



Economic Strategies for Rural Communities: The Case of Mendocino County

November 14, 2008

Robert Eyler
Chair, Economics Department
Director, Center for Regional Economic Analysis
Sonoma State University
eyler@sonoma.edu

Introduction

- The national and state picture: links to Mendo
 - Mendocino must seek advantages during economic downturn
- Indicators for Mendocino County
 - Where is the Mendocino economy now?
 - Where can it go?
 - Constraints and opportunities
- Breakdown of the “Two Mendocinos”
 - Regional and local development linked
- A common vision of this county


The Current Economic Situation

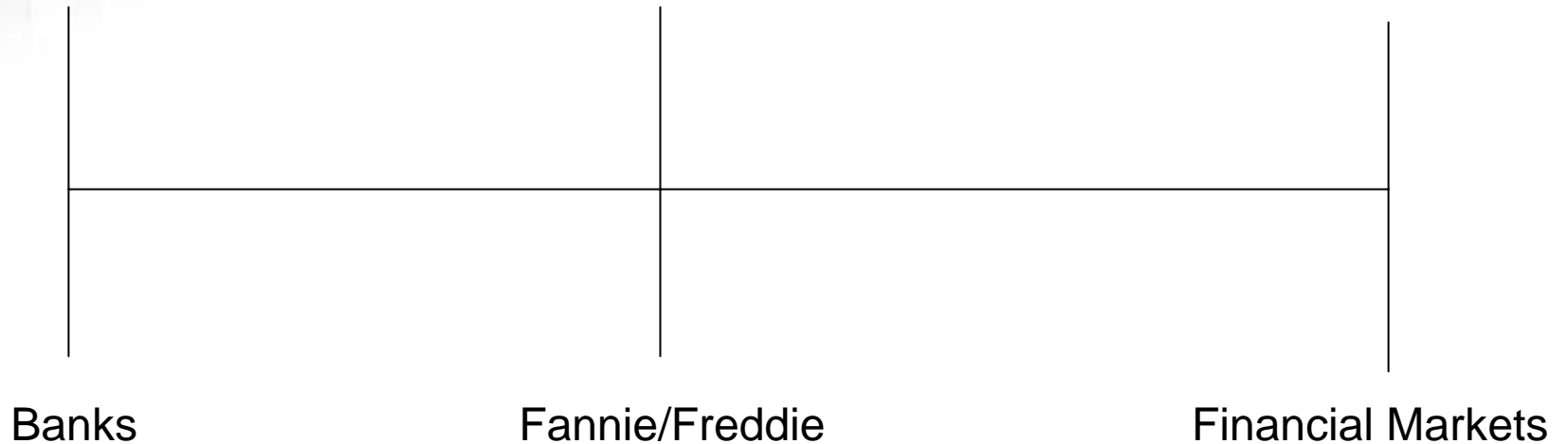
- Foreseen in direction, not in magnitude
- Where did it come from
 - Partially greed
 - Bankers should have known better
 - Partially a lack of financial literacy
 - Consumers should have known better
 - Partially cultural
 - Our president told us to spend, right?
 - Partially cyclic
 - What goes up has to come down (at least a little)

