Scott Hess Photography

PETALUMA Economic Strategy

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February 10, 2010

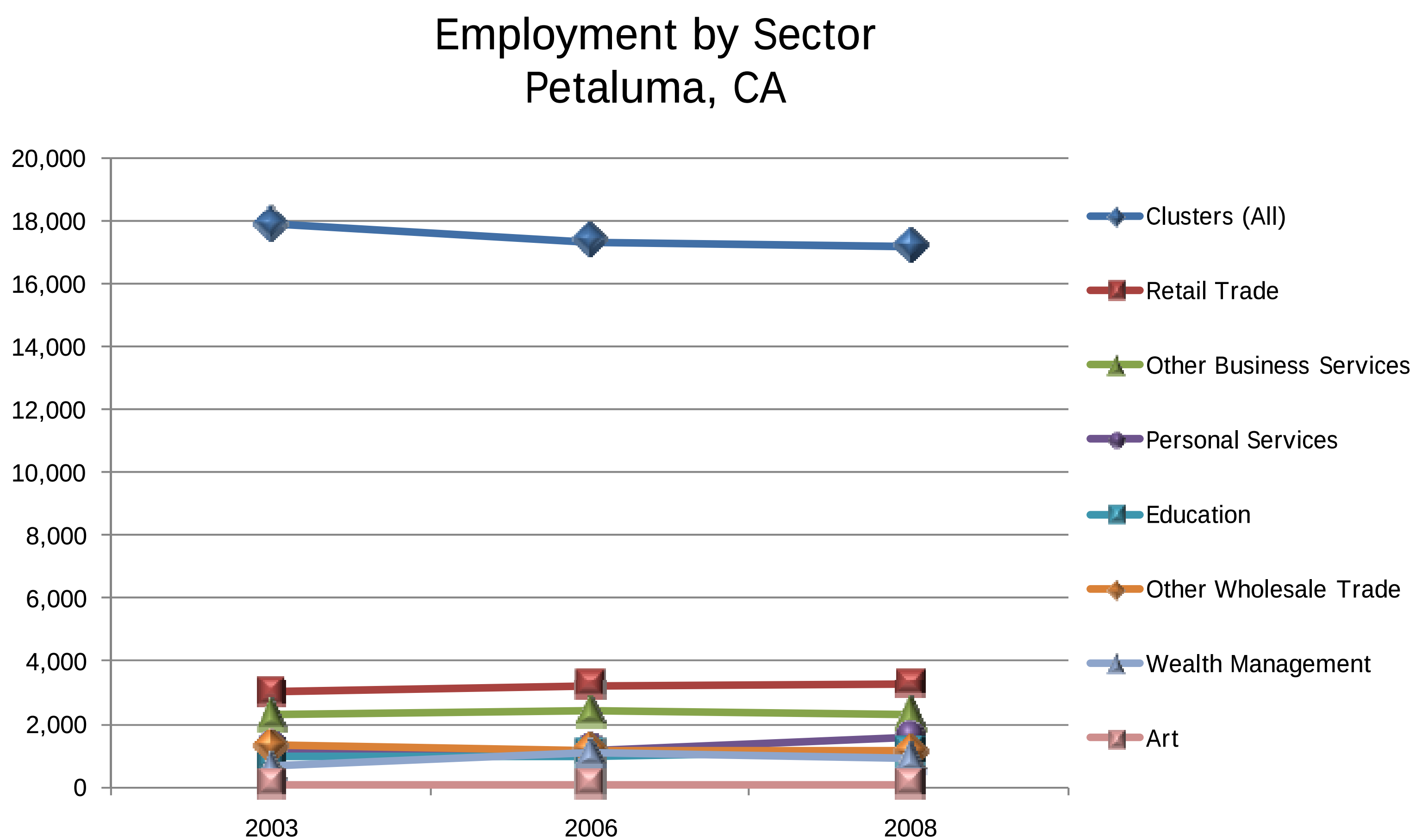
Agenda

- Market Assessment Overview
  - Economic Base and Industry Clusters
  - Real Estate
  - Fiscal
  - Tourism
  - Retail Leakage
- Next Steps

