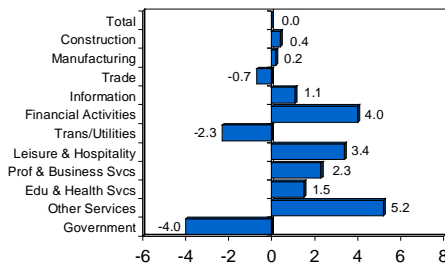
- Low cost of living.
- Attractive environment.

WEAKNESSES

- Low educational attainment.
- Low per capita income.
- Limited economic diversity.

CURRENT EMPLOYMENT TRENDS

2003 Employment Growth % Change Year Ago



FORECAST RISKS

SHORT TERM ↓

LONG TERM ↑

UPSIDE

- Turnaround in tourism boosts hospitality and wine industries.
- Retirees find LAK an attractive location not far from Bay Area.

DOWNSIDE

- Weak consumer confidence stifles hospitality industry.
- Commodity prices fall with rising global fruit and vineyard production.

ANALYSIS

Recent Performance. Economic indicators for Lake County (LAK) have been volatile recently, illustrating an economy still struggling to expand once again. The unemployment rate is high, having climbed for two consecutive years to an average of 9.1% last year. Moreover, monthly unemployment rates through the end of last year were still rising on a year-to-year basis. Estimates of total employment point to some improvement last year from a weak 2002, although this trend is uncertain, with volatility throughout the year.

Agriculture has not had a stimulatory impact over the past year with weak prices for both pears and wine grapes. Tourism too has been moderate as the entire northern California tourist industry struggles to regain hotel occupancy and room rates achieved prior to 9/11. The one bright spot is residential construction, supported by historically low interest rates. Also, there is budding demand for second homes and future retirement homes in affordable areas such as LAK.

Agriculture. The staple of the county's agricultural economy is Bartlett pears, yet the most dynamism comes from the expansion of vineyards in the county. However, neither has generated significant income growth over the past year. Pear production rose last year but prices eased, offsetting one another. Further, grape and wine prices remain subdued due to global oversupply. The worst is over for this cycle and the market for wine should be steadier this year, but increasing supply will remain a problem for several years to come. Specialty crops such as wild rice and kiwi fruit also offer some upside potential for farm incomes going forward.

Travel. LAK's travel and tourism market is largely a regional market. Thus the downward cycle of tourist spending since 9/11 has been rather muted. However, this also means that the upside potential for the local industry in the coming year is more limited than tourist locations with more national markets. LAK's upside potential is longer term as the economy of the North Bay Area and the Sacramento Valley expand, gen-

erating a larger market for regional tourism and recreation services.

Demographics. Migration into LAK generates some consistent demand for new services. Migration and population growth are easing from near record growth rates in 2001, yet they still remain above national and statewide trends and indicate some movement of retirees and families into the area. Migration, and the improved affordability brought about by low interest rates, has generated considerable demand for new home construction over the past two years. This will ease, however, as interest rates are expected to rise later this year, bringing demand back in line with long-term demographic trends.

Retail construction has been steady, another reflection of the steady demand growth produced by migration into the county. However, this is the only classification of non-residential construction with any significant activity. With little or no industrial or office space construction, the structure of economic growth appears unbalanced.

Access. One factor restricting the long-term outlook for LAK is the lack of good access to the area. Direct north-south highways—U.S. 101 and Interstate 5—bypass the county to the west and east respectively. The relative isolation and the amenities of Clear Lake generate long-term potential for retiree demand and recreation, but less potential for communities to develop for commuters without direct access to regional employment centers.

Lake County's outlook is moderate. Positive factors such as relatively low housing costs and improved demand for travel and tourism services generate some upside potential, although the near-term outlook calls for below average job growth. Longer term, factors such as access, workforce quality, and a narrow economic base with few high-value industries limit the expected pace of long-term growth.

Steven G. Cochrane
February 2004

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Konocti Harbor Resort & Spa	600
Sutter Lakeside Hospital	476
Redbud Hospital	264
Robinson Rancheria Bingo/Casino	200
Wal-Mart Stores, Inc.	200
Safeway, Inc.	185
Konocti Vista Casino	164
Twin Pine Casino	143
Sutter Lakeside Community Services	129
Kmart Corporation	115
People Services	101
Bruno's, Inc.	100
Guenoc Winery	100
Outrageous Waters	95
Meadowood Nursing Home	90
Hidden Valley Lake Association	85
Lakeport Skilled Nursing	80
Hardesters	75
Ray's Food Place	75
Epidendio Construction	70

Source: Lake County Business Outreach & Response Team, July 2003

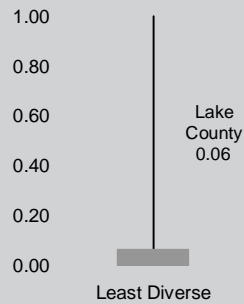
Public

Federal	115
State	394
Local	4,481

2003

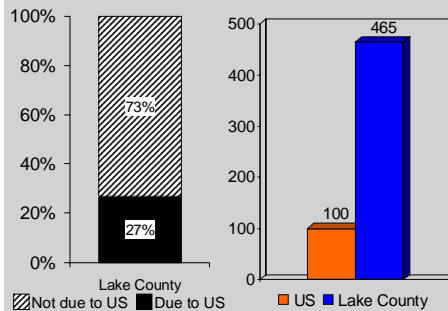
INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY

DUE TO U.S. FLUCTUATIONS RELATIVE TO U.S.

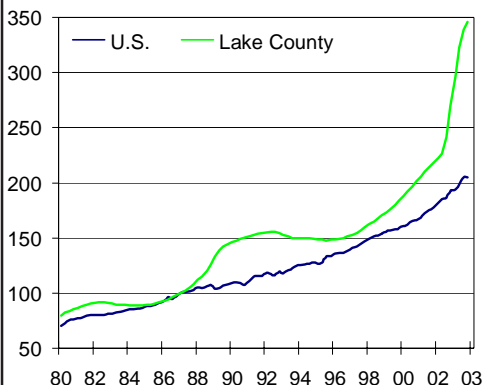


COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	Lake County	CA	U.S.	Lake County	CA	U.S.
Construction	5.0%	5.5%	5.2%	\$26,403	\$43,940	\$40,442
Manufacturing	5.4%	11.0%	11.2%	\$51,218	\$50,968	\$44,609
Durable	3.1%	6.9%	6.9%	\$34,523	\$57,167	\$46,533
Nondurable	2.2%	4.0%	4.3%	\$80,486	\$39,223	\$41,354
Transport/Utilities	3.6%	3.4%	3.7%	\$13,811	\$39,514	\$38,944
Wholesale Trade	2.0%	4.5%	4.3%	\$52,556	\$50,357	\$48,667
Retail Trade	14.0%	11.0%	11.5%	\$14,902	\$29,709	\$24,427
Information	10.7%	3.3%	2.5%	\$2,977	\$58,860	\$46,356
Financial Activities	5.2%	6.0%	6.1%	\$12,041	\$66,792	\$57,501
Prof. & Business Services	6.4%	14.6%	12.3%	\$25,286	\$55,573	\$42,481
Education & Health Services	8.6%	10.6%	12.8%	\$28,397	\$35,740	\$35,876
Leisure & Hospitality Services	13.4%	9.7%	9.3%	\$8,451	\$20,151	\$17,763
Other Services	1.9%	3.5%	4.2%	\$14,678	\$32,170	\$24,112
Government	23.7%	16.9%	16.6%	\$23,906	\$42,341	\$35,336

Source: Percent of total employment - Economy.com & BLS, 2003; Average annual earnings - BEA, 2001

HOUSE PRICES



Source: OFHEO, 1987Q1 = 100, NSA

LEADING INDUSTRIES

NAICS	Industry	Employees (000)
GVL	Local Government	4.5
5171	Wired Telecommunications Carriers	1.8
4529	Other General Merchandise Stores	0.9
5613	Employment Services	0.7
5232	Securities & Commodity Exchanges	0.6
4451	Grocery Stores	0.6
7224	Drinking Place	0.6
7211	Traveler Accommodation	0.5
2382	Building Equipment Contractors	0.5
7221	Full-Service Restaurants	0.5
3399	Other Miscellaneous Manufacturing	0.4
6221	General Medical & Surgical Hospitals	0.4
GV5	State Government	0.4
5111	Newspaper, Periodical, Book, & Directory Publishers	0.3
7139	Other Amusement & Recreation Industries	0.3
	High-tech employment	1.8
	As % of total employment	8.5

Source: BLS, Economy.com, 2002

MIGRATION FLOWS

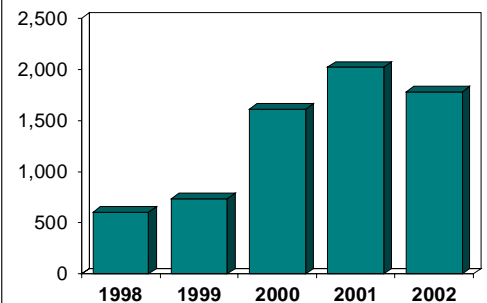
Into Lake County	Number of Migrants	Median Income
Santa Rosa CA	903	30,312
Vallejo CA	403	31,270
Oakland CA	253	27,289
Mendocino County CA	207	28,749
San Francisco CA	171	29,277
Sacramento CA	127	20,602
San Jose CA	94	36,249
Riverside CA	83	34,517
Los Angeles CA	65	21,874
San Diego CA	52	17,499
Total All MSA's	3,437	25,609

From Lake County

Santa Rosa CA	275	22,749
Vallejo CA	136	24,223
Sacramento CA	113	21,222
Oakland CA	82	17,249
Riverside CA	73	19,348
San Francisco CA	58	22,262
Chico CA	53	11,817
San Diego CA	49	15,624
Redding CA	47	18,749
San Jose CA	36	22,499
Total All MSA's	2,188	19,070

Total Net Migration	1,249	6,539
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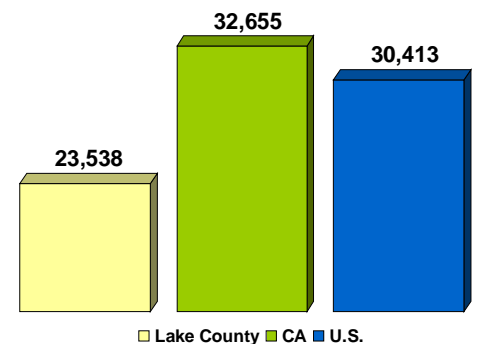
Net Migration, Lake County



	Domestic	Foreign	Total
1998	350	251	601
1999	492	245	737
2000	1,397	214	1,611
2001	1,898	125	2,023
2002	1,658	124	1,782

Source: IRS (top), 2002; Economy.com & Census Bureau, 2002

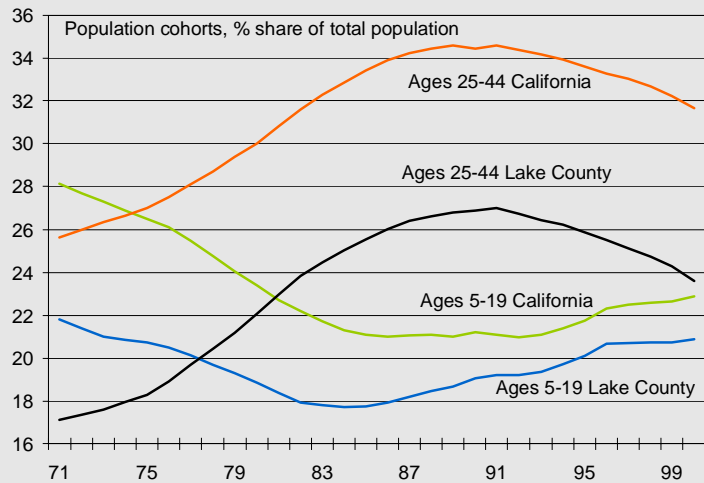
PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2001