Current Woes

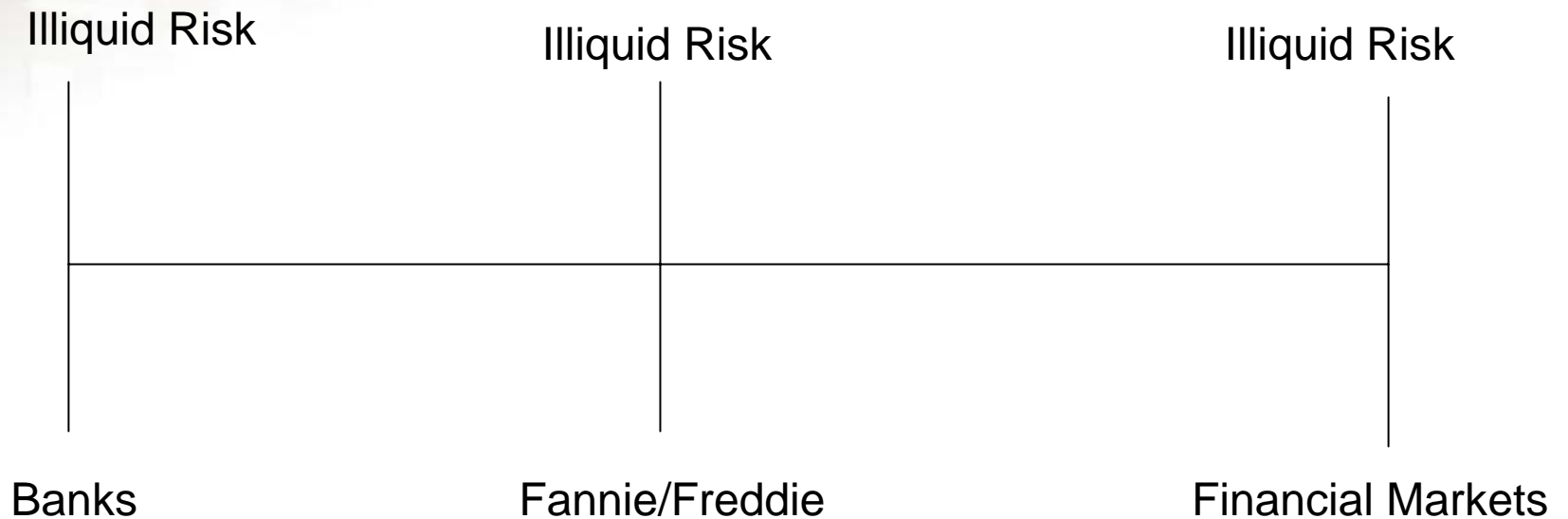
- Housing prices falling triggered fear of recession
 - Federal Reserve cut rate, triggered inflation pressure
 - Inflation, coupled with housing prices rising, reduced some homeowners ability to pay
- Secondary market for mortgages began to close as risks increased
 - Banks now had to hold their own loans (???)
 - Minority of mortgage-backed securities became more risky
- Consumption began to contract as energy prices increased

The Old Way

Liquid Risk 



The Current Way



The Bailout Plan

- Basically print money to purchase assets
 - See-saw on details
 - Treasury becomes a hedge fund of sorts through the combination
- Inflation not an issue if circle remains unbroken
 - Assets slowly sold off as markets stabilize and rise
 - As if no money was printed
 - May be profits in the end(!!)
 - International economics example

