

Sebastopol's Economy:

Strengths, Weaknesses, Opportunities, and Threats

Sebastopol, CA
September 24, 2009

Robert Eyer, Ph.D.
Chair, Economics Department
Director, Center for Regional Economic Analysis
Sonoma State University
eyer@sonoma.edu



School of Business
and Economics

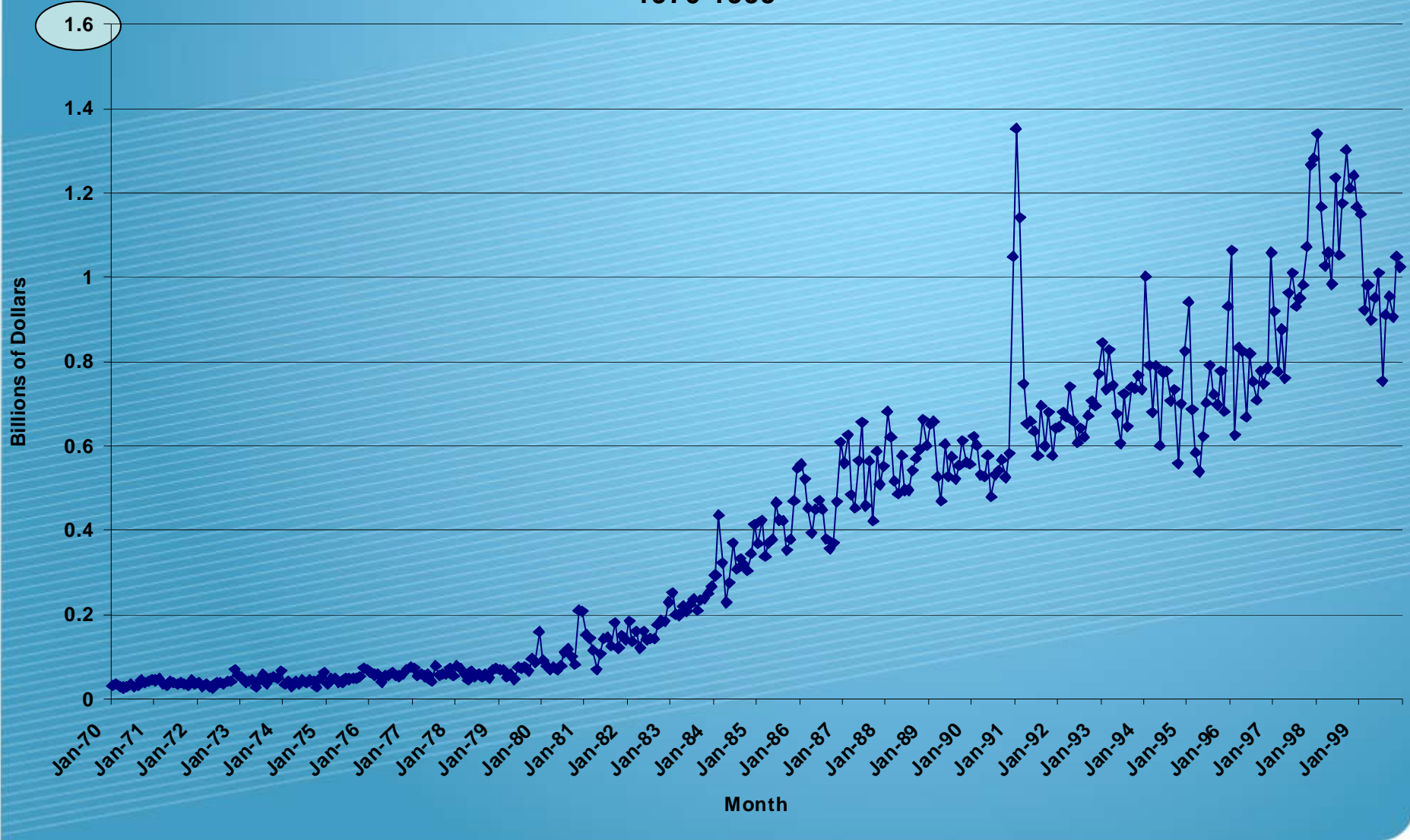
Introduction

- Quick Economic Overview
 - National Level
 - State Level
 - County level
- Economic Development: Opportunities and Challenges
 - The Triple Bottom Line (maybe Quad)
 - The role of industries and innovative economic development ideas
- Sebastopol Economy SWOT Analysis
 - Strengths
 - Weaknesses
 - Opportunities
 - Threats
- Conclusions and recommendations for Sebastopol