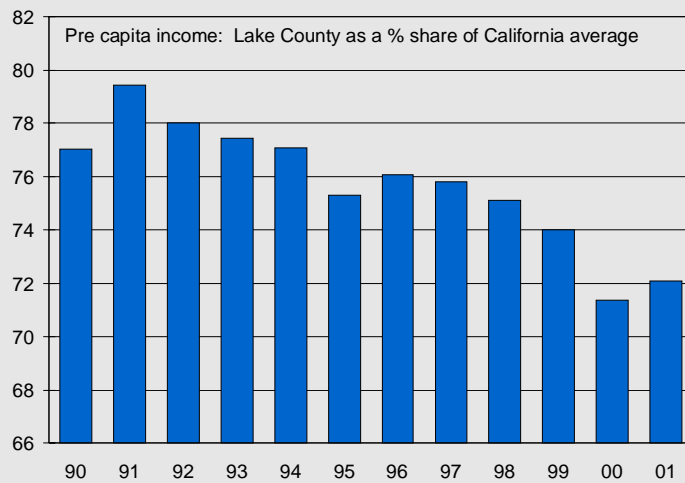
Lake County

Population Dynamics



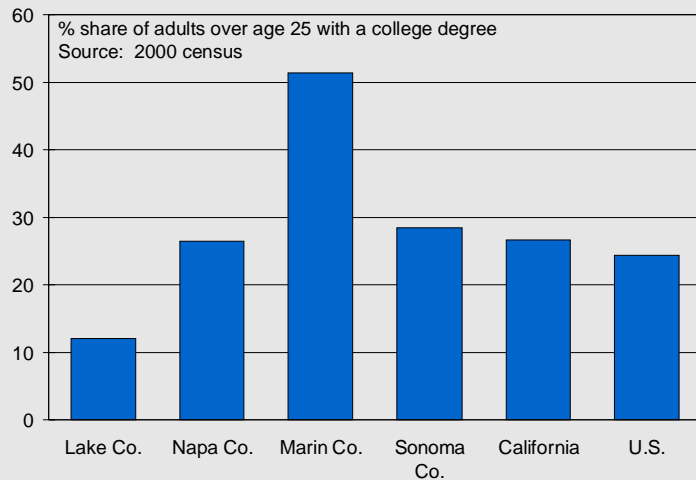
LAK's population is skewed toward older age cohorts. This is due to retirees who are attracted to LAK's low cost of living and to the outflow of younger residents for education and employment. The county's 25 to 44 age cohort, which normally is the portion of the population that creates jobs, generates income, and spends the highest share of its income, is just 24% of the population, versus nearly 32% statewide. One improving factor, however, is that the gap between state and local shares of the younger 5 to 19 age cohort is narrowing.

Lake County's Per Capita Income Has Lost Ground



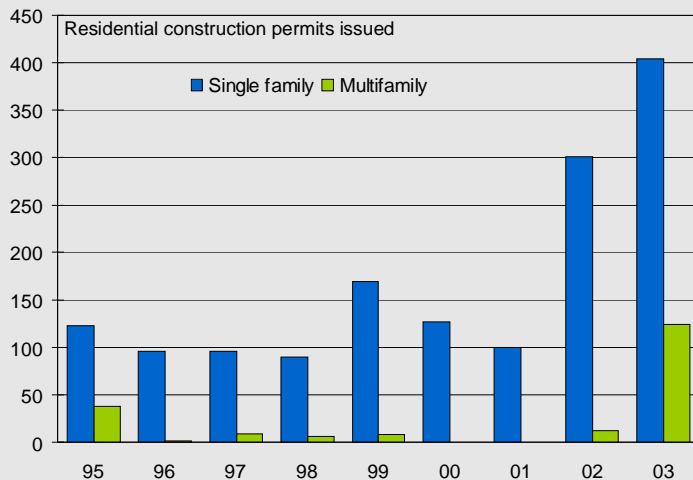
LAK did not share in the economic boom that much of northern California enjoyed in the late 1990s. Nominal per capita income fell rather consistently between 1991 and 2000. The local figure currently stands at just 72% of the statewide average. The county's reliance on low-wage industries such as tourism and agriculture lead to such a pattern. Also, while retirees in the area may have substantial wealth, their income may be low. Such a pattern limits local spending and the development of retailing and local service industries.

Lake County Labor Force at Comparative Disadvantage



The county's workforce is limited by its educational attainment. With just 12.1% of the adult population having attained a college degree, it ranks well below northern California's more metropolitan counties. Yet it is also below the statewide and national average, indicating a serious comparative disadvantage for long-term growth and economic diversification. Moreover, LAK's figure is only a slight rise from the 1990 census of 10.7%. Both the population share in the U.S. and California with a degree rose by between three and four percentage points during the 1990s.

Housing Strength



A sharp rise in the number of residential construction permits over the past five years is the first sign in over ten years of some dynamics in the population of the area. Net migration into the county has increased more than threefold since the start of this decade. Low interest rates certainly help, making it more affordable for households in their fifties to buy a second home in advance for later retirement. Yet the rising share of younger age cohorts also indicates that families are moving to LAK as well.

MARIN COUNTY

EMPLOYMENT GROWTH

2003-05

1.5%

2003-08

1.6%

HIGH SCHOOL & ABOVE

91%

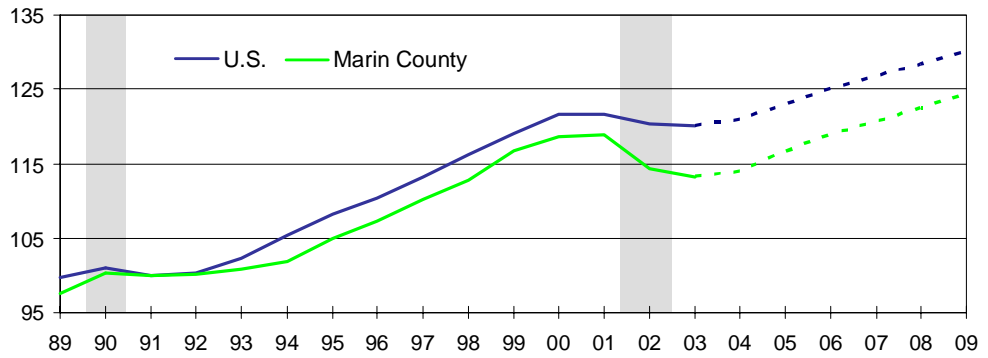
U.S. = 80.4%

COLLEGE & ABOVE

51%

U.S. = 24.4%

Relative Employment Performance (1991=100)



1996	1997	1998	1999	2000	2001	2002	Indicators	2003	2004	2005	2006	2007
8.8	9.4	9.8	10.3	11.0	11.3	11.8	Gross Product (C\$B)	11.9	12.2	12.6	13.1	13.5
4.2	6.2	4.4	5.2	6.4	3.3	4.1	% Change	1.1	2.6	2.9	3.7	3.5
101.7	104.6	107.0	110.7	112.5	112.8	108.5	Total Employment (000)	107.4	108.1	110.6	112.7	114.4
2.2	2.8	2.4	3.4	1.6	0.3	-3.8	% Change	-1.0	0.7	2.4	1.9	1.5
3.4	2.8	2.3	1.9	1.6	2.5	4.0	Unemployment Rate	3.6	3.1	2.8	2.5	2.4
6.0	7.6	10.4	7.3	11.2	0.7	-3.9	Personal Income Growth	-1.2	2.9	3.6	3.0	2.9
238.7	241.8	244.7	246.3	247.7	248.8	247.6	Population (000)	245.9	247.3	249.9	252.1	254.3
339	457	606	772	437	191	281	Single-Family Permits	389	431	327	331	325
403	163	115	46	156	184	152	Multifamily Permits	153	169	149	165	184
302.8	329.3	367.4	411.3	514.9	539.3	591.1	Existing Home Price (\$Ths)	620.1	629.7	627.7	647.1	656.9
2,166.0	2,957.0	5,573.5	4,629.5	3,209.8	6,831.5	8,924.5	Mortgage Originations (\$Mil)	11,561.1	3,927.0	2,163.9	2,326.6	2,484.0
-1.3	2.3	2.1	0.9	0.6	0.3	-2.2	Net Migration (000)	-2.6	0.5	1.6	1.1	1.0
789.0	862.0	873.0	607.0	435.0	494.0	499.0	Personal Bankruptcies	478.5	370.1	315.4	302.1	312.3

STRENGTHS & WEAKNESSES

STRENGTHS

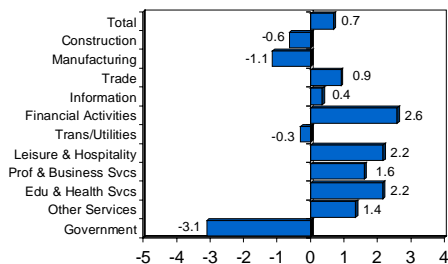
- High per capita income.
- High educational attainment.
- Growing biotech, software base.
- Relative industrial diversity.

WEAKNESSES

- High cost of living.
- Strong dependence on volatile equity/investment income.

CURRENT EMPLOYMENT TRENDS

2003 Employment Growth % Change Year Ago



FORECAST RISKS

SHORT TERM



LONG TERM



UPSIDE

- Faster than expected tech-rebound spurs investment and growth.
- An equity market boom feeds higher income flows to MAR.

DOWNSIDE

- Housing market suffers price correction as interest rates rise, diminishing homeowners' equity.
- Weak job growth leads to second year of negative net migration.

ANALYSIS

Recent Performance. The Marin County (MAR) economy is showing signs of improvement after two difficult years. The unemployment rate dropped to a two-year low in December 2003, although it is still about twice the low point hit during the economic boom in 2000. Housing activity is expanding at a steady clip. Bankruptcy filings are also easing, as household balance sheets improve. Not all is positive, however; Autodesk, one of MAR's largest employers recently announced 600 layoffs to be implemented in 2005, some of which will certainly be in MAR.

A consumer economy. MAR's industrial structure reflects its position as a wealthy satellite to the larger and more diverse San Francisco economy. As such, MAR's is essentially a consumption-based economy, with local jobs concentrated more in business and personal services than average. Further, nearly 14% of MAR's employment is in retailing, compared to just 11% statewide. This makes the strength of the local economy especially dependent on income flows.

As the wealthiest county in the state, MAR's income position is fairly strong, and looks to get better in the coming year, thanks to the equity market rally and an expected rise in interest rates. Per capita income from dividends, interest and rent in MAR is about three times the national average, making the county extremely vulnerable to investment performance. Last year's equity market rally and dividend tax cuts have helped temper the income loss to the county from lost jobs. Higher interest rates coupled with increased job growth will help spur income growth in MAR in 2004, which will support retail spending.

Biotechnology. Biotechnology is a small but growing industry in MAR. The Bay area's biotech composition is internationally renowned, and MAR is benefiting from spillover effects from this growth. High costs make it difficult for significant new jobs in the biotech industry to relocate to MAR, especially on the

manufacturing end, but MAR retains potential for development as a research center.

To this end, the Buck Institute for Aging Research is a key asset to MAR's biotech aspirations. MAR is also home to some growing biotech companies like Biomarin, Amarin and Marin Biologic. MAR's highly educated population base is also an asset; over 50% of MAR residents possess a college degree, more than any other county in the state and over twice the national average.

Housing markets. MAR housing markets are on the upswing. Permitting activity soared in 2003, rising by an estimated 25%, building on the previous year's 15% growth. This is partly in response to slower housing growth since 1997, which in turn contributed to steady appreciation in house prices in MAR.

