

Report:
COMMUNITY ASSESSMENT: SAN JOAQUIN COUNTY



Presented to:
SAN JOAQUIN PARTNERSHIP

REPORT 1: Community Assessment

TABLE OF CONTENTS

INTRODUCTION 2

SAN JOAQUIN AT A GLANCE 3

BUSINESS CLIMATE 9

SITES & INFRASTRUCTURE 15

WORKFORCE & EDUCATION 23

QUALITY OF LIFE 31

ECONOMIC DEVELOPMENT & MKTG 38

APPENDIX: CURRENT TARGETS 42

Delivered to:



SAN JOAQUIN PARTNERSHIP

Final Report
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Prepared by:

 **Angelou Economics**
technology-based economic development

Introduction

This report evaluates how well San Joaquin County is doing in areas that are most critical to business and industry growth. Using data that was either provided by the San Joaquin Partnership or collected independently by AngelouEconomics (AE), this report allows us to take a step back and evaluate trends and data before we select target businesses or make recommendations for improvement that will increase economic prosperity. This report assesses San Joaquin's current economic situation and the historical trends that have shaped the County. Specifically, we evaluate San Joaquin's readiness for economic growth by evaluating the top issues within five key areas that are critical to economic development:

1. *Business Climate*
2. *Sites and Infrastructure*
3. *Workforce and Education*
4. *Quality of Life*
5. *Economic Development and Marketing*

These factors are highly important to both prospective and existing businesses. In each of these areas, the County's strengths and weaknesses are outlined to help identify the most appropriate actions for overall market enhancement and to create a set of target businesses for future economic development efforts. Understanding these factors will enable San Joaquin and AE to answer two important questions: "Which businesses match the values of our community?" and "Can San Joaquin attract and retain the industries that will support the county's long-term quality and prosperity?" This community profile is the first step on the path to enhancing the County's competitiveness.

Our Methodology

AngelouEconomics used a variety of sources to collect the quantitative and qualitative information that aided our analysis. The consulting team collected numerous studies and planning documents developed for the San Joaquin Valley and the region by both government and private industry and then gathered public input.

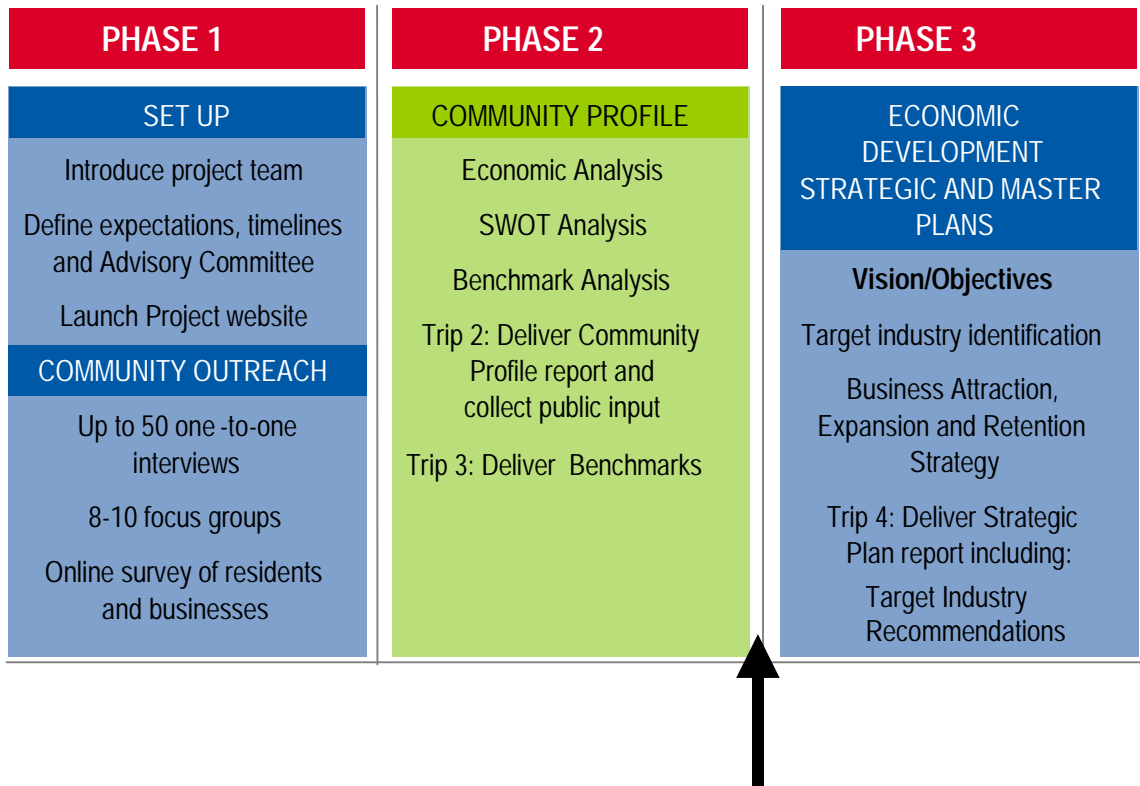
Quantitative data was collected from national, state, and local sources, including the U.S. Bureau of Labor Statistics, the U.S. Census Bureau, the American Chamber of Commerce Researchers' Association (ACCRA), and the State of California. **AngelouEconomics also gathered qualitative data** through focus groups, interviews, community tours, and a survey. AngelouEconomics met with individuals representing the following groups: local economic development officials, city elected officials and staff, civic leaders, major employers, developers, and representatives of both public and higher education institutions in the area. **An online survey was used to gather input from a larger number of citizens.** The survey focused on the perceptions of San Joaquin's residents, people who work in the county, and those who own or operate businesses in the county. The survey sampled opinions and perceptions from residents, workers, and business managers about growth and development, business climate, infrastructure, livability, education, working environment, and the general economy. The online survey was very successful. In all, 547 residents participated in the survey, a below-average response for a "community" as large as the County.