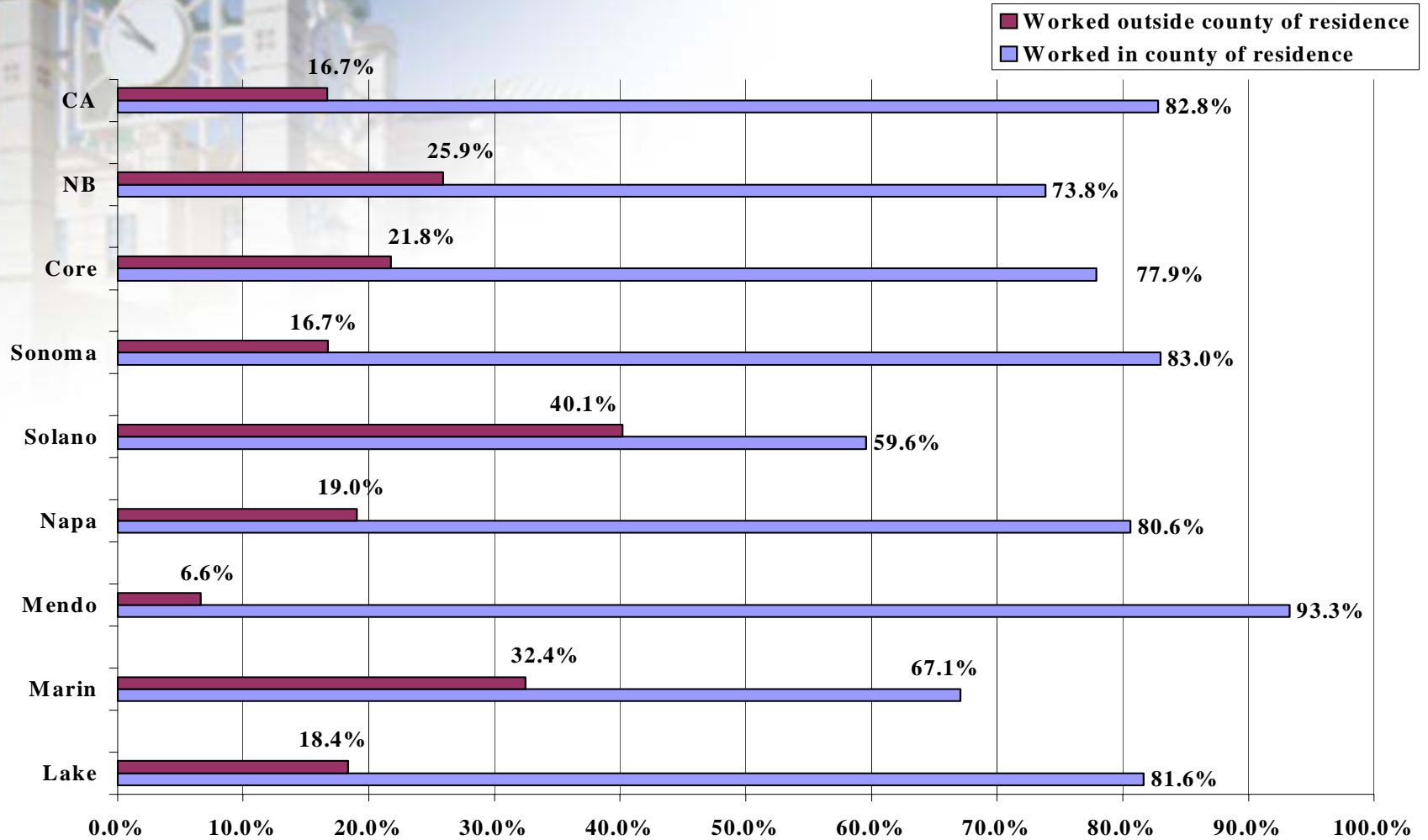
The State of California

- Wild budget situation
 - Bet on capital gains from stock market and housing speculation (began in 2002)
 - **140,000 households provide 50% of income tax revenue for California**
 - Latest figures: \$28 billion deficit, budget of \$140 billion (seeking federal bailout also)
- Trickle-down economics
 - Cuts hit state, county and city jobs, services

Mendocino County

- Connections to Sonoma County
 - For jobs beyond what Ukiah offers
 - For retail beyond what exists here
 - Costco, for example
 - For tourism flows
 - Sonoma naturally tries to take away some here
 - Coastal region a unique asset
- County economy still heavy on government, agriculture, natural resources.
 - Development must consider better balance