Economic Base

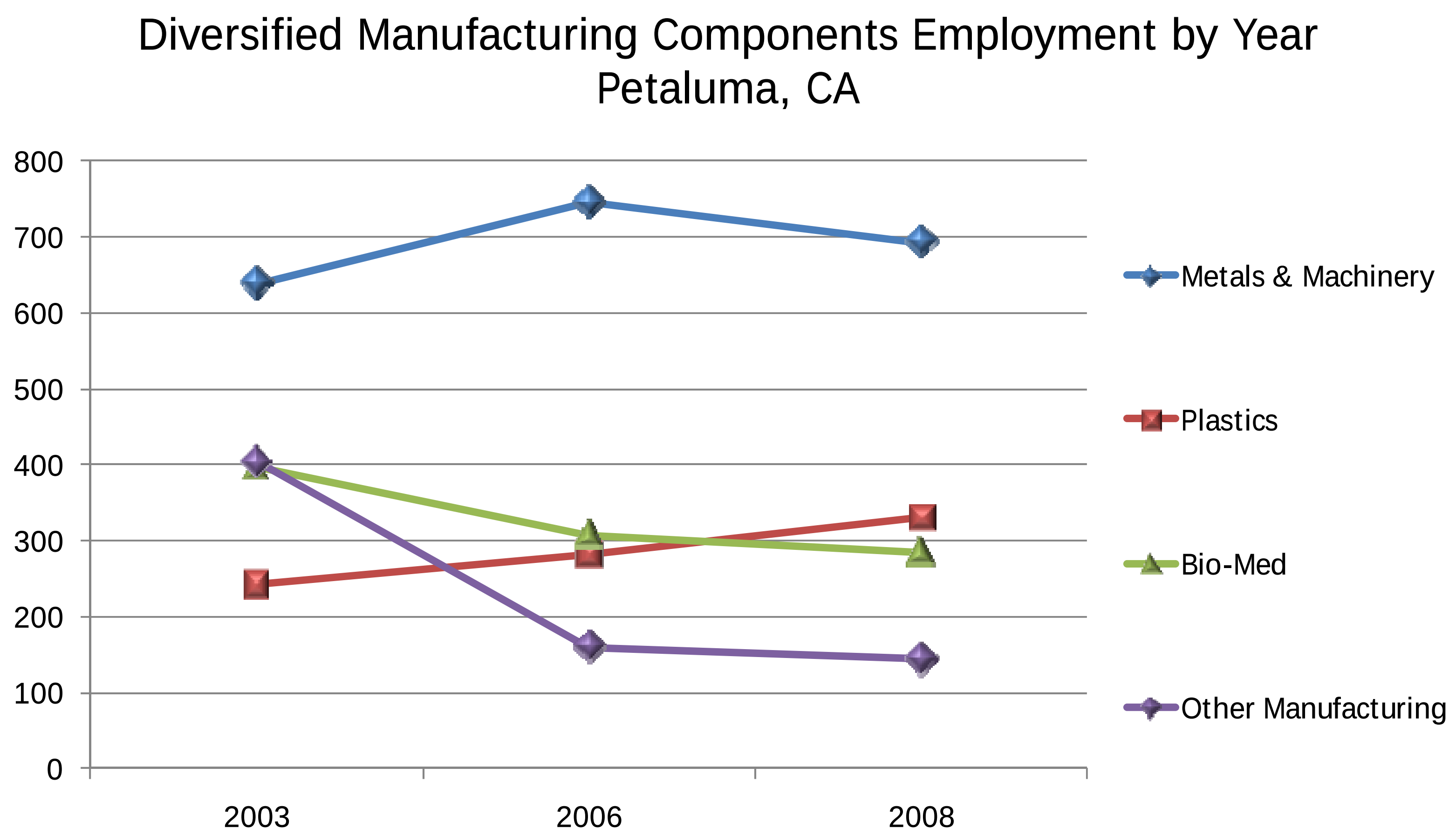
- Overview
  - Employment by sector & cluster
  - Components of Diversified Manufacturing
  - Specializations
  - Payroll
  - Average wages by cluster & sector