Rather than relying on an exhaustive list of data found in typical community profiles, this report is issue-based. The report is focused on the identified priority issues. Each issue is evaluated using interviews, surveys, and data. This format is useful to policy makers and planners, helping them understand and prioritize issues facing San Joaquin County. This report lays the foundation for the second report: The Economic Development Strategic Plan.

The Strategic Plan will provide recommendations for implementation in the community at various levels: it will identify targeted industries and the strategies to strengthen the overall economy, attracting and retaining businesses while maintaining the area's quality of life. The Strategic Plan will contain detailed and actionable strategies for the following: business climate, sites and infrastructure, workforce and education, quality of life, and economic development and marketing.

The chart below provides an overview of the strategic plan process for San Joaquin Valley.

Economic Development Strategic Plan Process



This community profile marks the completion of Phases One and Two in a three-phase project. The summary and analysis of the information in this report will allow us to develop recommendations that address the issues raised and ensure that San Joaquin is well-prepared for its future.

SAN JOAQUIN AT A GLANCE

San Joaquin County (the "County") is strategically located in Northern California's dynamic growth corridor. The County has become a part of the Bay Area by virtue of its location and re-location of workers and companies in the Bay Area. **The San Joaquin County and Bay Area economies are now inextricably linked.**

The County has a total population of 654,300 (2004 est.). Over 14.8% of the County's residents have a bachelor's degree or higher. The average household income is \$65,173, just above the national average of \$63,396. The County's location as a place for doing business is perhaps its greatest asset – this works to the benefit of employers and employees alike. A variety of community amenities are also available, and appealing communities are located in nice settings.

Housing prices have increased dramatically throughout San Joaquin County over the last 5 years. The greatest housing price increases are seen in Tracy with a growth rate of 44% (Q1 2004 to Q1 2005). Across the county, housing prices have increased an average of 35.7% over the last year.

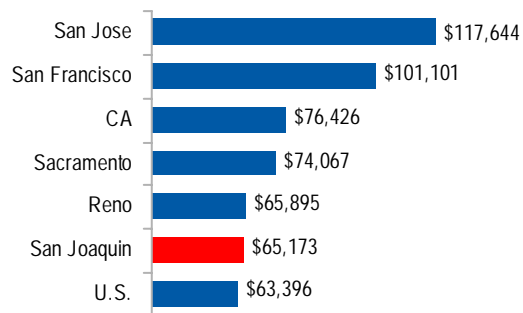
The area offers a comfortable lifestyle with an abundance of recreational facilities and diverse cultural resources. And while that still is a draw for residents, the long touted "affordability factor" is waning although the county is still relatively affordable to much of the state. The increased demand in the market has driven housing prices up as well as costs associated with doing business. Most recently it was announced (Feb '05) that only 19% of California's population was able to afford a median-priced home - a drop of six percentage points from just one year earlier.

Considered the "anchor" in the North Valley portion of San Joaquin Valley, Stockton has evolved in the last quarter century from its historical base of farmers and farm worker families. Agriculture and related industries remain the backbone of the area's economy – but they are changing in character. Between 1970 and 2000, direct agricultural employment dropped from 15% of all Valley employment to only 8.4%. However, agricultural services employment in the Valley has actually quadrupled during the same time frame.

To a large degree this is directly attributable to the "value" crops in the Valley, of which San Joaquin County is at the heart: wine, walnuts, and almonds. With over 40 wineries in Lodi alone, the abundant supply of Lodi grapes led California to set an all-time record in wine shipments which reached 428 million gallons in 2004. In addition, the

HOUSEHOLD INCOME

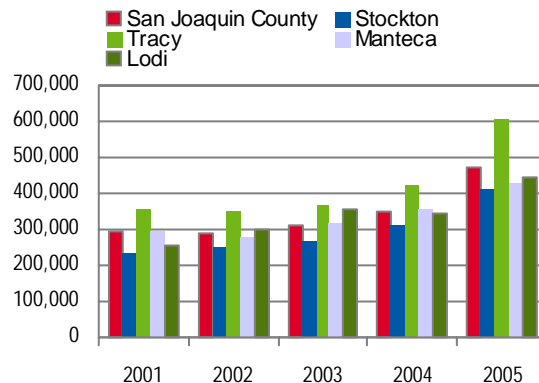
AVERAGE HOUSEHOLD INCOME, 2004



Source: US Census Bureau

HOUSING

MEDIAN SALES PRICE



Source: The Record

proliferation of walnuts and almonds (an estimated 40% of all culinary nuts in the country) has bolstered the agricultural climate in the County.