Going forward, housing market activity will moderate for a number of reasons. Population growth in MAR has been slowing since 1997, so demand for housing will likely ease going forward. High prices already restrict the eligible market for prospective MAR residents. With interest rates expected to rise starting mid-year, housing markets will be a far less attractive avenue for investment in 2004 and 2005.

The near-term outlook for Marin County's economy is positive. The county will post modest employment growth in 2004, and will benefit from higher income growth and stronger consumer spending. More robust growth in the county will rely on the pace of San Francisco's recovery. Improved tech and healthcare demand, coupled with improving financial markets, will drive the region's economy in the near term. Longer term, MAR enjoys very healthy fundamentals in the form of an extremely wealthy and well-educated resident base. High business and living costs will continue to restrict new business activity in the county, but the economy will remain an average performer long term.

Rakesh Shankar
February 2004

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Lucasfilm	1,800
Kaiser Permanente	1,578
Fireman's Fund Insurance Company	1,413
Marin General Hospital	1,175
Autodesk, Inc.	901
GreenPoint Mortgage Funding	715
Fair Isaac Corporation	600
Macy's	543
Century Theatres	475
Managed Health Networks	400
Ghilotti Construction Company	375
Dominican University of California	374
GE Financial Advisor	350
Nordstrom, Inc.	325
Novato Community Hospital	310
Community Action Marin	300
Marin Independent Journal	280
Brayton Purcell	253
BioMarin Pharmaceutical	250
McDonald's Corporation	250

Source: North Bay Business Journal, June 2003

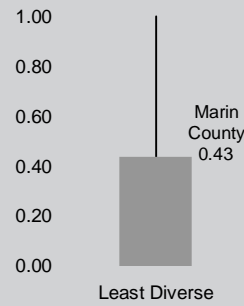
Public

Federal	995
State	1,599
Local	10,597

2003

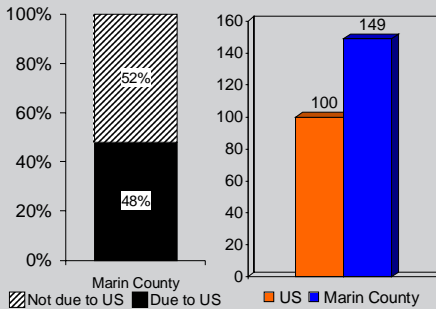
INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY

DUE TO U.S. FLUCTUATIONS RELATIVE TO U.S.

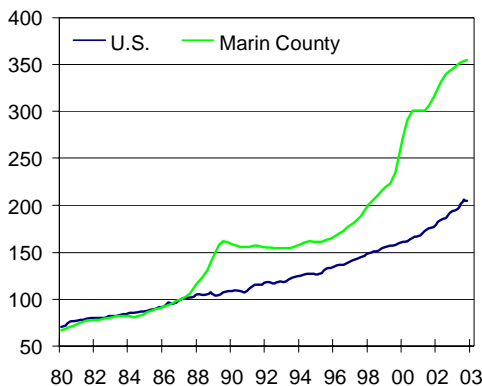


COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	Marin County	CA	U.S.	Marin County	CA	U.S.
Construction	6.9%	5.5%	5.2%	\$49,247	\$43,940	\$40,442
Manufacturing	2.7%	11.0%	11.2%	\$41,689	\$50,968	\$44,609
Durable	1.6%	6.9%	6.9%	\$48,072	\$57,167	\$46,533
Nondurable	1.1%	4.0%	4.3%	\$32,361	\$39,223	\$41,354
Transport/Utilities	1.3%	3.4%	3.7%	\$37,675	\$39,514	\$38,944
Wholesale Trade	2.4%	4.5%	4.3%	\$58,683	\$50,357	\$48,667
Retail Trade	14.4%	11.0%	11.5%	\$27,448	\$29,709	\$24,427
Information	3.6%	3.3%	2.5%	\$75,672	\$58,860	\$46,356
Financial Activities	9.0%	6.0%	6.1%	\$78,978	\$66,792	\$57,501
Prof. & Business Services	15.0%	14.6%	12.3%	\$58,259	\$55,573	\$42,481
Education & Health Services	14.2%	10.6%	12.8%	\$37,162	\$35,740	\$35,876
Leisure & Hospitality Services	14.2%	9.7%	9.3%	\$16,752	\$20,151	\$17,763
Other Services	4.1%	3.5%	4.2%	\$35,200	\$32,170	\$24,112
Government	12.3%	16.9%	16.6%	\$42,495	\$42,341	\$35,336

Source: Percent of total employment - Economy.com & BLS, 2003; Average annual earnings - BEA, 2001

HOUSE PRICES



Source: OFHEO, 1987Q1 = 100, NSA

LEADING INDUSTRIES

NAICS	Industry	Employees (000)
7221	Local Government	10.6
7221	Full-Service Restaurants	4.8
5415	Computer Systems Design & Related Services	3.3
2360	Construction of Buildings	3.2
7222	Limited-Service Eating Places	3.0
7121	Museums, Historical Sites, & Similar Institutions	2.9
5241	Insurance Carriers	2.9
4451	Grocery Stores	2.8
6221	General Medical & Surgical Hospitals	2.3
6211	Offices of Physicians	1.9
5617	Services to Buildings & Dwellings	1.8
GVS	State Government	1.6
2383	Building Finishing Contractors	1.6
2382	Building Equipment Contractors	1.5
4441	Building Material & Supplies Dealers	1.5
	High-tech employment	6.4
	As % of total employment	6.0

Source: BLS, Economy.com, 2002

MIGRATION FLOWS

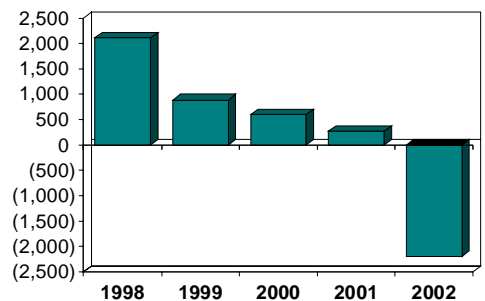
Into Marin County	Number of Migrants	Median Income
San Francisco County	2,478	58,717
Oakland CA	1,137	37,514
Santa Rosa CA	1,039	33,361
San Mateo County	475	48,599
Los Angeles CA	360	34,544
San Jose CA	270	53,787
Vallejo CA	255	34,510
Sacramento CA	190	28,031
San Diego CA	140	20,454
New York NY	136	42,765
Total All MSA's	9,755	37,308

From Marin County

Santa Rosa CA	2,034	37,201
Oakland CA	1,634	39,009
San Francisco County	1,227	43,218
Vallejo CA	856	46,466
Sacramento CA	534	41,342
Los Angeles CA	437	30,788
San Mateo County	288	48,749
San Jose CA	243	55,792
San Diego CA	203	22,999
Orange County CA	165	46,999
Total All MSA's	12,696	37,707

Total Net Migration	-2,941	-399
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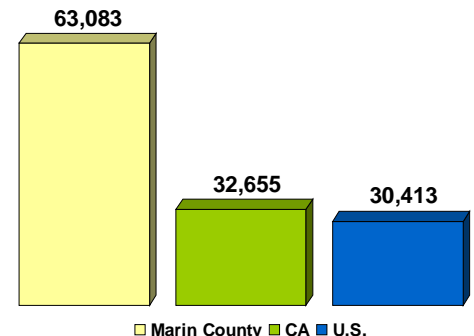
Net Migration, Marin County



	Domestic	Foreign	Total
1998	42	2,066	2,108
1999	-812	1,701	889
2000	-1,070	1,663	593
2001	-1,372	1,643	271
2002	-3,842	1,642	-2,200

Source: IRS (top), 2002; Census Bureau & Economy.com, 2002

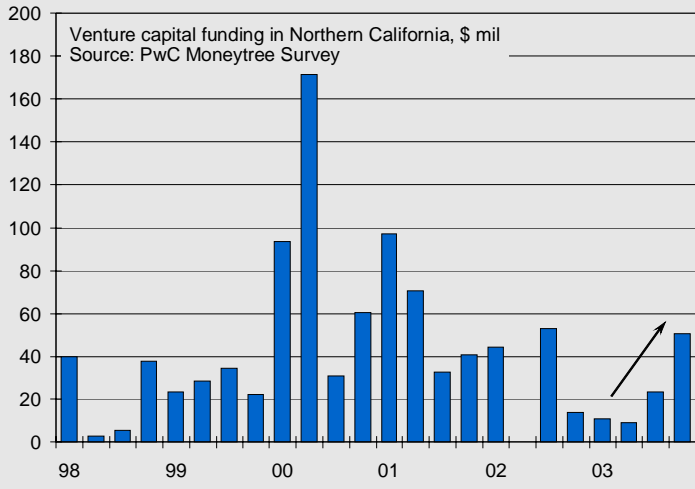
PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2001

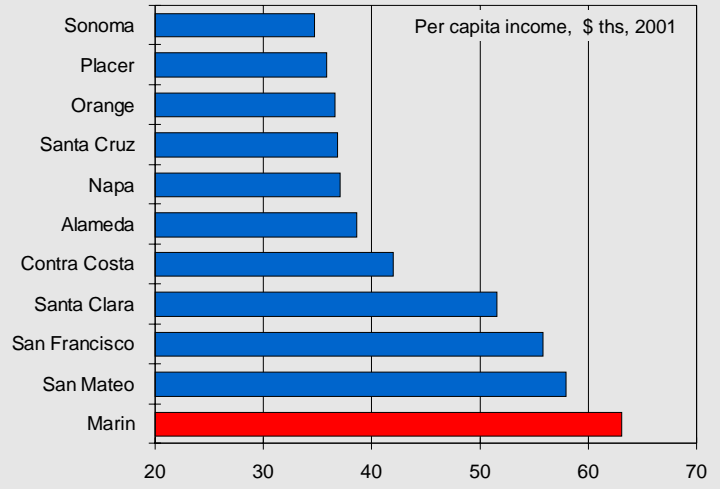
Marin County

Innovation on the Comeback



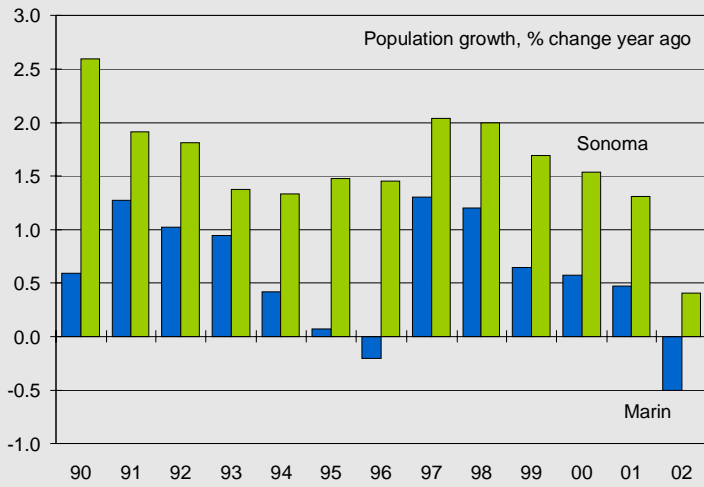
A gaggle of biotech and media-dominated software companies has helped increase MAR's exposure to the volatile but high-income technology industry. The pace of technological innovation is increasingly driven by the amount of financing available for new firms and technologies. To this end, the nascent rebound in venture financing in northern California is encouraging. The fourth quarter of 2003 saw the highest number of VC deals in northern California since the end of 2001. The increase in both number and dollar value of deals over the course of 2003 indicates that the industry has clearly turned around.