Figure 7: Work Location of County Residents

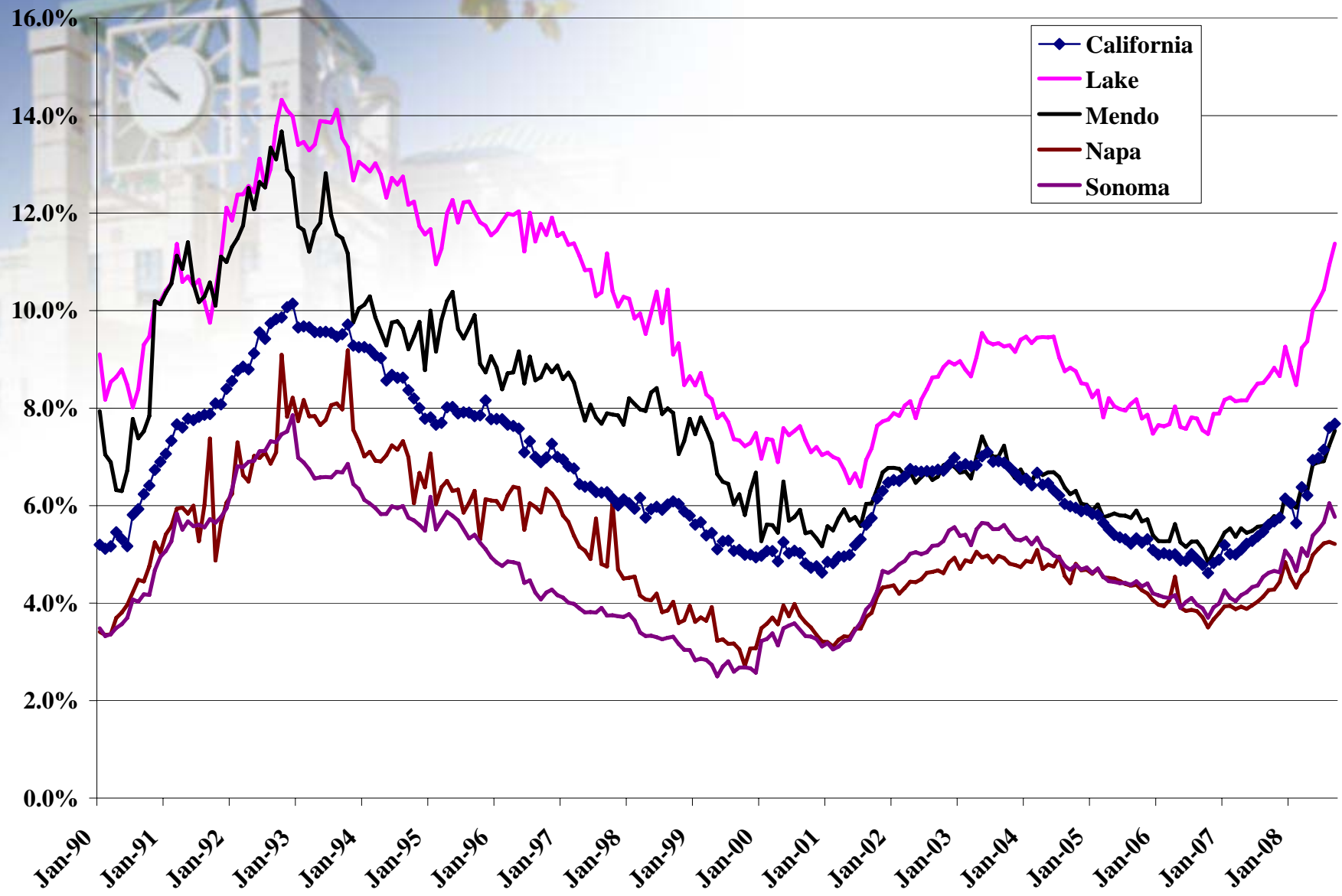


Source: American Community Survey, Department of Census, 2006, NB = North Bay

Mendocino County Indicators

- Comparison of unemployment as a macroeconomic indicator