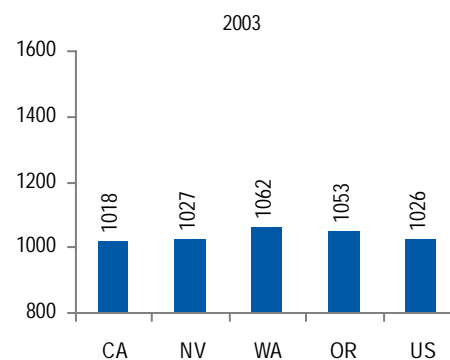
San Joaquin County makes its home **in a state where an overextended economy does not make life easy** for business or residents. California is suffering from soaring debt, high-energy costs, an outflow of jobs, and some of the highest unemployment-insurance and workers-compensation costs in the country. California's most pressing need is money to pay its bills. Even with the passage of Propositions 57 and 58, budget slashing is highly likely.

The good news is that **California's economic performance is forecasted to outpace every other state in 2005** due largely to the rebounding technology manufacturing industry and California's thriving trade with Asia, especially in computers and electronic equipment. (Source: Wells Fargo State of California Economic Study)

A major area of concern for the area continues to be education.

California lags the region and nation in average Scholastic Assessment Test (SAT) scores. Similarly, San Joaquin County underperforms California and neighboring counties in SAT scores. The recent passage of Bond Measures for the Stockton Unified School District (\$165 million) and Delta College (\$250 million) demonstrates that when the case for funding is clear, and participation and accountability is established, the citizens will support local tax increases for education.

SAT SCORES



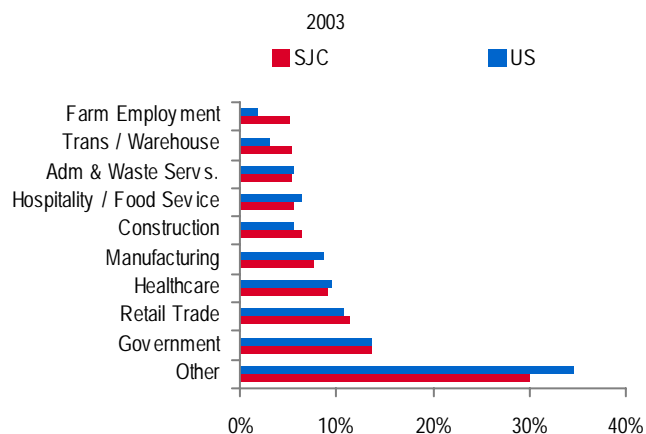
Source: College Board

Other concerns hampering business opportunities for the County are environmentally related, specifically: air ratings.

A continued decline in air quality in the County will continue to result in decreased support from the state as well as increased fees to developers.

Farm employment is concentrated in San Joaquin County, with nearly 5% of the workforce involved in farming activities as compared to 1.5% in the U.S. Transportation and Warehousing, Construction and Retail Trade all have higher employment concentrations in San Joaquin than national averages. However, San Joaquin continues to fall below national averages in areas of Hospitality and Food Service, Manufacturing, and Healthcare. Large increases in the service sectors and declines in manufacturing reflect national trends of the state and nation.

EMPLOYMENT

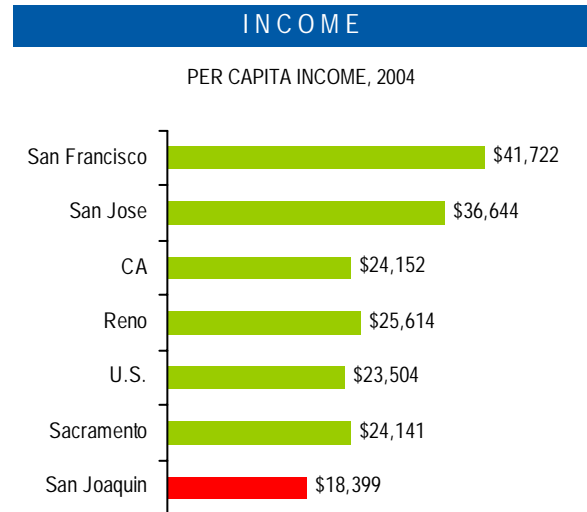


Source: REIS

San Joaquin County is considered one of the West Coast's busiest distribution centers. As a result, there certainly have been gains to the economy from warehousing and distribution as well as logistics. But while these economic activities bring considerable benefit to landowners, little job creation has been created as a result.

Among the County's greatest assets are the Stockton Airport and the Port of Stockton will be explored during this study for specific uses, exploiting their potential. Airports in Lodi and Tracy compliment air transportation needs in the area. Lodi's airport is in an ideal location to serve as a gateway to the wine country. The Tracy airport is an alternative to major airports in the Bay Area for small passenger planes.