First Among Equals



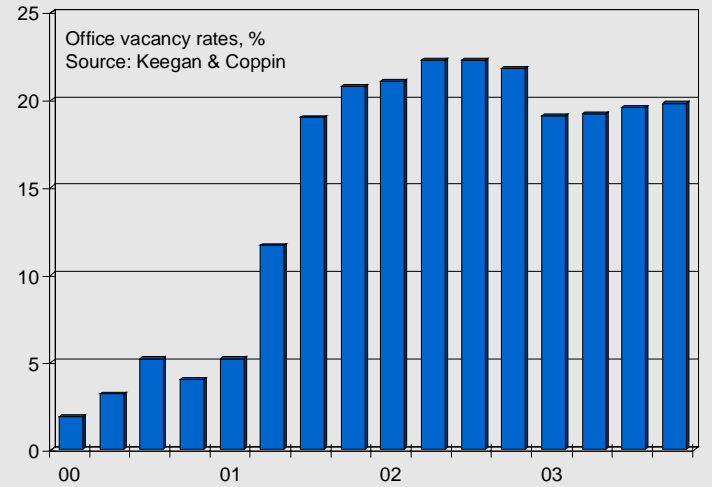
MAR enjoys the distinct honor of being the wealthiest county in the state, and one of the wealthiest in the nation. This wealth defines the structure of the county's retail and housing markets, and drives growth in financial and service industries locally. Banks continue to look to expand their visibility in MAR to tap into this lucrative market. The community's wealth also is reflected in the quality of life indicators of the community, such as better educational attainment rates and a lower crime rate. On the negative end, higher business and living costs in the county make it less attractive for business relocation, driving some expansions to neighboring counties.

A Shrinking Base



A slowdown in population growth in MAR is an especially worrisome trend. Population growth into MAR has lagged neighboring Sonoma County, the state, and the nation in the past decade, and growth has decelerated over the past five years. The Census Bureau estimates that the population base shrank marginally in 2002, as more residents left MAR's weak labor market and high house prices in search of greener pastures. MAR's population is projected to rise once again this year as the economy rebounds, creating more employment opportunities.

Still a Ways to Fall



Nascent signs of improvement in the job outlook are still too shallow to meaningfully impact office space demand in MAR. Office vacancy rates soared in 2001, as speculative building entered the market, and have remained close to 20% since. Rents have also dropped by around 20% over the past two years. While industrial and retail markets continue to maintain low vacancy rates, the office market is likely to remain weak at least through the end of 2004. Some 300,000 sf of additional space is still under planning, which will place downward pressure on office prices for the next year.

MENDOCINO COUNTY

EMPLOYMENT GROWTH

2003-05

1.9%

2003-08

1.8%

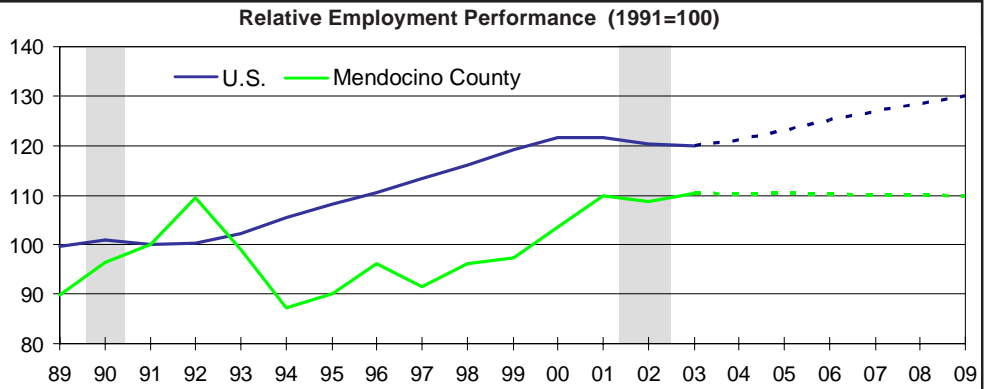
HIGH SCHOOL & ABOVE

81%

U.S. = 80.4%

COLLEGE & ABOVE
20%

U.S. = 24.4%



1996	1997	1998	1999	2000	2001	2002	Indicators	2003	2004	2005	2006	2007
1.6	1.7	1.7	1.7	1.8	2.1	2.2	Gross Product (C\$B)	2.4	2.6	2.7	2.9	3.1
8.5	7.5	-1.4	2.6	6.5	17.5	5.0	% Change	8.2	6.8	4.5	7.4	7.6
41.8	39.7	41.7	42.2	44.9	47.7	47.2	Total Employment (000)	47.9	48.9	49.8	50.7	51.5
6.8	-5.0	5.1	1.2	6.4	6.2	-1.2	% Change	1.6	2.0	1.8	1.8	1.6
8.5	7.9	7.9	6.7	6.6	6.7	7.2	Unemployment Rate	7.2	7.2	7.1	7.0	6.9
7.1	6.7	5.0	4.2	8.5	3.0	1.3	Personal Income Growth	3.3	4.3	3.7	3.9	4.3
83.9	84.4	85.1	85.7	86.4	86.8	87.2	Population (000)	88.0	88.8	89.5	90.1	90.6
191	224	259	266	270	317	352	Single-Family Permits	417	325	253	223	185
34	41	17	0	14	8	12	Multifamily Permits	84	3	0	0	8
154.9	162.2	173.5	184.7	201.9	220.3	248.0	Existing Home Price (\$Ths)	337.0	373.8	400.7	445.2	501.6
296.1	352.9	613.5	474.1	408.9	937.1	1,258.9	Mortgage Originations (\$Mil)	1,696.0	736.6	508.6	557.5	595.7
0.3	0.3	0.5	0.5	0.6	0.3	0.4	Net Migration (000)	0.5	0.5	0.4	0.2	0.1
290.0	329.0	342.0	304.0	250.0	252.0	225.0	Personal Bankruptcies	199.3	139.3	145.6	178.8	210.4

STRENGTHS & WEAKNESSES

STRENGTHS

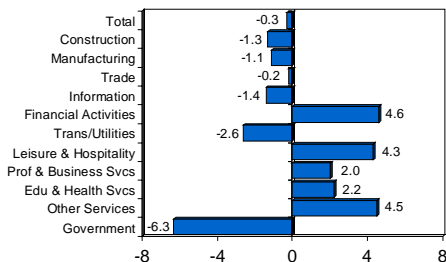
- Burgeoning wine industry.
- High-income northern California counties boost tourism potential.

WEAKNESSES

- Low per capita income.
- Minimal industrial diversity.
- High employment volatility.
- Natural resource dependent.

CURRENT EMPLOYMENT TRENDS

2003 Employment Growth % Change Year Ago



FORECAST RISKS

SHORT TERM ↓

UPSIDE

- Investment in tourism industry pays off, attracting Bay Area visitors.
- Wine industry growth exceeds expectations.
- Ukiah blossoms as a bedroom community.

DOWNSIDE

- Tech investment falters again, nipping Bay Area recovery.
- Wine imports depress U.S. prices more than expected.
- Out-migration bleeds MEN of skilled labor.

ANALYSIS

Recent Performance. The Mendocino County (MEN) economy has weakened substantially over the last two years. Recent labor market data suggest local government, retail, construction, and leisure and hospitality have cut back most heavily. Manufacturing is stabilizing, however, and services—primarily business services and healthcare—are adding jobs. Growth in the labor force has come nearly to a halt, keeping the county's unemployment rate from skyrocketing despite job losses. Prospects in the wine industry are improving, following three down years, leaving room for upside surprises for the county's vineyards and wineries in the near term.

Wine and tourism. The outlook for these two basic industries in the county is finally looking better after two very tough years. The slump in travel activity and restaurant traffic following September 11 hammered demand for local travel and for nationwide wine consumption. The wine industry alone accounts for an estimated 15% of the county's gross output. Three factors, however, will support these industries in 2004. First, nationwide travel activity has picked up, auguring for increased tourist arrivals to the MEN coast and to the county's wineries and restaurants. Second, the dollar has weakened substantially against the currencies of competing international wine producers, lowering the relative price of domestic vintages. Finally, domestic wine consumption is expected to rise this year, broadening the overall market for California wines.

Demographics. MEN's demographic characteristics augur for very modest economic growth over the near and long term. Despite the county's small size, the population growth rate in MEN averaged just half the statewide pace over the last decade, and the same disparity is projected for the coming ten years. Indeed, MEN is a laggard within Northern California. It's expected to grow half as quickly as Napa and Sonoma counties over the next ten years, and also to trail the growth rates of Lake and Marin counties by considerable margins. MEN's net migration trends

will have a neutral to negative impact on its population over the next ten years, whereas migration flows elsewhere in the region will add meaningfully to growth. In summary, the flagging demographic trends stem from MEN's inability to create jobs in high value added industries. The impacts of slower population growth are felt principally by locally oriented industries like retail trade, homebuilding, transportation and some business services.

Housing. Rapid expansion in MEN's housing markets over the last three years has pumped up construction payrolls and retail sales. But with housing demand and homebuilding both projected to give way this year, the local economy will lose a vital driver of activity. The magnitude of slowing could be drastic, given the outsized gains of the last three years. Permit issuance increased on average 12% annually from 2001 to 2003. As the Ukiah area has entered the fringe of the northern Bay Area commuter shed, Economy.com estimates the county saw double-digit growth in the median sales price of single-family homes. But with the county's economy still weak and with mortgage rates expected to rise later this year, housing demand will weaken and construction will slow. Prices will continue to rise, but moderately.

Mendocino County's economy has softened and remains weak. The next several years will be lukewarm, with declining industries canceling out advancing ones, leading to negligible growth. Longer term, MEN faces an uphill battle if it wants to grow at an average pace. Weak population trends, a dearth of high value-added industries and remoteness from the state's commercial core will constrain growth. Winemaking and tourism could offer some upside surprises, but the direct employment impact of the wine industry will be small. MEN will trail U.S. average growth over the forecast horizon.

David Givens
February 2004

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Georgia Pacific Corporation	400
Masonite Corporation	400
Productive People Employment Services	296
Mendocino College	275
Retech	251
Harwood Products, Inc.	237
Mendocino Coast Hospital	224
A M & D	180
Frank R. Howard Memorial Hospital	160
E Center	150
Snap-On Tools, Inc.	150
Ukiah Adventist Hospital	150
Frank R. Howard Foundation	120
Mendocino Community Health Clinic	108
Advanced Manufacturing & Dev. Inc.	100
Anderson Logging, Inc.	100
Mendocino Forest Products Company	100
Cae McGeehee, Inc.	85

Source: Upstate California Economic Development Council, January 2004

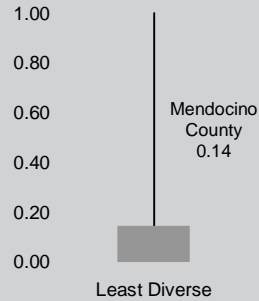
Public

Federal	252
State	448
Local	7,386

2003

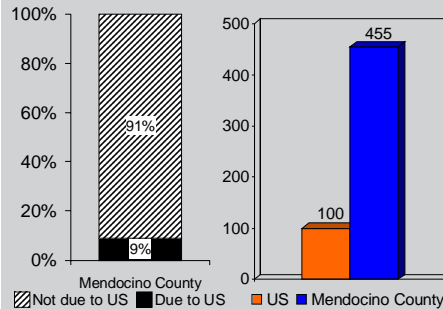
INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY

DUE TO U.S. FLUCTUATIONS RELATIVE TO U.S.