 - Compared to Sonoma, Lake and Napa counties
- Mendocino in the middle
 - Better than Lake
 - Not as good as Sonoma or Napa
 - Economic Balance not as good

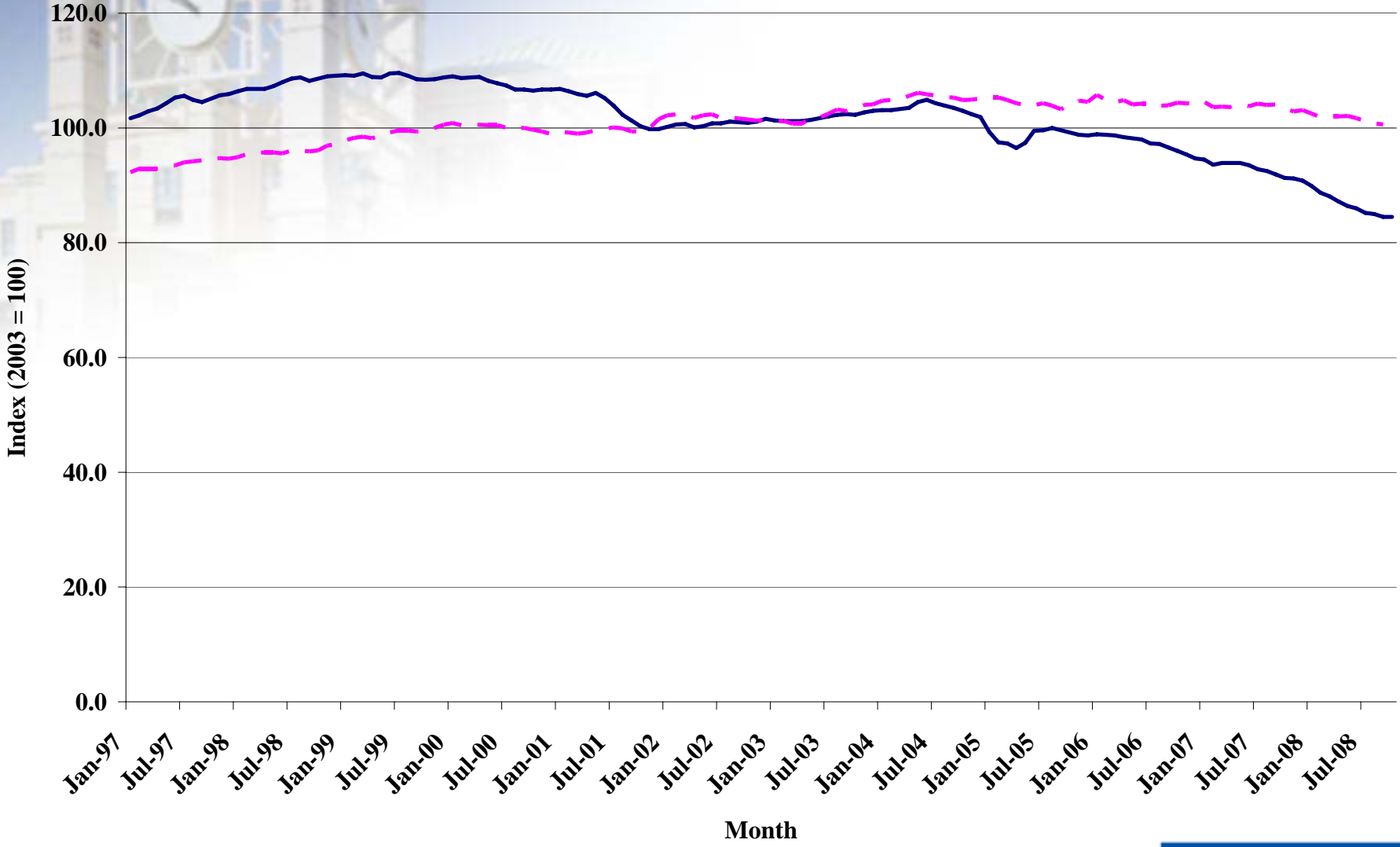
Seasonally Adjusted Unemployment, 1990-2008