Economic Base



Source: ADE, Inc., Employment Development Department, 2010

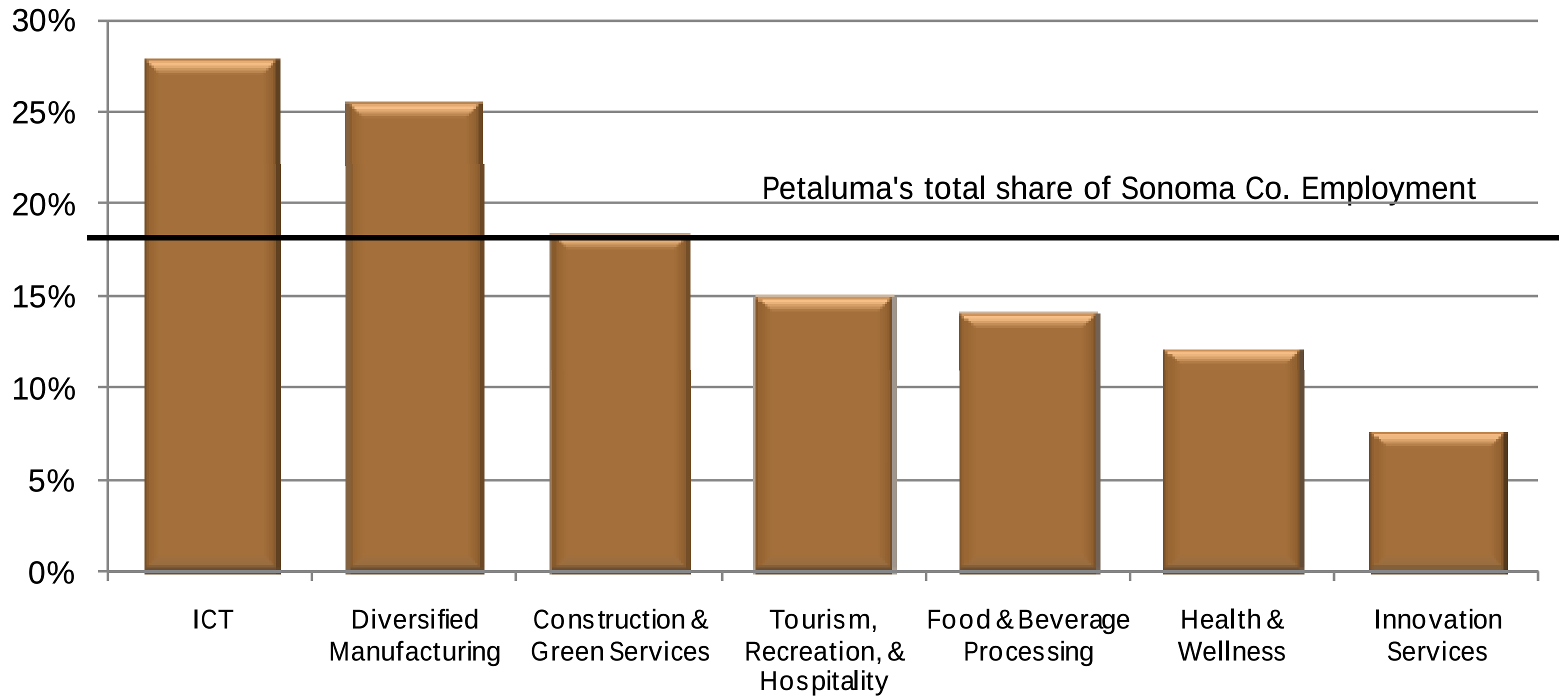
Economic Base



Source: ADE, Inc., Employment Development Department, 2010

Economic Base

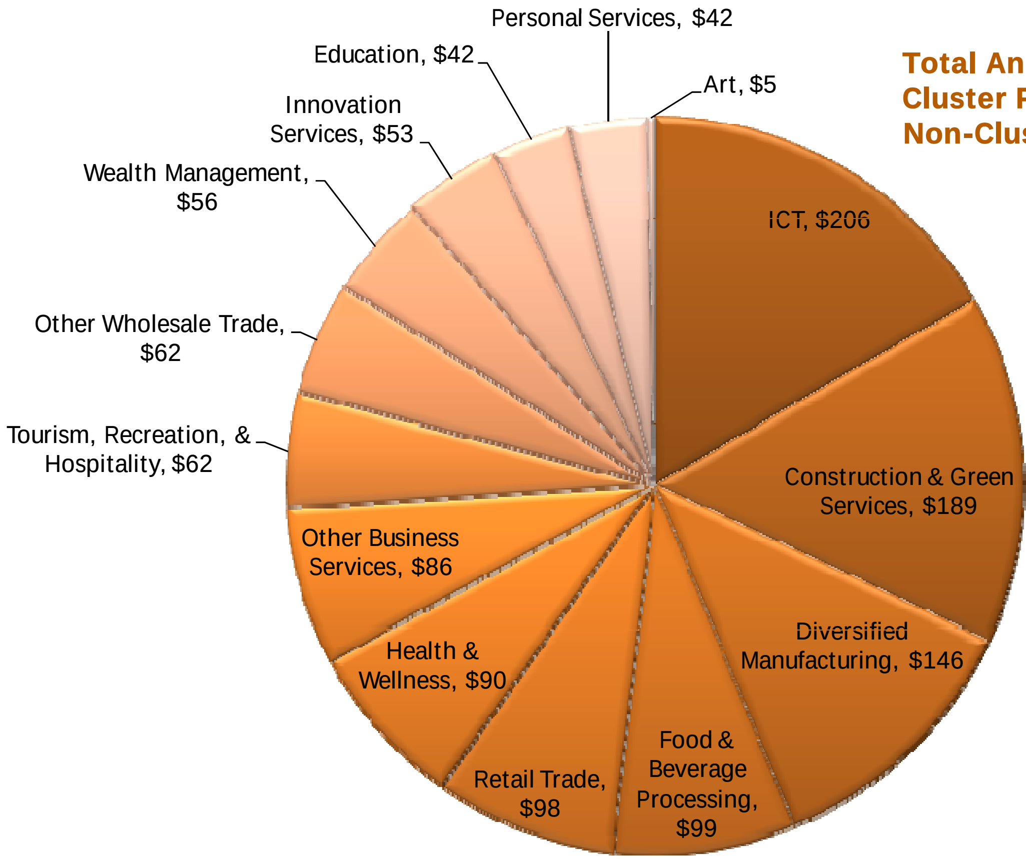
Petaluma's Share of Sonoma Co. Cluster Employment, 2008