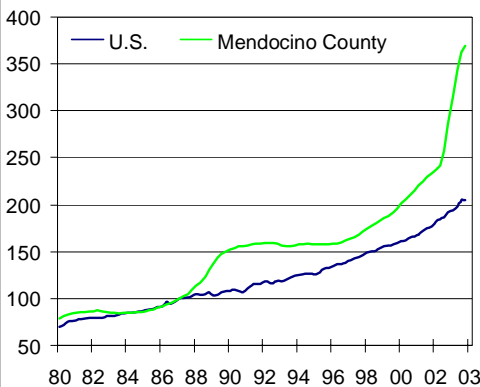


COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	Mendocino County	CA	U.S.	Mendocino County	CA	U.S.
Construction	4.1%	5.5%	5.2%	\$36,207	\$43,940	\$40,442
Manufacturing	11.5%	11.0%	11.2%	\$48,362	\$50,968	\$44,609
Durable	7.3%	6.9%	6.9%	\$39,167	\$57,167	\$46,533
Nondurable	4.2%	4.0%	4.3%	\$68,507	\$39,223	\$41,354
Transport/Utilities	7.5%	3.4%	3.7%	\$10,949	\$39,514	\$38,944
Wholesale Trade	2.3%	4.5%	4.3%	\$20,495	\$50,357	\$48,667
Retail Trade	14.2%	11.0%	11.5%	\$14,064	\$29,709	\$24,427
Information	12.6%	3.3%	2.5%	\$2,042	\$58,860	\$46,356
Financial Activities	3.1%	6.0%	6.1%	\$18,426	\$66,792	\$57,501
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Education & Health Services	8.0%	10.6%	12.8%	\$22,276	\$35,740	\$35,876
Leisure & Hospitality Services	12.9%	9.7%	9.3%	\$8,932	\$20,151	\$17,763
Other Services	1.5%	3.5%	4.2%	\$32,970	\$32,170	\$24,112
Government	15.9%	16.9%	16.6%	\$25,515	\$42,341	\$35,336

Source: Percent of total employment - Economy.com & BLS, 2003; Average annual earnings - BEA, 2001

HOUSE PRICES



Source: OFHEO, 1987Q1 = 100, NSA

LEADING INDUSTRIES

NAICS	Industry	Employees (000)
GVL	Local Government	7.4
5171	Wired Telecommunications Carriers	5.5
4821	Rail Transportation	2.5
4529	Other General Merchandise Stores	1.8
7224	Drinking Place	1.5
4451	Grocery Stores	1.3
7211	Traveler Accommodation	1.3
7221	Full-Service Restaurants	1.3
5613	Employment Services	1.3
7222	Limited-Service Eating Places	0.8
3121	Beverage Manufacturing	0.8
6241	Individual & Family Services	0.8
2360	Construction of Buildings	0.8
7223	Special Food Services	0.8
2370	Heavy & Civil Engineering Construction	0.7
	High-tech employment	6.4
	As % of total employment	12.5

Source: BLS, Economy.com, 2002

MIGRATION FLOWS

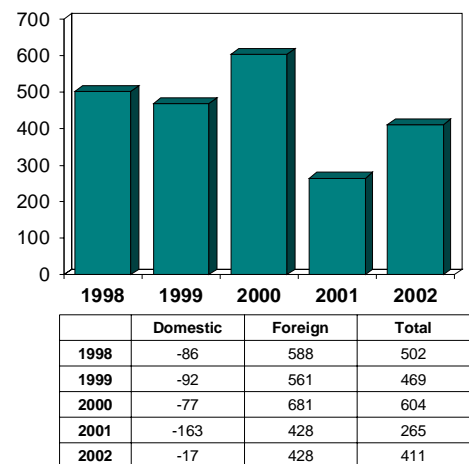
Into Mendocino County	Number of Migrants	Median Income
Santa Rosa CA	553	26,388
Oakland CA	209	27,782
San Francisco CA	184	29,504
Lake County CA	153	19,166
Sacramento CA	143	20,446
Humboldt County CA	137	18,181
San Jose CA	91	41,499
Los Angeles CA	86	18,999
Vallejo CA	83	32,851
Chico CA	65	16,249
Total All MSA's	3,143	20,190

From Mendocino County

Santa Rosa CA	406	23,624
Sacramento CA	160	22,798
Oakland CA	114	21,493
Redding CA	104	23,749
San Francisco CA	79	17,691
Vallejo CA	64	23,241
Riverside CA	58	14,482
San Diego CA	50	13,749
Orange County CA	46	10,832
Chico CA	46	11,666
Total All MSA's	3,104	19,537

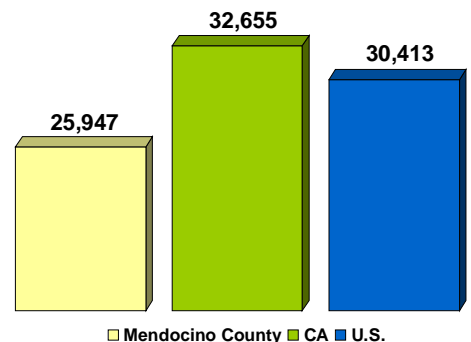
Total Net Migration	39	653
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Net Migration, Mendocino County



Source: IRS (top), 2002; Economy.com & Census Bureau, 2002

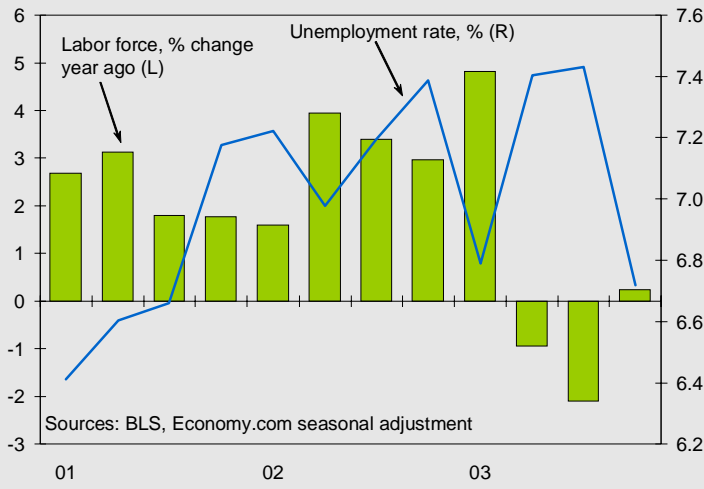
PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2001

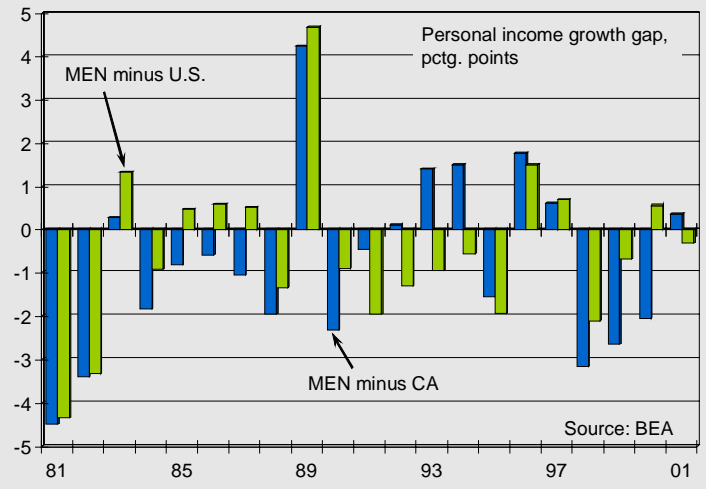
Mendocino County

Labor Force Growth Losing Steam



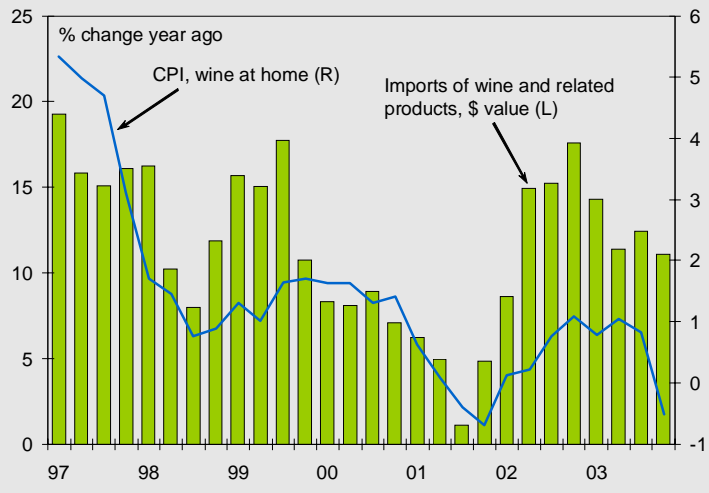
Labor force growth in MEN has slowed rapidly over the last year. The county spent 2003 at a higher average level of employment than in 2002 according to household survey data, but hiring lost strength in the second half of the year, discouraging new entry into the workforce. The contraction in the MEN labor force last year marks the first dip since 1999 and underscores the still weak labor market prospects in the county. The exit of the long-term unemployed from the workforce has also pushed down the county's jobless rate.

Income Growth Historically Below the State and Nation



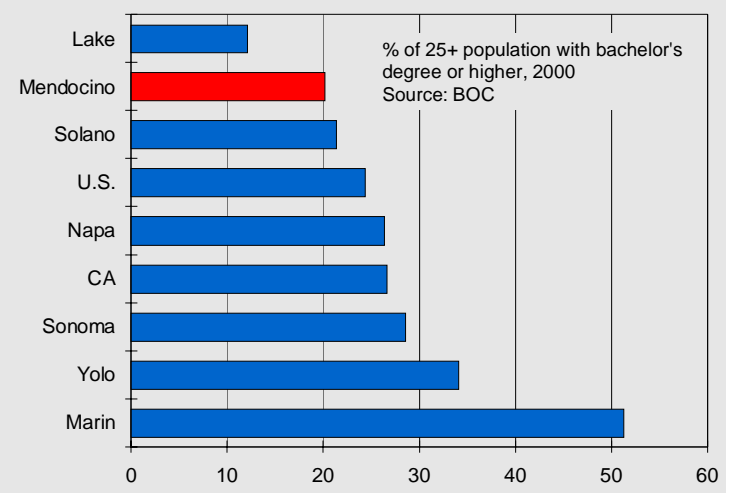
Personal income growth in MEN has traditionally lagged the state and national averages. MEN's slower growth rate is due to several factors but is due primarily to the slower rise in its wages and salaries. Wage and salary growth was, on average, 1.3 percentage points slower each year than the California average pace from 1981 to 2001. MEN's industrial mix perpetuates its sub-par growth. A low concentration of finance and business services employment is one contributing factor to the county's flagging income growth, as these sectors have seen strong job and wage hikes over the last decade.

Rising Imports Constraining Wine Pricing Power



The U.S. wine industry has been pummeled by rising imports, which in combination with the recession, has constrained vintners' pricing power. The value of wine imports has risen at a double-digit pace for the last two years, pushing down wine inflation to just 0.5% in 2003, compared with core CPI growth of 1.5%. The nation's wine trade balance is dominated by imports, which outnumber exports by roughly eight to one, a gap that has been growing steadily over time. However, the weak U.S. dollar and the improving global economy should give a near-term lift to exports of MEN-produced wines.

Educational Attainment Varies Widely in Northern California



MEN's educational profile is comparatively weak, which limits the metro area's ability to attract high value added industries. This impediment reduces the avenues for strong income growth. The share of MEN residents with at least a bachelor's degree is less than nearby Lake, Marin, and Napa counties, and less than the state and nation. The rise of locally nurtured high-tech industries is one development directly precluded by low educational attainment. While spillover growth from the Bay Area may in time push tech firms into MEN, a highly educated workforce would attract tech investment more quickly.