Leading Indicators

- Tyler Leading Indicators tell us where we are headed:
 - Default Notices (**Inverse**)
 - Building Permits (**Positive**)
 - New UI Claims (**Inverse**)
 - US Leading Index (**Positive**)
 - Help-Wanted Ads (**Positive**)
 - Ag Price Index (**Positive**)****
- As indicator increases, economy forecasted to move in **bolded** direction.

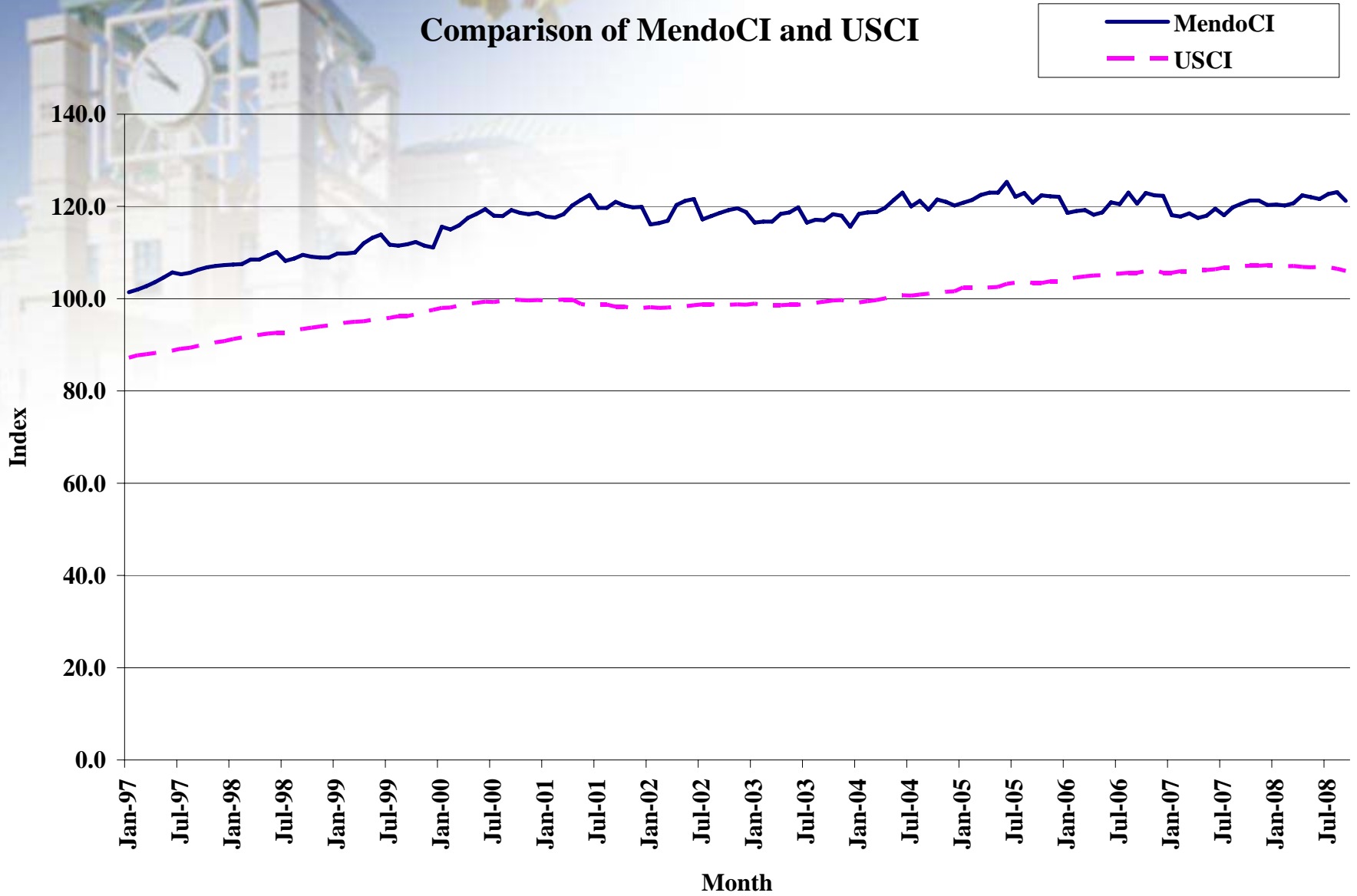
Comparison of MendoLI and USLI



Coincident Indicators

- Coincident Indicators tell us where we are:
 - **Non-agricultural employment**
 - **Retail Sales**
 - **Personal Income**
- Once business and consumers receive positive signals, they hire and spend more as a reaction.
- The leading indicator drives the coincident.

Comparison of MendoCI and USCI



Sonoma County

- Probably Mendocino's best friend and worst enemy
 - Good: Sonoma County's relatively high cost of living drives both residents and businesses northward
 - Sonoma benefited from this from southern neighbors
 - Need to prepare for this now rather than react later
 - Sales and property tax drivers, especially if affluence and businesses come simultaneously

Sonoma County (cont.)

- Enemy and Friend (cont.)
 - Bad: Development must beware of repeating Sonoma's mistakes
 - May lose small town feel
 - May eat up property along coastline and HWY 101 worse than current situation
 - Watch Cloverdale, Jenner, Gualala as harbingers
 - Ugly: Congestion, zoning issues, infrastructure crunch
 - Must plan for the sprawl to hit
 - Difficult to predict timing
 - Much of it dependent on how businesses migrate.

Lake County

- How Lake County evolves may severely impact Mendocino County.
 - Mendocino has HWY 101 and coastal area.
 - Lake has some convention facilities (Konocti) and developable land.
- Why businesses will come to Mendo?
- What about partnerships?

Balanced Growth

- Balance Growth the key
 - Ag and services must grow alongside of any new industries or expansions.
 - Wineries and tourism should grow hand-in-hand
 - **Downtowns can be enhanced by this**
 - New retail and light industrial
 - What about more services?
 - The mix of these industries must be defined beforehand
 - This is a long-term strategy, not a reaction.

Economic Dichotomies

- The Two Mendocinos
 - Eastern Mendocino County
 - HWY 101 provides infrastructure, links to Sonoma County with easily developable land.
 - Lifestyle aspects can remain
 - Need to think about and control sprawl
 - Image and lifestyle of Ukiah, Willits will change.
 - Can this County handle that?
 - Can current downtowns be “revitalized” and enhanced?

Dichotomies (cont.)

- Western Mendocino County: Where the tourism is(?)
 - Event facilities in Fort Bragg, Mendocino help
 - Provides an easy access getaway
 - Convert Skunk Train into a coastal gateway
 - Much like Healdsburg, Bodega Bay in Sonoma County
- Willits has a pivotal role
 - Need to think as a county rather than two separate areas unfortunately linked

Mistakes to Avoid

- Have no plan
 - Cluster Study of Mendocino available from CED at CSU Chico
 - Use it as the basis of a plan
- Assume status quo works
 - Convince yourself it works through analysis
 - Or figure out a balanced way to develop
- Assume small-town lifestyle at risk
 - Plan to preserve it
 - Need a common vision

Conclusions

- Current economic situation not good
 - Could be worse for local areas
 - Time to take advantage of lower costs of real estate
 - Can Ukiah be the next Windsor?
 - Should it be?
- Must also identify the forces for and against growth in this County
 - How will this county evolve?
 - Can it go only certain directions?
- Mendocino County must see the two Mendos as an opportunity.
- Must be willing to work together for a common vision



CREA at SSU

www.sonoma.edu/org/crea

For this presentation and more