Source: ADE, Inc., Employment Development Department, 2010

Economic Base

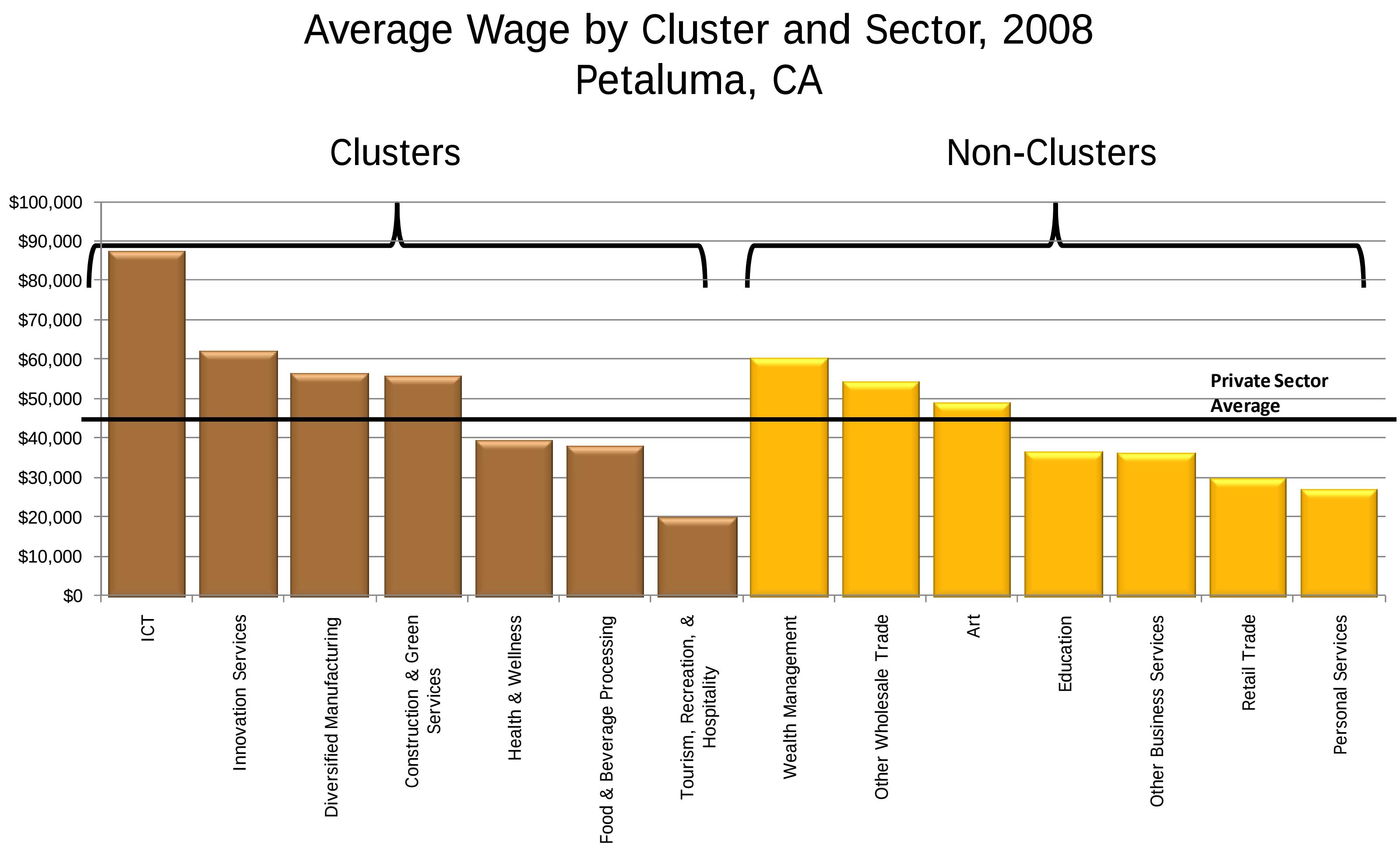
Total Annual Payroll by Cluster and Sector, 2008
Petaluma, CA (in millions $)



Total Annual Payroll = $1.2 Billion
Cluster Payroll = 68% of Total
Non-Cluster Sectors Payroll = 32% of Total

Source: ADE, Inc., Employment Development Department, 2010

Economic Base



Source: ADE, Inc., Employment Development Department, 2010

Economic Base

- Summary
  - Economic base fairly diversified with manufacturing, health, retail, tourism and business services
  - Center for manufacturing: food, beverage, machinery, plastics, communications tech.
  - Manufacturing, communications, innovation services and construction have highest wages.

Real Estate Market

- Overview
  - Sonoma County and Petaluma market vacancy rates
    - Retail
    - Office
    - Industrial

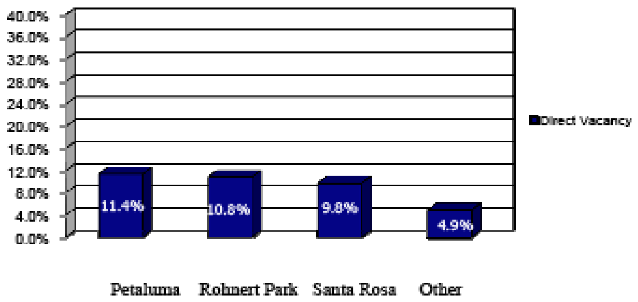
Real Estate

KEEGAN & COPPIN COMPANY, INC.