Overall, the County is becoming a diversified economy – but it currently **does not have a high enough wage level and per capita income to support increasing area prices and the related cost-of-living**. This will need to be addressed in the economic development plan -- keying on strategies and target industries that will work to help off-set continued declines in relative wages, while working to bring increased productivity and revenue (via gross receipts and personal earnings) to the County.

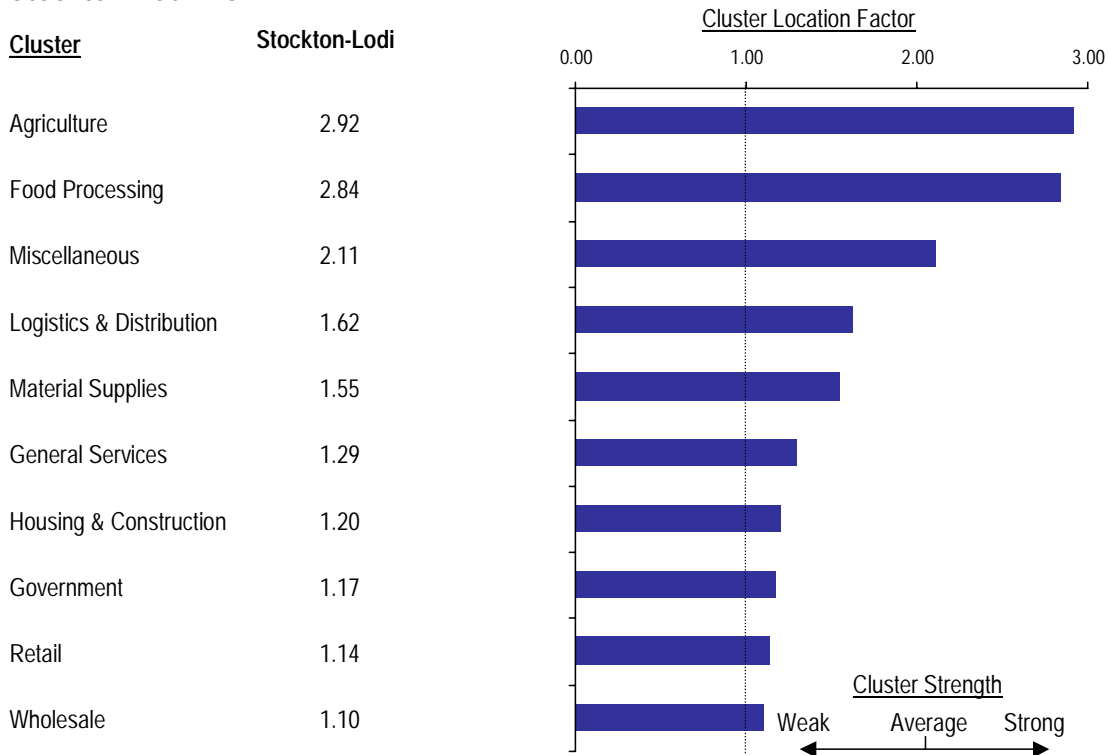


Source: Census Bureau

The current Target Industries for San Joaquin County are: Electronics/Communication-Technology, Backroom Office/Information Technology, Food Processing, Metals and Metal Fabrication, Construction Materials, and Transportation/Logistics. In the Appendix a discussion and analysis are given on these industries. Overall, **AE does not believe all of these Target Industries are “appropriate” for future growth.** Some will be kept, others removed, and new industries will be added.

Currently, San Joaquin shows the following “cluster industries”:

**Cluster Distribution, 2003
Stockton-Lodi MSA**

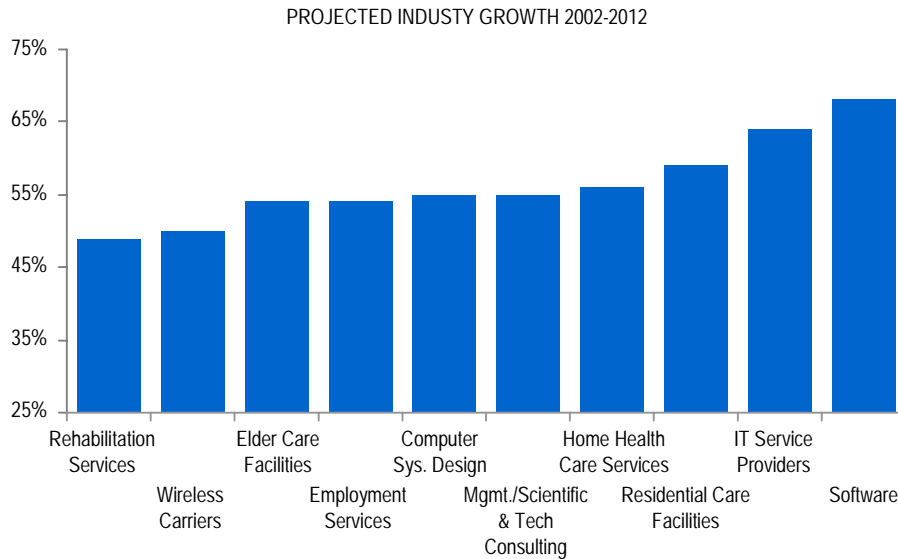


Source: Dun and Bradstreet; AngelouEconomics

Each of the major communities of San Joaquin County, Stockton, Lodi, Manteca, Tracy, Escalon, Lathrop, and Ripon, has something unique to offer a potential resident – homeowner or business. This must be capitalized on in economic development efforts, whether for business expansion or recruitment.