NAPA COUNTY

EMPLOYMENT GROWTH

2003-05

1.5%

2003-08

1.9%

HIGH SCHOOL & ABOVE

81%

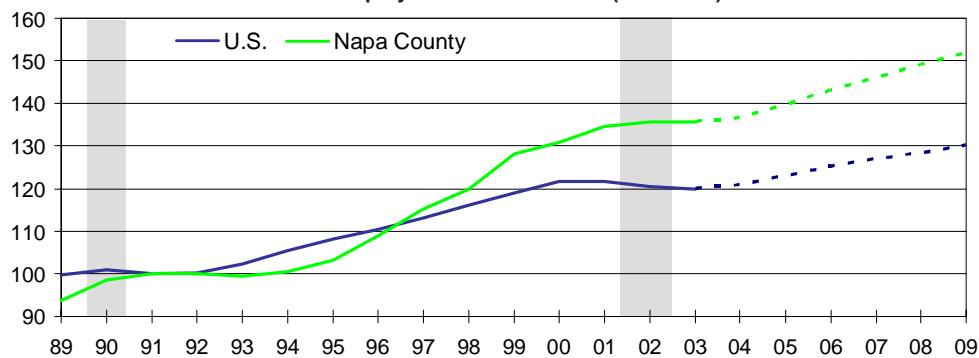
U.S. = 80.4%

COLLEGE & ABOVE

26%

U.S. = 24.4%

Relative Employment Performance (1991=100)



1996	1997	1998	1999	2000	2001	2002	Indicators	2003	2004	2005	2006	2007
3.1	3.4	3.5	3.9	4.3	4.2	4.4	Gross Product (C\$B)	4.5	4.7	4.9	5.1	5.3
5.2	9.7	4.5	9.4	10.7	-0.4	3.2	% Change	3.0	4.0	3.7	4.4	4.1
47.5	50.2	52.2	55.8	57.0	58.6	59.1	Total Employment (000)	59.1	59.5	60.8	62.3	63.6
5.6	5.7	4.0	6.9	2.2	2.8	0.9	% Change	0.0	0.6	2.3	2.4	2.1
5.9	5.1	4.0	3.3	3.2	3.3	4.3	Unemployment Rate	4.7	4.4	4.1	3.7	3.5
5.6	7.0	7.8	8.8	10.4	0.8	2.7	Personal Income Growth	4.4	5.7	6.0	5.9	5.8
118.0	119.8	121.6	123.0	124.6	127.9	130.3	Population (000)	132.0	134.4	137.2	139.7	142.2
228	370	455	590	538	777	610	Single-Family Permits	690	804	667	682	677
4	0	35	123	4	134	393	Multifamily Permits	76	69	70	90	98
187.0	195.7	215.1	249.5	314.1	358.9	388.6	Existing Home Price (\$Ths)	443.8	470.2	482.3	494.2	507.5
565.2	718.6	1,290.2	1,313.3	1,085.2	2,360.6	2,896.7	Mortgage Originations (\$Mil)	3,798.2	1,664.6	1,154.4	1,236.5	1,323.2
1.1	1.6	1.6	1.3	1.4	3.1	2.2	Net Migration (000)	1.6	2.3	2.6	2.4	2.2
428.0	472.0	449.0	298.0	272.0	260.0	255.0	Personal Bankruptcies	263.6	221.3	188.7	179.5	183.9

STRENGTHS & WEAKNESSES

STRENGTHS

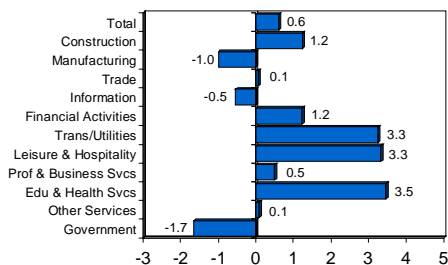
- High per capita income.
- Weak dollar supports NAP's export-based industries such as wine and technology.
- Attractive environment.
- Diversifying visitor attractions.

WEAKNESSES

- Global wine prices still weak.
- High cost of living.
- Local government finances constrained by state budget crisis.

CURRENT EMPLOYMENT TRENDS

2003 Employment Growth % Change Year Ago



FORECAST RISKS

SHORT TERM ↓ LONG TERM ↑

UPSIDE

- Business investment quickly accelerates for high-tech industries.
- Turnaround in tourism boosts hospitality and wine industries.

DOWNSIDE

- Housing market suffers price correction as interest rates rise, diminishing homeowners' equity.
- Global wine supply continues to surge pressuring wine and vineyard prices.

ANALYSIS

Recent Performance. The economy of Napa County (NAP) is past the worst of its cyclical downturn, but it still awaits recovery in manufacturing and service industry labor markets. Reflecting the lack of vitality in the local economy is an unemployment rate that rose to 4.8% in last year's fourth quarter, its highest rate since 1997, although still below U.S. and statewide averages. Other indicators have yet to improve. Residential construction activity fell 40% last year, with the greatest fall in multifamily units. Nonresidential construction fell for a second consecutive year last year, with the value of permit issuance down 45% from its 2002 peak.

Household balance sheets, however, appear to be in good shape as indicated by a 15% decline in the number of personal bankruptcy filings over the past year. But business filings are still rising, generating some risk of further local layoffs and a subsequent deterioration of income growth. Thus, conditions remain mixed in the economy, with a turnaround not expected until later this year.

Basic economy. NAP's basic economy, that which produces goods and services for broader markets, is highly dependent upon the U.S. and global consumer economy. Agriculture, wine, specialty foods, tourism, and to some extent tech industries dominate the county's basic economy. As such, the rather steady pace of U.S. consumer spending growth implies there will be no surge in demand for NAP's products, suggesting there will be no strong cyclical rebound in the local economy, just a moderate pace of growth. If global consumer trends were to pick up simultaneously with the U.S., there would be considerable upside potential for the local economy, but currently the global economy's turnaround lags the U.S.

Improved pricing. The falling dollar and the resulting improved global pricing environment for the county's wines is the most positive near-term factor for the economy. It offsets the downward pricing pressure generated by the excess global supply of wine and the county's own rising production potential due to the large amount

of local non-producing vineyards. It makes imported wine potentially more expensive, once importers pass on the exchange rate through higher prices, and U.S. wines cheaper in export markets. Generating further upside potential for NAP's higher priced labels in the domestic market is a turn by consumers over the holidays toward higher priced and luxury goods. If this trend continues, stronger demand for higher priced wines will result in improved income growth for the county.

Travel. Rising corporate profits nationwide will lead to revitalized corporate travel this year. Indirectly this will benefit NAP as travelers to San Francisco make day or weekend excursions to the wine country. Leisure travel already is beginning to improve, although business travelers tend to spend more.

Real estate. Residential real estate remains supported by low interest rates, driving price appreciation into the mid-teens. Given that housing supply and demand have returned to balance with the weaker economy, there is some risk to price appreciation should interest rates rise faster than expected. Industrial markets remain healthy with vacancy rates in single digits, well below the U.S. average, supported by biotech expansion and storage of wine inventories. The vacancy rate for standard office space rose to nearly 13% in the third quarter according to Keegan & Coppin. This is below average, but a rising rate indicates remaining weakness in NAP's service-producing industries.

Napa County's outlook is positive, with moderate employment and income growth expected for 2004. Stronger growth will be delayed until 2005 once the demand and pricing environment for the wine industry improves. Longer term, NAP's good quality of life factors, educated workforce, venture capital and budding technology industries will support above average job growth.

Steven G. Cochran
February 2004

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Queen of the Valley Hospital	1,351
St. Helena Hospital	950
Dey Laboratories, L.P.	760
Cultured Stone	680
Robert Mondavi Winery	613
Silverado Resort	600
Beringer Blass Wine Estates	560
Trinchero Family Estates	425
Pacific Union College	330
Wal-Mart Stores, Inc.	280
Napa Pipe Corporation	260
Nova Group	250
Vintage Inn/Villagio Inn & Spa/Cucina a la Carte	250
Marriott International, Inc.	246
Auberge du Soleil	225
Kaiser Permanente	196
The Doctors Company	185
Domaine Chandon	170
Marinco	170
Renaissance Mark	170

Source: North Bay Business Journal, September 2003

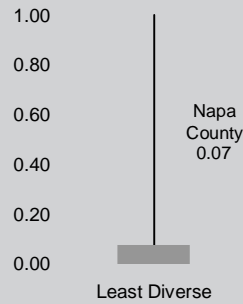
Public

Federal	451
State	3,096
Local	5,519

2003

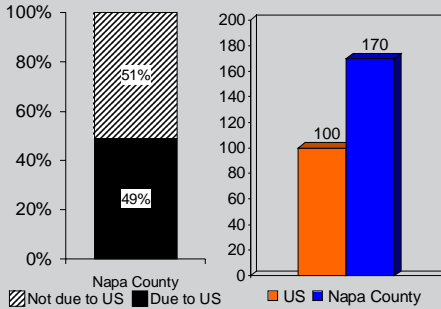
INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY

DUE TO U.S. FLUCTUATIONS RELATIVE TO U.S.

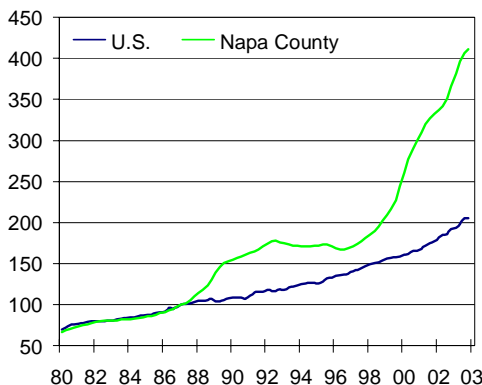


COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	Napa County	CA	U.S.	Napa County	CA	U.S.
Construction	7.8%	5.5%	5.2%	\$40,408	\$43,940	\$40,442
Manufacturing	19.8%	11.0%	11.2%	\$35,770	\$50,968	\$44,609
Durable	3.5%	6.9%	6.9%	\$68,542	\$57,167	\$46,533
Nondurable	16.4%	4.0%	4.3%	\$27,979	\$39,223	\$41,354
Transport/Utilities	1.5%	3.4%	3.7%	\$47,670	\$39,514	\$38,944
Wholesale Trade	2.6%	4.5%	4.3%	\$54,526	\$50,357	\$48,667
Retail Trade	10.6%	11.0%	11.5%	\$25,674	\$29,709	\$24,427
Information	1.5%	3.3%	2.5%	\$76,474	\$58,860	\$46,356
Financial Activities	4.4%	6.0%	6.1%	\$66,029	\$66,792	\$57,501
Prof. & Business Services	8.8%	14.6%	12.3%	\$68,816	\$55,573	\$42,481
Education & Health Services	11.2%	10.6%	12.8%	\$31,463	\$35,740	\$35,876
Leisure & Hospitality Services	13.4%	9.7%	9.3%	\$22,587	\$20,151	\$17,763
Other Services	2.8%	3.5%	4.2%	\$25,931	\$32,170	\$24,112
Government	15.3%	16.9%	16.6%	\$34,945	\$42,341	\$35,336

Source: Percent of total employment - Economy.com & BLS, 2003; Average annual earnings - BEA, 2001

HOUSE PRICES



Source: OFHEO, 1987Q1 = 100, NSA

LEADING INDUSTRIES

NAICS	Industry	Employees (000)
3121	Beverage Manufacturing	8.0
GV1	Local Government	5.5
GV5	State Government	3.1
7221	Full-Service Restaurants	2.6
7211	Traveler Accommodation	2.2
7222	Limited-Service Eating Places	2.1
6221	General Medical & Surgical Hospitals	1.7
4451	Grocery Stores	1.5
2360	Construction of Buildings	1.3
2381	Foundation, Structure, & Building Exterior Contractors	1.1
5613	Employment Services	1.0
5617	Services to Buildings & Dwellings	1.0
6244	Child Day-Care Services	0.9
2382	Building Equipment Contractors	0.9
6232	Res. Mental Retardation, Mental Hlth & Substance Abuse	0.8
	High-tech employment	1.6
	As % of total employment	2.6