ONCOR INTERNATIONAL

TOTAL EXISTING RETAIL VACANCY ESTIMATES
Third Quarter, 2009
Sonoma County

	Total Gross Leasable Area (Sq. Ft.)	Existing Vacancy Sq. Ft.	(%)	Buildings Planned (Sq. Ft.)
Petaluma	2,596,741	295,450	11.4%	895,000
Rohnert Park	3,333,047	360,958	10.8%	95,000
Santa Rosa	7,883,629	769,589	9.8%	345,700
Other	3,549,393	175,340	4.9%	127,293
Total	17,362,810	1,601,337	9.2%	1,462,993



The above information, while not guaranteed, has been secured from sources we believe to be reliable. This is not an offer to sell or lease and is subject to change or withdrawal. An interested party should verify the status of the property and the information herein.

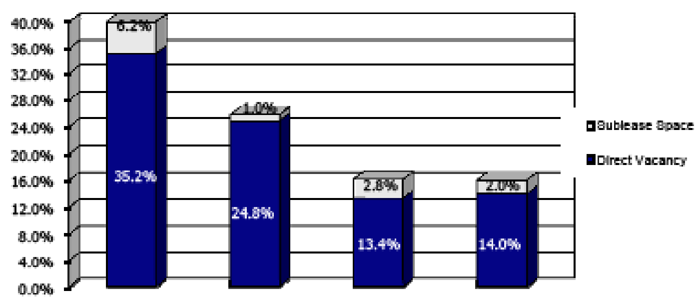
Real Estate

KEEGAN & COPPIN COMPANY, INC.

ONCOR INTERNATIONAL

TOTAL EXISTING OFFICE VACANCY ESTIMATES
Third Quarter, 2009
Sonoma County

	Total Base (Sq. Ft.)	Direct Vacancy Sq. Ft.	(%)	Sublease Vacancy Sq. Ft.	(%)	Total Vacancy Sq. Ft.	(%)	Buildings Planned (Sq. Ft.)
Petaluma	3,137,776	1,105,847	35.2%	195,582	6.2%	1,301,429	41.5%	38,904
Rohnert Park	1,837,577	456,553	24.8%	17,793	1.0%	474,346	25.8%	0
Santa Rosa	6,959,982	929,580	13.4%	193,652	2.8%	1,123,232	16.1%	88,837
North Corridor (Airport Area, Windsor, Healdsburg)	2,185,459	305,759	14.0%	43,472	2.0%	349,231	16.0%	467,042
Total	14,120,794	2,797,739	19.8%	450,499	3.2%	3,248,239	23.0%	594,783



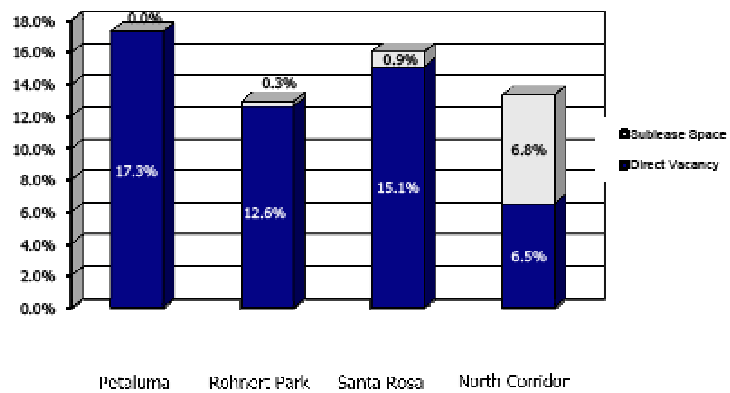
Real Estate

KEEGAN & COPPIN COMPANY, INC.