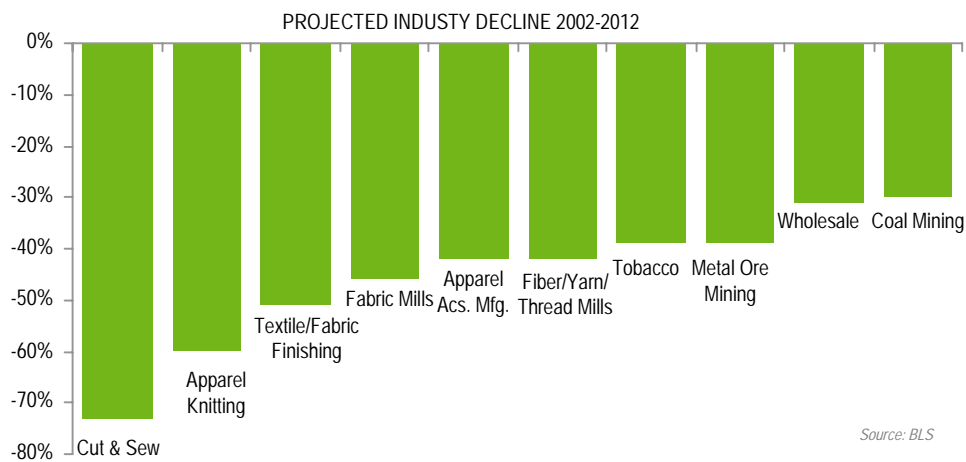
Moving forward, San Joaquin County – under the leadership of the San Joaquin Partnership – will want to view the following areas as those key to their future growth and economic prosperity: **Regional, National, and Global Industry Trends; Bay Area Integration; Transportation Demands; Agricultural Trends and Defense Trends; Energy Initiatives; Public Policy in the areas of Social Reform, Immigration and Environment; CAFTA; and, Workforce Training and Education demands relative to the determined Target Industries.**

U.S. INDUSTRY GROWTH



Source: BLS

U.S. INDUSTRY DECLINE



Source: BLS

AngelouEconomics (AE) will give guidance relative to the above, as well as specific recommendations in the second phase of our work with the San Joaquin Partnership. AE will utilize information gathered, and that still to be gathered, alongside our knowledge of economic and business markets to create a strategy, including target industries, for securing the County's future growth and economic prosperity.

SWOT OVERVIEW	
STRENGTHS	WEAKNESSES
Intermodal System	Regulatory Environment
Training Program Availability	Low Education Level
Location	Lack of high wage jobs
Downtown Revitalization	Limited Cultural Activities
San Joaquin Partnership	Low Curb Appeal
Private Sector Business Support	
OPPORTUNITY	THREATS
Airport	Crime
Port of Stockton	Affordability
Entrepreneurship	Uneducated workforce
Leverage College and University	Not embracing ethnic diversity
Grow Training Program	Ag v. Non-Ag debate
Diverse / Affordable Housing	Weak financial resources
Greenbelts / Parks	
Delta	
Regionalism	
Exploit Wine Industry	

Issue 1: The County's cost of real estate is increasing.

Higher land prices are driving up costs throughout the entire economy. Population growth within the San Joaquin Valley continues to be driven by lower land prices relative to the Bay Area. Developers seek land with good access to water and transportation including easy access to highways, rail, and air transportation systems. Currently, landowners continue to hold on to property expecting land values to continue to appreciate at record paces.

Stockton property surveys show the value of downtown properties has had an annual growth rate of 5% since 1997. Lease rates continue a steady six-year climb at an annual growth rate of 6% for ground floor leases and 10% on upper floor leases.

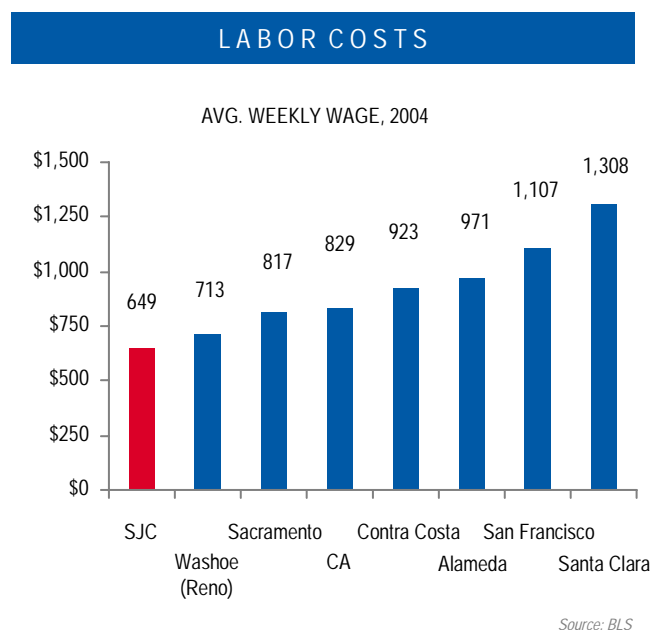
Today, agricultural land near urban areas in North Stockton that is ready for development range from \$50,000 to over \$250,000 per acre.