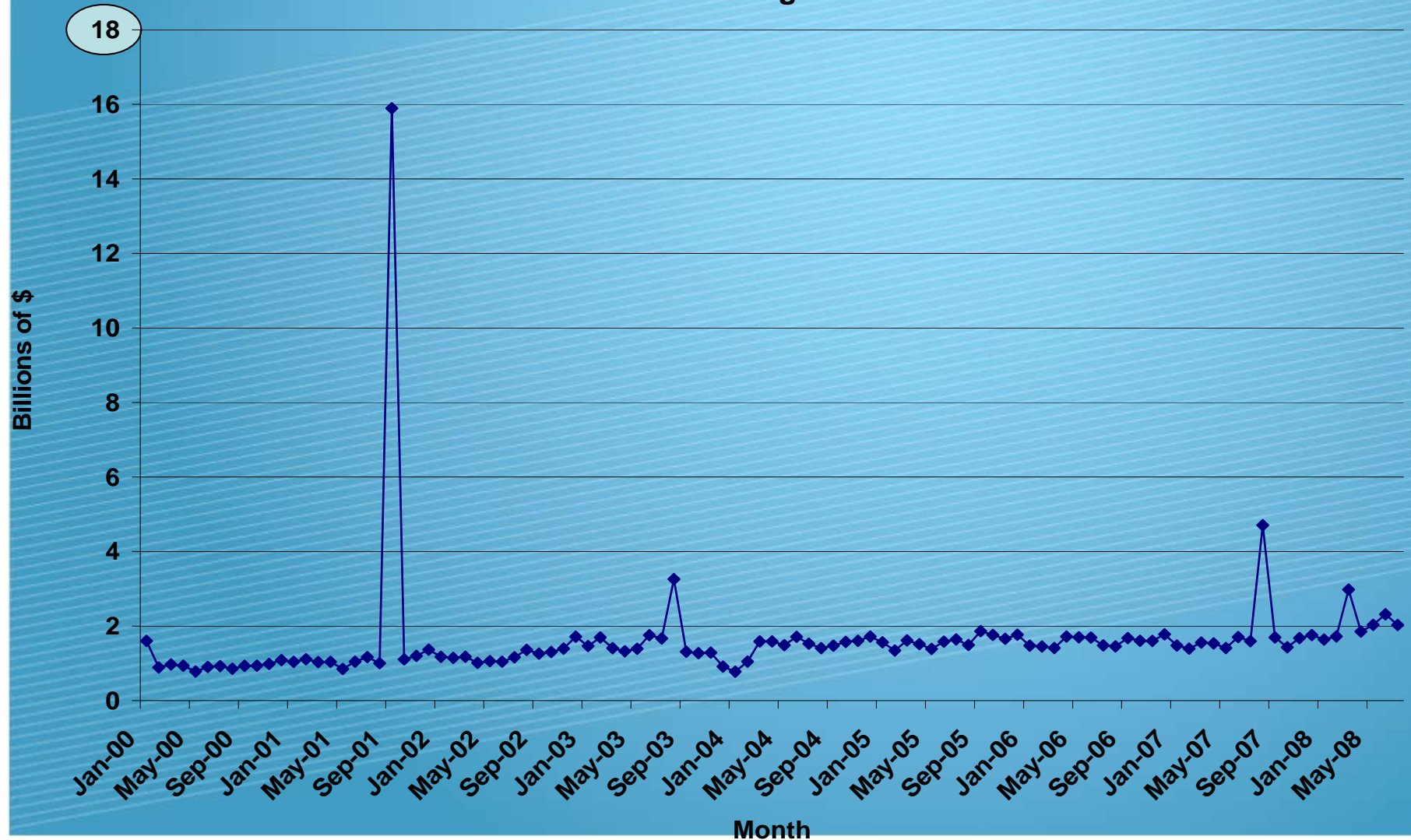
Domestic Macroeconomy

- Continued recession through 2009 for Sonoma County
 - “Thud” will hit and you won’t really know it
 - North Bay will lag behind national economy (due to real estate exposure)
- Bernanke: recession is over!
 - Expanded fiscal stimulus
 - Job creation through innovation, not through consumption, now provided incentives
 - Consumption growth alone is not a recession-ending act
- Some stats to watch
 - S&P 500 index: historically linked to labor market cycles
 - Housing starts: has led every boom since WWII
 - Initial claims for unemployment: classic leader of labor market cycle
 - Banking lending: credit provision generates funding for innovation