ONCOR INTERNATIONAL

TOTAL EXISTING INDUSTRIAL VACANCY ESTIMATES
Third Quarter 2009
Sonoma County

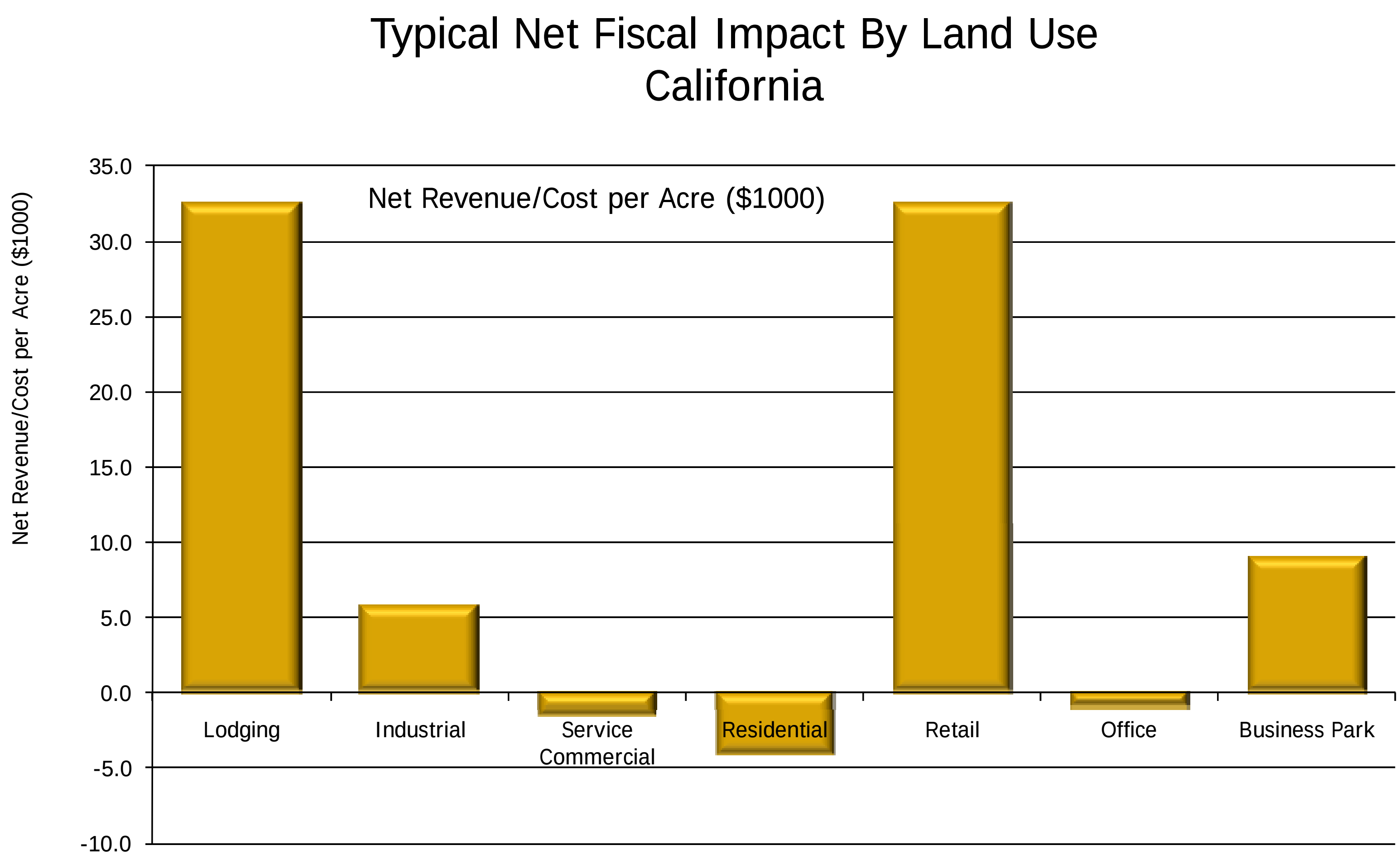
	Total Base (Sq. Ft.)	Direct Vacancy Sq. Ft.	(%)	Sublease Vacancy Sq. Ft.	(%)	Total Vacancy Sq. Ft.	(%)	Buildings Planned (Sq. Ft.)
Petaluma	5,344,630	924,231	17.3%	0	0.0%	924,231	17.3%	0
Rohnert Park	2,946,242	372,253	12.6%	8,000	0.3%	380,253	12.9%	0
Santa Rosa	10,242,471	1,546,143	15.1%	94,007	0.9%	1,640,150	16.0%	0
North Corridor (Airport Area, Windsor, Healdsburg)	5,638,561	366,630	6.5%	384,000	6.8%	750,630	13.3%	0
Total	24,171,904	3,209,257	13.3%	486,007	2.0%	3,695,264	15.3%	0



Real Estate Market

- Summary
  - – Retail real estate relatively healthy
  - – Greatest vacancies in office; likely to increase significantly in early 2010

Fiscal


Typical Net Fiscal Impact By Land Use
California
Net Revenue/Cost per Acre ($1000)
Net Revenue/Cost per Acre ($1000)
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
Lodging
Industrial
Service Commercial
Residential
Retail
Office
Business Park

Fiscal Effects of Development in Petaluma

- Current Fiscal
  - Total revenue down 19% ($8.4 mill)
  - Sales tax revenue down 12% ($1.4 mill)
- Fiscal Impact of General Plan
  - Net Revenue of $29 million with planned development
  - Net Deficit of $40 million without development

Tourism Market Analysis

- Overview
  - Visitor Spending
  - Lodging
  - TOT Revenues

Tourism: Visitor Spending

TABLE 1
VISITOR SPENDING, 2007

Visitor Spending by Commodity	Sonoma County	Petaluma (Estimate)
Total	$1,298,500,000	$101,636,116
Accommodations	$239,600,000	$17,061,988
Food Service	$312,500,000	$37,041,900
Food Stores	$43,500,000	$5,156,232
Ground Trans and Motor Fuel	$201,400,000	$6,112,485
Arts, Entertainment, Recreation	$245,800,000	$5,942,493
Other Retail Sales	$255,800,000	$30,321,018

Source: ADE, Inc., data from Dean Runyan Associates, California Board of Equalization, and U.S. Economic Census.