Issue 2: Key "Climate" Triggers: Labor costs are low, state/local tax rates are average, and corporate tax rates are high.

Labor costs are low relative to neighboring counties in the region. The average weekly wage in San Joaquin County is \$649 compared to the state's average of \$829 and Reno's average of \$713.

Estimated now at 10.3% of income, California's **state/local tax burden** percentage stands at 20th highest nationally, just above the national average of 10.1%. Californians pay \$4,078 per-capita in state and local taxes while San Joaquin County residents paid an average of \$2,388 in 2004.

Corporations looking to relocate, or even establish, a business in the West may shy away from California, as the state's 8.84% flat rate is the **highest corporate tax rate in the West**. In 2003 corporate tax collections in California were \$192 per capita, ranked 5th highest nationally (Source: Tax Foundation).



Issue 3: The County's development process is difficult and costly.

New regulations are slowing down the process of land development. A constrained land supply is created in part by slow municipal processing which is a result of complex state and federal environmental requirements.

Acts such as the The Cortese-Knox-Hertzberg Act of 2000 establishes Sphere of Influence for local government, discourages urban sprawl, and guides development away from open space and prime agricultural lands uses.

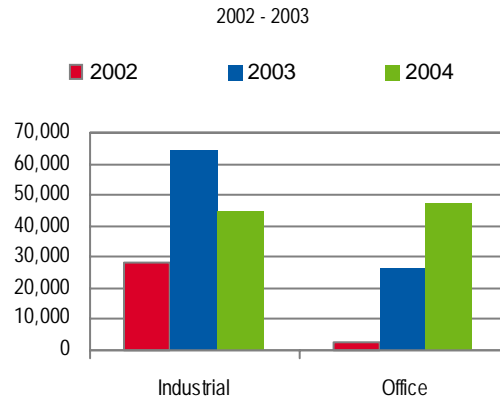
Industrial building permits declined in 2004 to just over 45,000 permits from 65,000 permits issued in 2003. Office permits have seen huge increases since 2002, growing from 2,500 permits in 2002 to 47,000 in 2004, an increase of 334% per year.

Development Fees are on the rise. The overall average fees collected for all developments in San Joaquin rose between 2003 and 2004. The County's highest collected fees are in Tracy leading the County in dwellings, retail, office space, and manufacturing developments. Generally, Stockton and Lodi have the lowest collection fees for dwellings, retail, warehouse, and manufacturing developments. Manteca and Tracy have the highest development fees for warehouse developments. Non-residential builders will see fee increases for a 30,000 sf. retail building of 87%, a 50,000 sf. office space increase of 112%, and a 50,000 sf. warehouse or industrial space increase of 187%.

Residential building permits are holding steady over the 6000 mark with 6,375 permits issued in 2004 and 6,439 in 2003. Since 1998, Stockton permits have grown at an annual rate of nearly 18% followed by Ripon at 14.5%. Tracy has returned to its late 90's levels issuing nearly 1100 permits in 2004. Overall, building permits in the county are increasing at an annual rate of 12%.

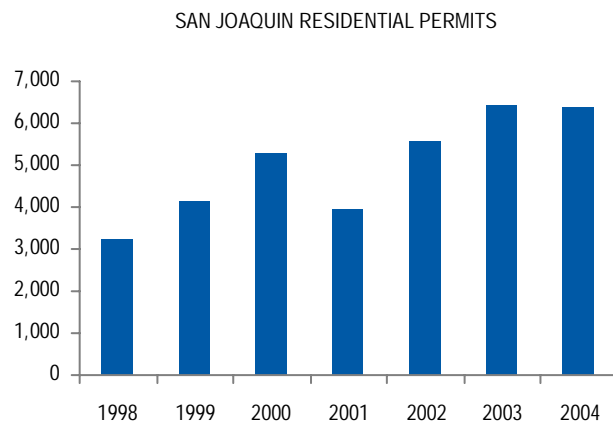
Permit and Mitigation Fees are rising quickly across the board making it more expensive for developers to build both residential and nonresidential structures. Recently, the City of Stockton increased the Public Facilities fee by 9%. Pending fee increases includes a Public Facilities fee for county facilities for industrial at \$0.18 psf and a Regional Transportation fee of \$0.75 psf for industrial and \$0.25 psf for office. There are also pending increases in the Habitat Mitigation fee, an Agricultural Mitigation fee, and an Air Quality Mitigation fee.

BUILDING PERMITS



Source: California Construction Review

HOUSING PERMITS



Source: SJC Bldg. Depts.