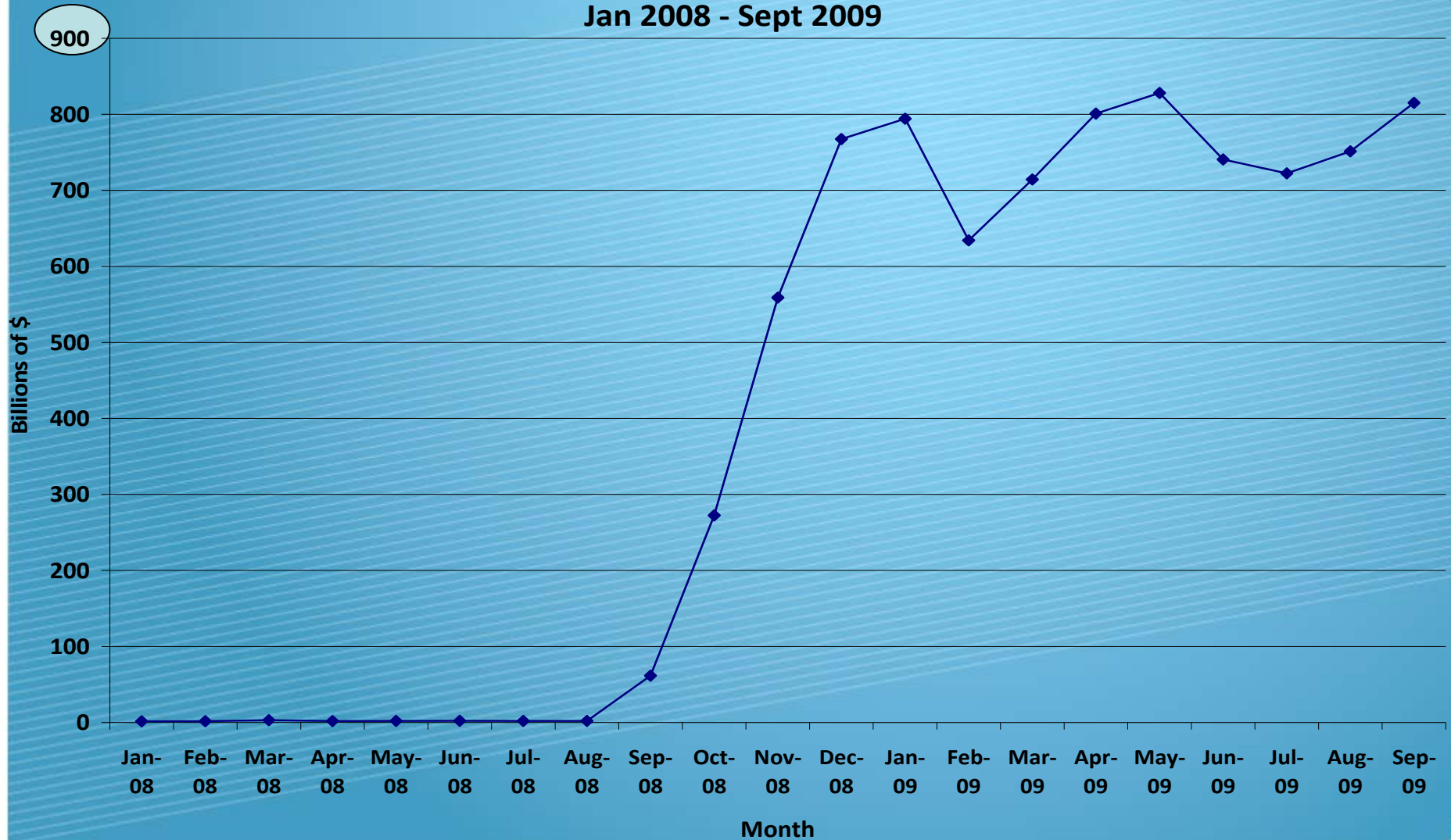
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ 1970-1999