Tourism: Lodging

TABLE 2 PETALUMA LODGING FACILITIES		
Lodging Facility	Guest Rooms/ Spaces	Facility Type
America's Best Value Inn	50	Budget
Best Western Petaluma Inn	73	Limited Service Hotel
KOA Campground	312	Campground
Metro Hotel	14	Historic Hotel/B&B
Motel 6	121	Budget
Quality Inn	103	Limited Service Hotel
Sheraton	180	Full Service Hotel
Total	853	
Total Guest Rooms	541	

Source: ADE, Inc.; data from Petaluma Visitor Center

Tourism

TABLE 3
INFLATION-ADJUSTED TRANSIENT OCCUPANCY TAX TRENDS IN SONOMA COUNTY

City	2008	2007 to 2008 Percent Change
Petaluma	$1,383,314	-11.10%
Unincorporated	$7,790,934	-3.50%
Cloverdale	$175,222	11.10%
Healdsburg	$1,867,014	2.20%
Rohnert Park	$1,925,611	4.90%
Santa Rosa	$3,741,864	-8.10%
Sebastopol	$290,747	-15.80%
Sonoma	$2,549,053	-2.90%
Windsor	$768,366	-0.80%

Source: ADE, Inc., data from Board of Equalization, MuniServices LLC, and U.S. Bureau of Labor Statistics.
Notes: All figures are adjusted for inflation using the Consumer Price Index, and include an adjustment that estimates sales from nontaxable items.

Retail sales do not include business-to-business categories, part-time businesses, and service establishments. Because data for the 4th quarter was not available at the time of the analysis, 2009 retail sales include the period between the 4th quarter of 2008 and the 3rd quarter of 2009.

Tourism

- Summary
  - – Small, but diverse lodging offerings
  - – Fairly healthy occupancy rate; but more rooms coming on market
  - – Facilities for small to mid-sized meetings
  - – Lodging in weaker position than County's
  - – Transitioning from low-moderate to higher end market.

Retail Market Analysis

- Overview
  - Spending by households, commuters and visitors
  - Petaluma sales by district
  - Petaluma sales by category
  - Net capture and retail leakage

Retail Demand

TABLE 1 LOCAL MARKET RETAIL SPENDING DEMAND, PETALUMA, 2009	
Retail Group	Total Retail Demand
Total	$747,404,576
Apparel Store Group	$40,839,619
General Merchandise Group	$132,022,235
Specialty Retail Group	$63,561,306
Food, Eating & Drinking Group	$238,409,077
Building Materials & Home Furnishings Group	$69,332,457
Automotive Group	$203,239,883

Source: ADE, Inc., data from California State Board of Equalization, MuniServices LLC, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, and U.S. Bureau of Labor Statistics.

Retail Sales by District

TABLE 2
INFLATION-ADJUSTED RETAIL SALES BY SHOPPING DISTRICT, PETALUMA
1999 TO 2009

Area	2004 Retail Sales	2009 Retail Sales*	Percent of Total
Total Retail Sales	$1,082,265,763	$806,827,260	100.0%
Downtown	$61,059,389	$61,035,607	7.6%
Factory Outlet Center	$48,645,381	$52,793,682	6.5%
Lakeville Highway	$88,920,408	$67,620,945	8.4%
Old Redwood Highway	$312,288,035	$157,836,527	19.6%
Petaluma Boulevard North	$87,804,655	$49,642,888	6.2%
Petaluma Boulevard South	$18,009,746	$15,824,462	2.0%
Washington McDowell	$163,985,610	$149,148,743	18.5%
Balance of Petaluma	$301,552,540	$252,924,407	31.3%