San Joaquin's regulatory climate continues to worsen. Environmental regulations are getting more stringent in California and the county. For example, in 2001, the United States Environmental Protection Agency reclassified the Central Valley's air pollution situation from "serious" to "severe."

Reclassification of the air quality will affect businesses and farmers in the San Joaquin Valley. Non-attainment will result in controls that are more stringent and new regulations that will greatly increase costs for business. The new classification will force farmers to comply with tougher agricultural pollution standards and document equipment and operational hours. The proposed Air Quality Mitigation Fee will further impact the competitiveness of development in the Central Valley, without a clear return to the community.

San Joaquin County can only look for limited help from Federal and State funding sources to meet its escalating infrastructure needs. The California Budget crunch is negatively influencing the regional transportation infrastructure. The 2005-2006 budget has the first new highway funds in three years with great competition for the \$1.4 billion appropriated.

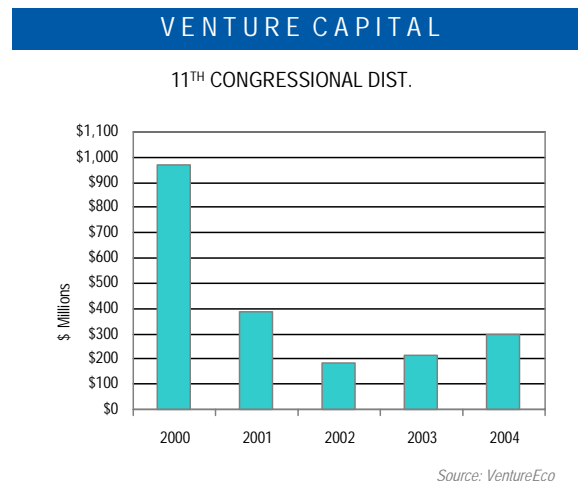
Measure K, a ½ cent sales tax for transportation, has been the vehicle that has allowed the county to meet many of the mass-transit system and road projects. Ace commuter train, regional transit networks and numerous highway and grade-separation projects exist only through Measure K. The Renewal of Measure K in 2006 following the adoption of the Regional Transportation Improvement Fee (R.T.I.F.) is essential to meet future transportation needs and impact air quality issues and quality of life.

Issue 4: Limited private capital is available for business growth.

There are numerous, well-financed companies in San Joaquin County – these are primarily those which do not require Venture Capital. However, **with a growth strategy of "technology" for the area, additional resources will need to be identified** and possibly created for the purposes of growth in those industry sectors.

With the technology "burst" occurring in 2000, VC Banking has changed forever. Financing is just now in Q4 2004, and Q1 2005 beginning to see a "rebound" in total monies invested. The analysis of this change indicates that current activity is more "in line" with where it should be – certainly the investment levels seen before the burst will never be seen again. That said, VC investment has moved away from start-ups and is now more focused on mezzanine-type financing.

In 2000, nearly \$1 billion dollars were raised in VC money in the 11th Congressional District alone, which includes San Joaquin County. Most of these dollars flow into the Silicon Valley. Of course these VC dollars and other private funds are available through these same channels to people, and/or companies in San Joaquin County.



VC monies are focused on the Bay Area/Silicon Valley. The Bay Area continues to draw the most VC and Private Equity money in the country. Second is the Boston, Massachusetts, area; third is the New York area – most of this money in 2004-2005 has been allocated to software, and increasingly in health industries (biotech, medical devices, and services/technology – in that order). Tri-Valley area (i.e. Livermore) business and research centers are also receiving a great deal of investment .

Capital Availability appears lacking in San Joaquin. Entrepreneurs interviewed indicated a lack of access to venture capital – it may be necessary for an effort to ensue that better prepares business owners on a “how to” basis. There are a number of traditional banks in the County that are very active – but they are not focused on entrepreneurial activity in a way that allows for anything other than asset-based financing.

Private Funding is on the comeback nationally. This is not the case locally. There are no known angel networks in place in SJC; nor are there any known opportunity and/or minority funds available for start-up, growing businesses. There is one firm which has been identified, Central Valley Fund, located in Turlock, that is actively looking for funding opportunities – however, their fund is specific to asset type lending, working with companies which have been in business at least five (5) years.

Issue 5: Few incentives are available for businesses looking to re-locate to the County.

The State’s heavy debt burden has forced a reduction in many incentive programs. Large budget deficits from the past trickle down and hurt local governments’ ability to provide services. The 2005-2006 budget gap in the State of California is \$8.6 billion. Since the new budget does not include tax increases, local entities will be forced to make up any additional shortfall without help from the state. As a result, in order to meet operating budgets, local governments may be forced to raise fees and taxes.

San Joaquin County does offer business and industry the advantages of the **California State Enterprise Zone**. Incentives and benefits are available for a 15-year period from the date of designation. Currently, the Enterprise Zone includes the Airport Industrial Area, East Stockton Commercial Industrial Area, the Central Business District, and the Port of Stockton Industrial Area. An additional 15-20% of the zone is located in unincorporated parts of the County. The zone is set to expire in 2008 unless extended by legislation that is under jurisdiction of the Senate Revenue and Taxation Committee.