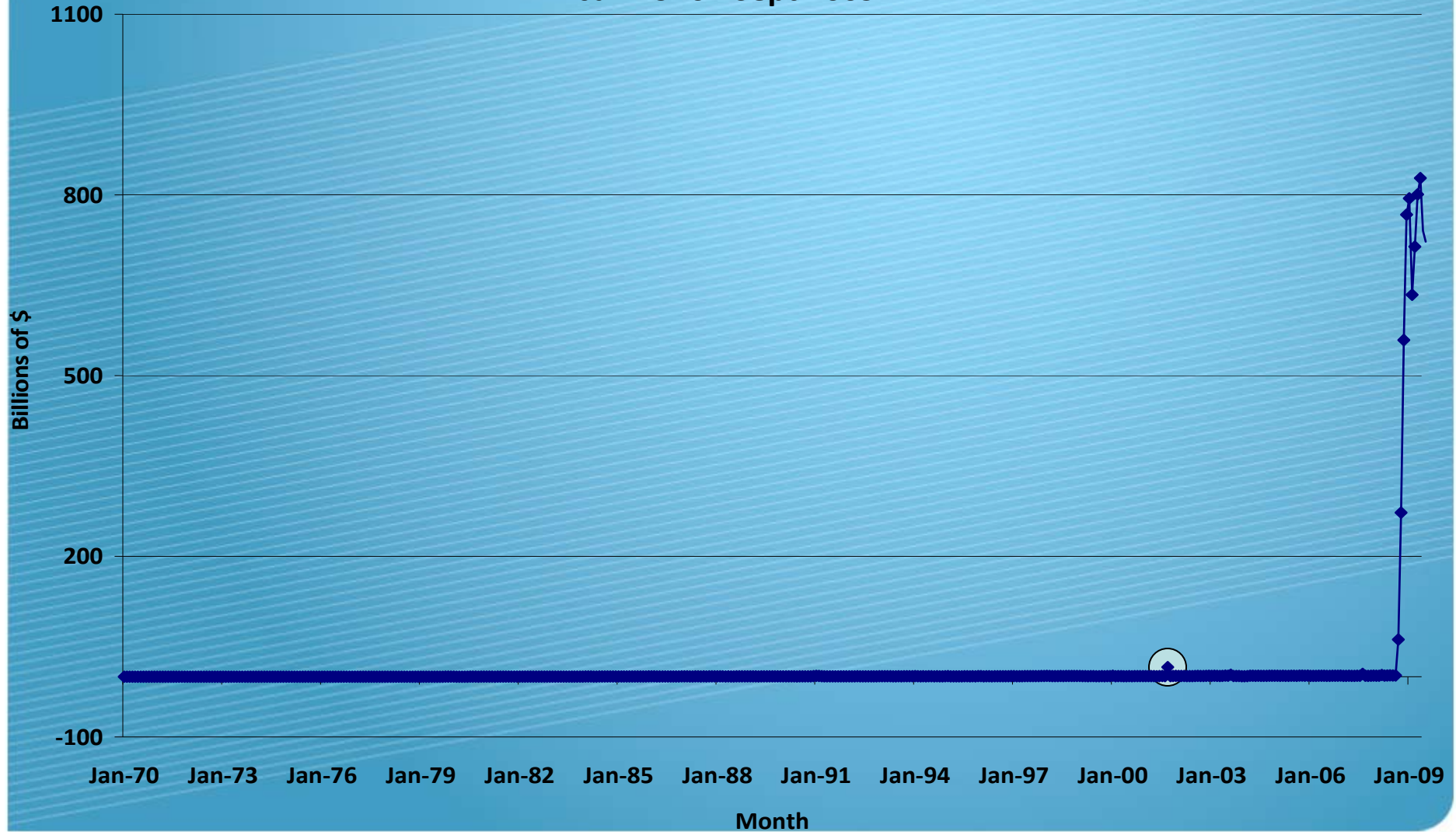
Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ Jan 2000 - Aug 2008



Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ Jan 2008 - Sept 2009



Excess Reserves at U.S. Banks (Loanable Funds Not Lent), 2008\$ Jan 1970 - Sept 2009



California's Future (??)

- We are now paying for decisions made 7-10 years ago
 - Could make the case we are paying for decisions made in 1978
 - 2010-11 likely to be worse:
 - Still exposed to consumption as base of tax revenue
 - Federal spending may stimulate state economies
 - Lag structure here between federal and state budgets affects speed of growth
 - Use of stimulus money somewhat unknown
 - Cannot rely on this model
 - Pension systems to be stretched soon
 - School spending in CA now 50th in nation (\approx \$18K per pupil)
 - **Opportunity: public-private partnerships in education**

California's Options

- Budget gap closed through borrowing
 - Depends on ability to sell debt
 - Notice California's credit rating
 - Depends on amount of fiscal stimulus to state government
 - More may come, but is a short-term fix
- **Reform is needed (another good thing)**
 - A consumer-led expansion may provide an ephemeral, illusory boost to state coffers
 - Tax reform: What about Prop 13?
 - Budget reform: need a change to 2/3 vote and term limits?