Source: ADE, Inc., data from Board of Equalization, MuniServices LLC, and U.S. Bureau of Labor Statistics.
Notes: All figures are adjusted for inflation using the Consumer Price Index, and include an adjustment that estimates sales from nontaxable items.
Retail sales do not include business-to-business categories, part-time businesses, and service establishments.
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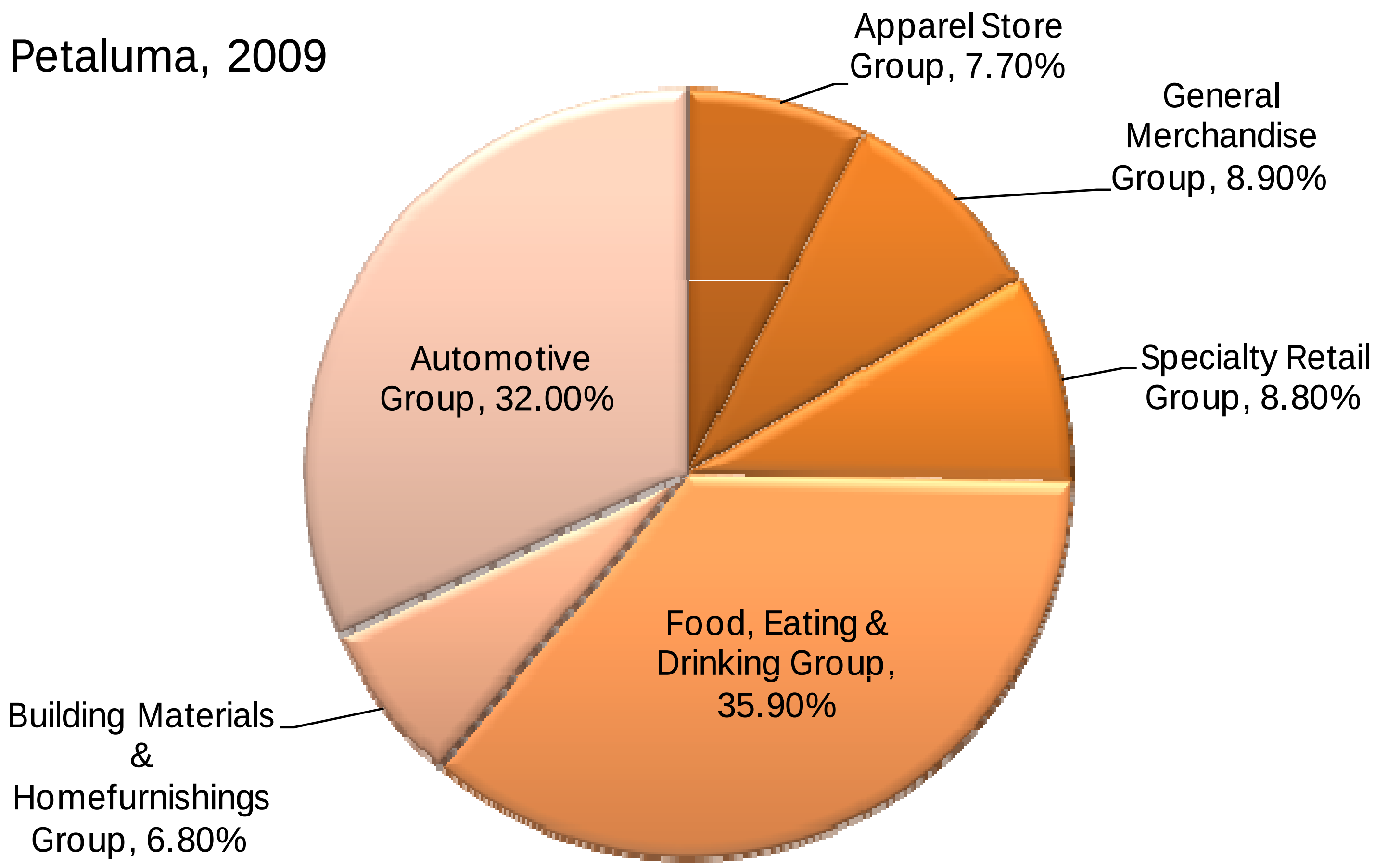
Retail Sales by Category



Retail Leakage

TABLE 3 RETAIL SALES LEAKAGE, PETALUMA, 2009	
Retail Group	Sales Leakages
Total	$147,377,675
Apparel Store Group	$1,774,448
General Merchandise Group	$60,383,738
Specialty Retail Group	$5,791,270
Food, Eating & Drinking Group	$42,973,776
Building Materials & Home Furnishings Group	$30,575,338
Automotive Group	$5,879,105

Source: ADE, Inc., data from California State Board of Equalization, MuniServices LLC, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, and U.S. Bureau of Labor Statistics.
Notes: Categories marked with asterisks ("*") are aggregated due to confidentiality restrictions with reporting sales tax data.
Data include an adjustment that estimates sales from nontaxable items.
Retail sales do not include business-to-business categories, part-time businesses, and service establishments.
Because data for the 4th quarter was not available at the time of the analysis, 2009 retail sales cover the period 4th quarter of 2008 through the 3rd quarter of 2009.

Retail Market Analysis

- Summary
  - Downtown sales flat; outlet center sales increased; all other districts down
  - Auto sales make up 20% of all retail; down by about 50%
  - $747 m. in total spending demand; $807 m. in total retail sales; leakage in some categories and net capture in others.
  - Largest sales categories are auto and food, eating & drinking (68% of all sales)
  - Net capture in apparel, specialty retail, auto; net leakage of $147 m., mostly in eating & drinking, general merchandise and in building materials & home furnishings.

Market Assessment

- Conclusion
  - Economic Base
  - Real Estate
  - Fiscal
  - Tourism
  - Retail Leakage

Next Steps

- Meeting #3: SWOT and Assessment of Opportunities
- Focus group meetings: February
- Public forum: March or April