Source: BLS, Economy.com, 2002

MIGRATION FLOWS

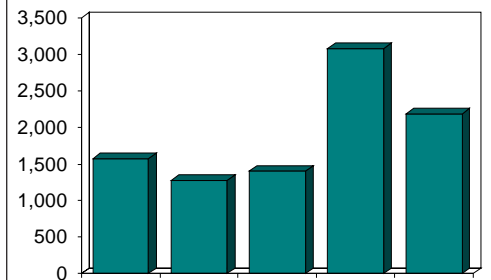
Into Napa County	Number of Migrants	Median Income
Solano County	1,943	32,666
San Francisco CA	1,012	50,111
Oakland CA	855	42,211
Santa Rosa CA	460	30,394
Los Angeles CA	206	19,999
San Jose CA	206	54,999
Sacramento CA	180	23,355
San Diego CA	102	17,916
Lake County	86	24,499
Orange County CA	82	26,249
Total All MSA's	7,076	30,162

From Napa County

Solano County	1,560	30,438
Oakland CA	427	30,129
Santa Rosa CA	423	26,562
Sacramento CA	374	28,928
San Francisco CA	256	35,101
Los Angeles CA	130	17,499
San Diego CA	110	15,832
Riverside CA	90	26,485
Redding CA	84	42,499
Yolo CA	79	25,624
Total All MSA's	6,151	26,897

Total Net Migration	925	3,265
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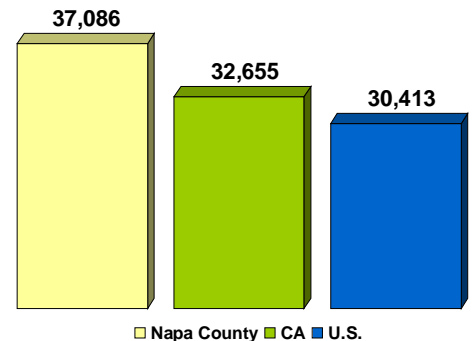
Net Migration, Napa County



	Domestic	Foreign	Total
1998	497	1,078	1,575
1999	317	955	1,272
2000	759	644	1,404
2001	2,057	1,021	3,078
2002	1,166	1,021	2,187

Source: IRS (top), 2002; Census Bureau & Economy.com, 2002

PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2001

SONOMA COUNTY

EMPLOYMENT GROWTH

2002-04

257

2002-07

78

Best=1 Worst=325

MSA LIFE CYCLE PHASE

Growth/Mature

VITALITY

Best=1 **225** Worst=325

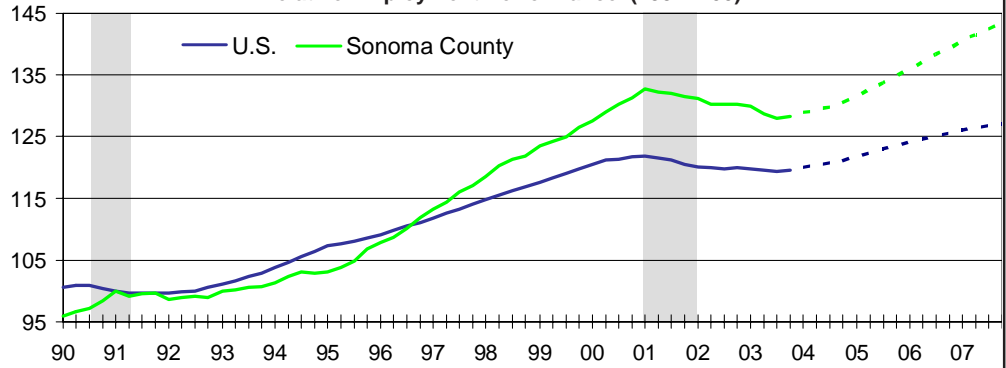
COST OF DOING BUSINESS

U.S. = 100% **118%**

COST OF LIVING

U.S. = 100% **128%**

Relative Employment Performance (1991=100)



1996	1997	1998	1999	2000	2001	2002	Indicators	2003	2004	2005	2006	2007
9.9	10.9	11.8	12.7	14.3	14.3	14.5	Gross Metro Product, C\$B	14.9	15.3	15.9	16.6	17.3
4.6	9.8	8.1	7.5	12.6	0.3	1.6	% Change	2.1	3.0	3.6	4.6	4.3
157.5	165.4	173.0	179.3	186.1	189.8	187.4	Total Employment (000)	184.8	186.0	191.2	197.7	203.8
4.8	5.0	4.6	3.6	3.8	2.0	-1.3	% Change	-1.4	0.7	2.7	3.4	3.1
4.4	3.8	3.3	2.7	2.6	2.9	4.5	Unemployment Rate	4.8	4.7	4.4	4.1	3.9
6.4	8.4	8.1	6.2	13.4	-0.2	-0.7	Personal Income Growth	1.9	5.3	6.3	6.4	6.2
428.4	437.1	445.9	453.4	460.4	466.5	468.4	Population (000)	471.1	477.1	486.3	497.3	507.4
1,412	1,785	2,098	2,348	2,013	1,717	1,350	Single-Family Permits	1,564	2,023	1,839	1,895	1,887
75	176	964	688	492	866	578	Multifamily Permits	571	644	608	688	739
214.7	224.7	245.3	274.8	324.4	362.4	395.1	Existing Home Price (\$Ths)	439.0	464.3	482.1	496.1	513.1
2,458	2,839	5,163	4,499	3,990	8,651	10,546	Mortgage Originations (\$Mil)	13,929	5,508	3,536	3,806	4,125
4.3	7.0	7.1	6.0	5.3	4.1	-0.3	Net Migration (000)	0.2	3.5	6.5	8.3	7.1
2,011	2,090	2,173	1,627	1,158	1,183	1,223	Personal Bankruptcies	1,262	1,109	976	949	981

STRENGTHS & WEAKNESSES

STRENGTHS

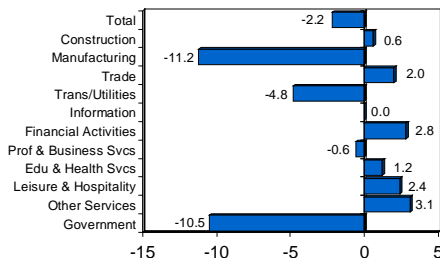
- High per capita income.
- Weak dollar supports SON's export-based industries such as wine and technology.
- Attractive environment.

WEAKNESSES

- Global wine prices still weak.
- High cost of living.
- Complex regulatory environment.
- Local government finances constrained by state budget crisis.

CURRENT EMPLOYMENT TRENDS

November 2003 Employment Growth % Change Year Ago



FORECAST RISKS

SHORT TERM ↓ LONG TERM ↑ RISK-ADJUSTED RETURN, '02-'07 **0.73%**

UPSIDE

- Business investment quickly accelerates for high-tech telecom and optical equipment.
- Turnaround in tourism boosts hospitality and wine industries.

DOWNSIDE

- Housing market suffers price correction as interest rates rise, diminishing homeowners' equity.
- Vineyard prices fall, hindering financial condition of the industry and generating further consolidation.

ANALYSIS

Recent Performance. The economy of Sonoma County (SON) is past the worst of its downturn, although a clear recovery is not yet in sight. Employment has nearly leveled off and the unemployment rate is holding steady, but there still is little vitality in SON's driving industries. New hiring at some firms continues to be offset by cutbacks elsewhere, such as at Medtronic, where several hundred jobs will be lost soon when production is shifted overseas. Positive indicators for the economy, however, include a solid pace of house-price appreciation, declining office vacancy rates, and a fall in the number of business bankruptcy filings.

Tech. Demand and price conditions are past their worst for biotech and telecom. Employment cutbacks are slowing and, while it is only half its peak level of two years ago, employment in the medical device industry has leveled off. Firms that survived the shakeout are positioned for growth. TriVascular, for example, hopes to hire 100 workers this year, with more later depending on approvals for new stent grafts. Some venture capital is also flowing to biotech.

Telecom markets are finally stabilizing with an acceleration in nationwide business investment. Demand for DSL equipment by major phone networks, and upgrades of telephone technology support local equipment suppliers. Venture capital is also trickling back to telecom. For example, Triformix received a new funding round in last year's fourth quarter. Expect tech industries to bolster the local economy, although further potential for some large scale production to be shifted overseas dampens employment prospects.

Tourism. The outlook for tourism activity is good, as income growth nationwide and in California is improving. Combined with nationwide pent-up demand for high-end goods and services, resort and spa destinations are expected to see improved demand this year. Pricing may still be a problem as supply of such services has expanded, but occupancy rates will be stronger.

Wine. The wine and viticulture industries will be the last to recover among the area's most important drivers due to the global competition that generates still-rising supplies of grapes and wine, but the worst conditions for the industry are now likely past. Factors supporting tourism, income growth and demand for high-end goods, will also provide a boost to wine sales this year. Also, the size of the recent grape harvest was below expectations, but of good quality, which should support prices of the vintage. Further, red wine now being released from SON's 2001 vintage is of particularly good quality. Finally, the weak dollar allows domestic wines to compete more easily with imports and in overseas markets.

Pricing remains the weakest component of the industry, forcing winemakers to focus most on cost containment and marketing. Thus, capital investment will remain weak in the near term, limiting local demand in related industries that supply grape growers and winemakers.

Real estate. Office markets in SON show signs of improvement, with an average vacancy rate of 15.3% in the third quarter according to Keegan & Coppin, down from a peak of over 19% at the end of 2002. Firms appear ready to plan for expansion, and new business services are entering the area. While employment in business and professional services is down over the year, it has risen from a low in early 2003. SON's industrial market is much healthier, with the industrial vacancy rate near 8%, well below the national average.

Sonoma County's outlook is improving and 2004 will see the first positive job growth since the 2001 recession. The pace of recovery will be slow at first, as all of its major driver industries still face pricing pressures and excess production in their respective markets. Longer term, however, SON will regain its pace to become an above average performer.

Steven G. Cochrane
January 2004

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Agilent Technologies, Inc.	2,600
Sonoma State University	1,799
Medtronic, AVE	1,400
Optical Coating Laboratory	1,300
St. Joseph Health System	1,225
JDS Uniphase Corporation	1,200
State Farm Insurance Company	822
Kendall-Jackson Wine Estates	820
Sutter Medical Center	752
Target Corporation	724
Amy's Kitchen	700
Longs Drug Stores, Inc.	700
Kaiser Permanente	675
Washington Mutual	650
Hansel Dealer Group	606
Advanced Fibre Communications	600
Cisco Systems, Inc.	600
SBC Communications, Inc.	600
Albertson's, Inc.	590
Macy's	550

Source: North Bay Business Journal, February 2003
The Santa Rosa Press Democrat, June 2003

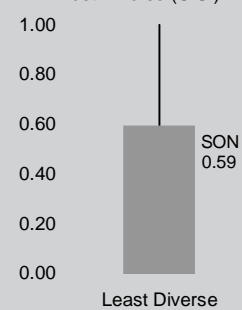
Public

Federal	1,808
State	5,708
Local	20,843

2002

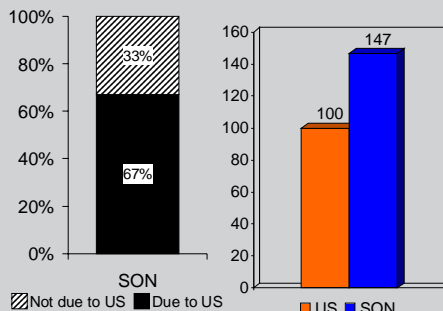
INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY

DUE TO U.S. FLUCTUATIONS RELATIVE TO U.S.