Residential Real Estate

- Unemployment puts both supply and demand pressures on market
 - Supply: as unemployment rises, number of units rise
 - Demand: as unemployment rises, fear over lost jobs reduces demand
- Interdependence: 96.6% correlation between Sonoma and Marin median home price since 1995
 - Similar across North Bay: which county is the driver?
- Two big questions market has yet to answer
 - Was the old pricing correct?
 - Is the current pricing correct?

Commercial Real Estate

- Construction of new commercial property likely to be project-specific rather than anticipatory
 - Commercial properties over built for new economic paradigm generally
 - Still need to fill them and keep them occupied
- All the while, rents are falling
- **Economic development must link commercial real estate to business opportunities**
 - **Need to have a regional development plan**
 - **Need to think beyond city and county borders**

Local Issues

- Some problems to solve and some opportunities
 - Problems
 - Reduced government revenues imply reduced expenses?
 - Continued inflexibility on generating new government revenue
 - Defined benefits plans: pros and cons
 - Sustainable growth: is it possible?
 - What “growth” is best in Sebastopol
 - Why?
 - Solutions
 - Time to plan: build a war chest and make tough decisions
 - Use local non-profits to provide some services
 - AB 32 and AB 811: advertise and utilize

Economic Outlook

- Recession for through 2009 for Sonoma County and Sebastopol
 - Bottom to hit soon: thud not heard for a few months
 - Indicators show economy is slowly turning around
 - CA budget throws uncertainty into game locally
 - Residential real estate markets picking up momentum slowly
 - Commercial likely to continue a rough patch
- Housing should be seen as a follower not leader
 - Exposure of North Bay to real estate markets is a microcosm of local economy
 - Services and population-serving first
- Recognize regional connections
 - All counties are going to scramble for firms
 - Housing markets should react not drive

Economic Development

- Economic development must link commercial real estate to business opportunities
 - Need to have a regional development plan
 - Need to think beyond city and county borders
- Three “E’s” the current mantra
 - Economic Vitality
 - Social Equity
 - Environmental Balance
- How economic development takes place affects real estate markets: get involved!

Example

- A new business is wooed to Sebastopol
 - Occupies commercial space and creates jobs
 - New jobs mean new demand for residential real estate
- New business may be asked to engage in community projects
 - Non-profit may occupy commercial space and expand as a result
- Environmental regulations provide two prongs of opportunity
 - AB 811 to retrofit homes for energy and water efficiency
 - Keeps contractors locally before next building or renovation boom
 - New businesses engage in innovative solutions
 - More jobs = commercial space and residential demand
- Which leads to economic vitality: the wheel rolls on

Sebastopol Economy SWOT

- Strengths
 - Lots of political energy
 - Involved populace means things can get done
 - Utility tax shows some willingness to sacrifice
 - Location
 - Nestled between coast, wine country, urban center and Marin County: literal crossroads
 - Flow of tourism could happen here
 - Strong mix of businesses
 - Retail, high tech, agriculture, tourism, finance, health care
 - Can Sebastopol be a place where one “cluster” thrives?

SWOT (cont.)

- Weaknesses
 - High cost of living
 - Affordable housing is fantasy more than reality here
 - This is not a bad thing per se
 - Anti-growth perception/reality
 - Need to consider “shaping” growth toward community vision
 - Northeast Plan Failure a microcosm
 - No community vision
 - What is Sebastopol to be when it grows up?
 - Depends a lot on how Santa Rosa evolves (or devolves)

SWOT (cont.)

- Opportunities
 - Attract clean tech start-ups
 - Attract eco-tourism
 - Act as gateway to coast and wine country explicitly
 - Look at industries to target
 - What would work here in Sebastopol and get started
- Threats
 - Regional competition for TOT and sales tax dollars
 - Inability to have a community consensus on vision
 - Continued traffic issues

Conclusions

- Conclusions
 - Recession to continue through Summer 2009, perhaps rest of the year
 - National and state economies will move slowly thereafter
 - Labor markets to move slowly
 - Need innovation, cannot rely on finance and housing long-term
 - These markets must follow labor markets
 - Local economic development concerns
 - What new businesses will be attracted and retained?
 - What types of jobs will they produce?
 - Where will those jobs and business (and people) be located?

Recommendations

- Recommendations
 - Engage and become active in local economic development
 - Market “buy local” as “buy local when you can”
 - Expand what goods and services are available in Sebastopol
 - Classic issue of exports and imports here: think like a country
 - Find consensus on an economic plan and future
 - This helps shape the growth above
 - Recognize what you are not and what you are
 - Celebrate local businesses more often