MIGRATION FLOWS

Into Sonoma County	Number of Migrants	Median Income
San Francisco	3,599	38,234
Oakland	1,178	33,343
Vallejo	777	27,593
San Jose	729	42,030
Los Angeles	607	26,211
Sacramento	499	25,688
San Diego	349	20,681
Riverside	219	21,407
Orange County	206	21,590
Seattle	192	24,109
Total Immigration	14,772	27,943

From Sonoma County

San Francisco	1,815	32,083
Sacramento	1,438	32,738
Vallejo	1,009	34,661
Oakland	918	28,425
Los Angeles	461	19,860
San Diego	407	17,642
San Jose	396	31,183
Redding	348	32,777
Riverside	329	23,096
Phoenix	325	27,249
Total Outmigration	17,735	26,583

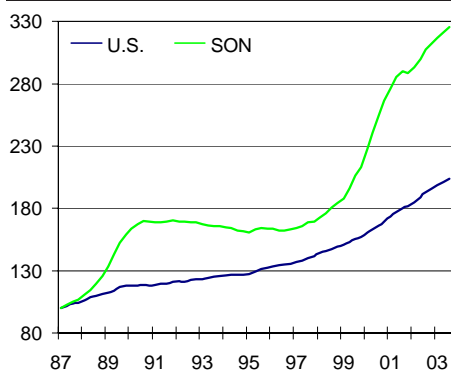
Net Migration	-2,963	1,360
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COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	SON	CA	US	SON	CA	US
Construction	7.2%	5.3%	5.2%	\$50,463	\$47,877	\$39,845
Manufacturing	14.2%	11.3%	12.0%	\$52,640	\$55,970	\$48,756
Durable	62.0%	64.3%	62.0%	nd	\$63,121	\$50,404
Nondurable	38.0%	35.7%	38.0%	nd	\$42,646	\$45,969
Transport/Utilities	2.2%	3.4%	3.6%	\$39,995	\$47,311	\$44,972
Wholesale Trade	3.2%	4.5%	4.4%	\$44,017	\$52,350	\$51,842
Retail Trade	12.9%	10.9%	11.7%	\$25,949	\$27,420	\$22,635
Information	2.3%	3.4%	2.6%	\$57,463	\$83,422	\$69,569
Financial Activities	5.6%	5.9%	6.0%	\$27,675	\$40,394	\$41,740
Prof. & Business Services	10.3%	14.7%	12.4%	\$39,583	\$48,046	\$43,053
Education & Health Services	12.7%	10.4%	12.5%	\$33,147	\$36,158	\$34,032
Leisure & Hospitality Services	10.6%	9.5%	9.0%	\$17,930	\$23,238	\$19,135
Other Services	3.6%	3.5%	3.9%	\$22,955	\$21,695	\$19,842
Government	15.1%	16.9%	16.2%	\$43,588	\$48,959	\$42,939

Source: Percent of total employment - Economy.com & BLS, 2002; Average annual earnings - BEA, 2001

HOUSE PRICES



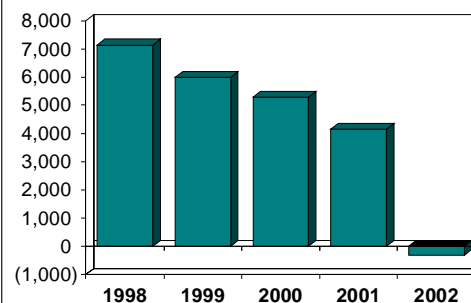
Source: OFHEO, 1987Q1 = 100, NSA

LEADING INDUSTRIES

NAICS	Industry	Employees (000)
7222	Limited-Service Eating Places	5.7
FR	Farms	5.3
4451	Grocery Stores	4.8
3345	Nav., Meas., Electro., & Con. Instru. Manuf.	4.8
2360	Construction of Buildings	3.9
PH	Private Household Workers	3.9
7211	Traveler Accommodations	3.3
5511	Management of Companies and Enterprises	2.9
2383	Building Finishing Contractors	2.5
3391	Medical Equipment and Supplies Manufacturing	2.5
2381	Foundation, Struc., & Bldg. Ext. Contractors	2.1
3119	Other Food Manufacturing	2.0
4441	Building Material and Supplies Dealers	2.0
8111	Automotive Repair and Maintenance	2.0
7139	Other Amusement and Recreation Industries	1.8
	High-tech employment	13.6
	As % of total employment	6.9

Source: BLS, Economy.com, 2002

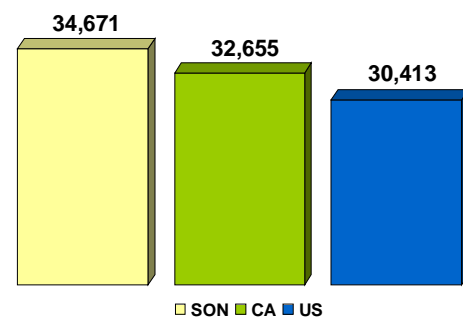
Net Migration, SON



	Domestic	Foreign	Total
1998	3,862	3,269	7,131
1999	2,929	3,055	5,984
2000	2,260	3,020	5,280
2001	1,096	3,054	4,150
2002	-3,360	3,049	-311

Source: IRS (top), 2002; Economy.com & Census Bureau, 2002

PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2001

CREDIT QUALITY

FITCH

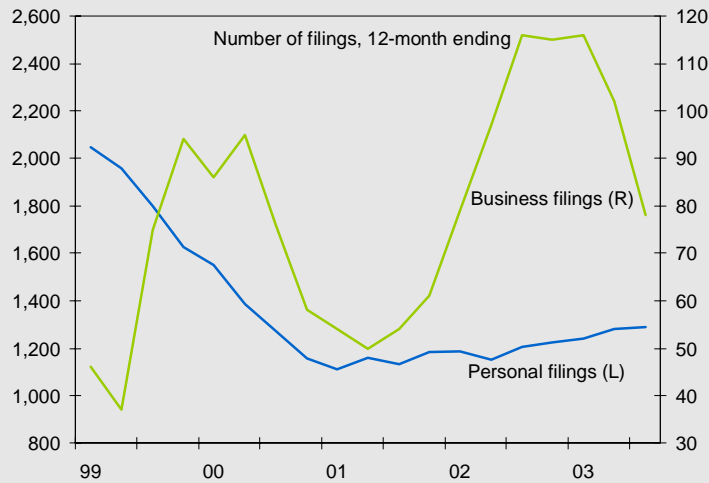
N/A

MOODY'S

COUNTY Aa2

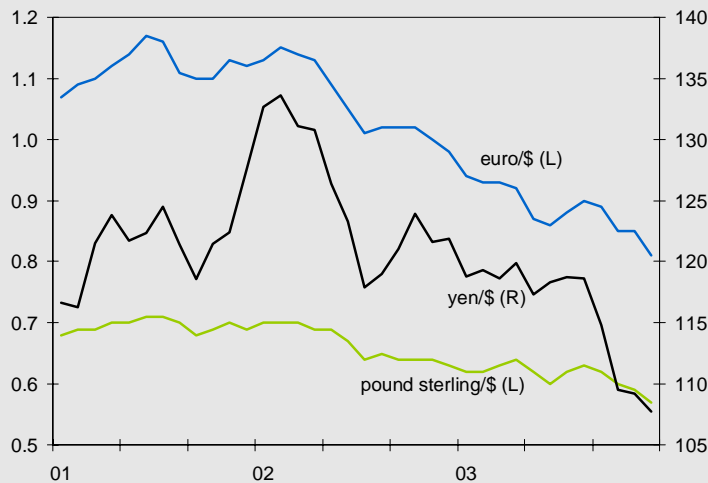
Sonoma County

Business Bankruptcy Filings Show Improvement



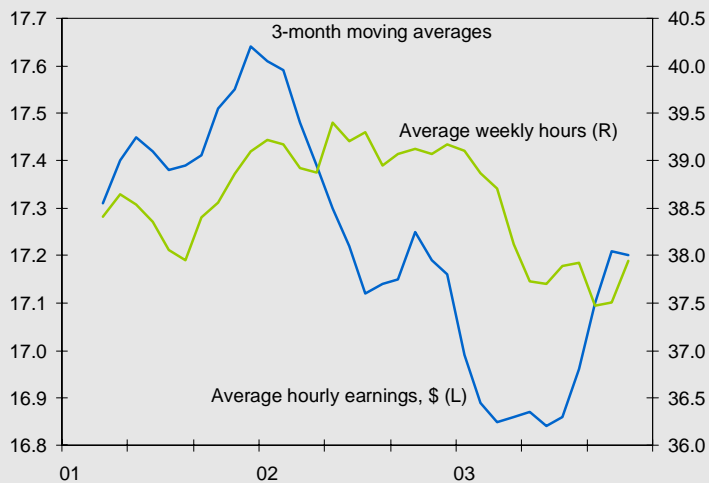
Filings for business bankruptcies are finally falling. This is a good sign for the near-term outlook, as it should translate into fewer personal filings in the near future as payroll cutbacks subside. With business investment nationwide improving, SON's tech-based industries will see improved demand in 2004. Financial pressure, however, may remain within the grape growing and wine industries, as product prices are weak and vineyard values still remain low, indicating further consolidation. For homeowners, however, rising home equity—house-price appreciation remains in the mid-teens—still helps to create a financial cushion that supports consumer spending and confidence.

Falling Dollar Favors Sonoma County's Exports



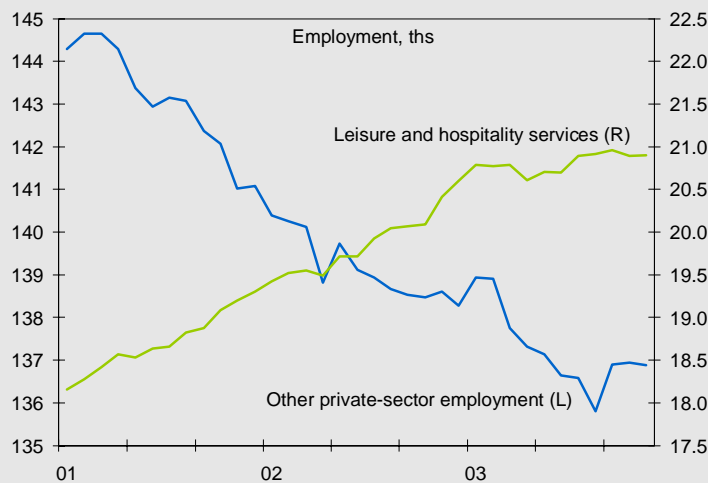
One of the most important factors supporting SON's economy is the weak U.S. dollar. Export markets for wine and tech products improve when the weak dollar prices them more competitively. Similarly, imported wine in the U.S. becomes more expensive. SON is also less expensive for foreign tourists. Given the broad exposure to international trade in SON, the fall in the dollar is very favorable. The dollar has fallen less versus the pound than it has against other currencies unfortunately, given that the United Kingdom is a major wine market for SON, but still, the dollar/pound exchange rate has weakened by a considerable 20% since mid-2001.

Sonoma County's Manufacturing Indicators are Improving



Manufacturing in SON is showing some moderate signs of improvement. Average hourly earnings in manufacturing have risen this year for the first time since the 2001 recession and the number of hours worked per week has stabilized. Employment still has not stabilized, after falling by more than 25% from its peak in early 2001, but with earnings up, hours stable, and a number of firms planning expansions in the coming year, the downturn in manufacturing payrolls should be near an end.

Tourism Generates Some Stability



Tourism has been a stabilizing force for the economy throughout SON's recession. It is one of the few industries that has continually added to payrolls. But, even the growth rate of leisure and hospitality employment has slowed in recent months. The local and regional market can sustain the industry for only so long until it must begin to rely once again on visitors from elsewhere in the U.S. and abroad. This is expected to happen this year as income growth and confidence improve in the U.S., and the weak dollar makes U.S. tourist destinations attractive to overseas visitors.