Locating in an Enterprise Zone is very lucrative for business. State benefits include tax credits up to \$2.5 million per year over five years for hiring qualified employees. In addition, sales and use tax credits as well as hiring credits may save a qualifying company an additional \$1.5 million over five years. Other state and local incentives include:

Enterprise Zone Incentives	
State Incentives	Local Incentives
<ul style="list-style-type: none"> • Carry over up to 100% of net operating gross to future years • Receive a sales tax credit on eligible machinery purchases • Receive a hiring credit of up to \$31,590 or more over a five-year period for every eligible employee • Apply unused tax credits to future years 	<ul style="list-style-type: none"> • Reduced building permit and building plan check fees • Streamlined permit processing at city and county permit centers • Employee recruitment, screening, assessment, and training for eligible applicants • Utility tax rebates for large employers • “No cost” and low cost Small Business Administration (SBA) loans • Zero-Interest façade improvement loans • Fee deferral program • Economic Review Committee

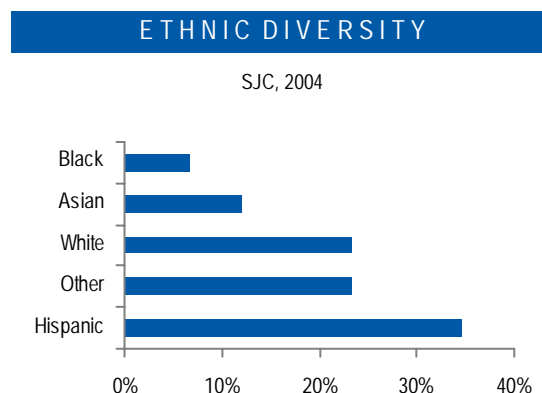
A Foreign Trade Zone allows U.S.-based businesses to defer, reduce, or even eliminate customs duties on products admitted to the zone. Benefits for businesses include: Deferral of Duties, Reduction of Duties, Elimination of Duties, Elimination of Drawback, Labor, Overhead and Profit, Tax Incentives, Quota Reduction, and Zone-to-Zone Transfer.

However, few incentives support small, local businesses or those in office/tech environments. There are few to zero local county dollars assigned to business development – there are no notable Technology Infrastructure Fund (TIF) districts or opportunity zones, nor are there any efforts for the establishment of such funds/zones. Any incentives that are available are based on reducing the cost of construction (TIFs, infrastructure financing, etc.), not on reducing the ongoing cost of business operations (tax abatements and rebates).

Issue 6: Development efforts with minority/ethnic community(ies) are lacking.

The minority chambers in the area are relatively weak. At least this is the perception – and in analysis this seems to be accurate. The number of minorities residing in the County – particularly in the Stockton area – makes this surprising.

No strong business or political representation. With the diversity found in the area, and the fact that it is perceived as “good” for business, the need exists for the development and promotion of this great resource in SJC.



Source: U.S. Census Bureau

Conclusions: San Joaquin County is in the heart of the country's most beleaguered state – there are many difficult times ahead for the state in the areas of funds, infrastructure, and social services. San Joaquin County will likely suffer along these same lines and with these same issues.

SJC can do much locally to help off-set this phenomenon. Development projects are relatively difficult and costly – whether business-, industry-, or residential-related. This has discouraged otherwise interested developers from considering the area. SJC has for too long “lived on” its terrific geographical location as its remedy for all these other “ailments”; this cannot continue. SJC has many valuable assets from its people to its ports. These assets must be properly leveraged to bring unique opportunities to existing and prospective businesses. **In the face of negative financial and regulatory situations, work must begin to bring offerings to those businesses interested in creating new wealth in SJC through programs and jobs that are forward-looking.**

The political and business climate must adjust to the reality that it will take **visionaries with execution skills** to guide and grow these communities to stability and then progress. And it will take leadership willing to work to create unique offerings that will become the County's “unique proposition,” making **SJC a leader in the State of California.**

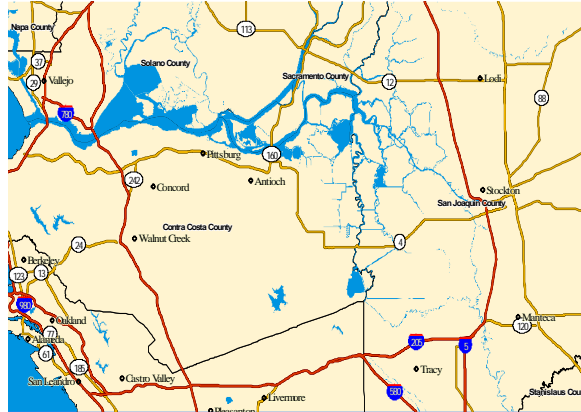
BUSINESS CLIMATE	
Strengths	Weaknesses
San Joaquin Partnership Location	Underutilized Airport
Intermodal / Freeway Transportation	Low start-up / VC Capital Available
Traditional Banking Availability	Low-cost Labor
Higher Educational Facilities / Programs	Underutilized Port / Limited Facilities for use
Port Operation	Prop 13
"Can Do" Attitude	State and Environmental Regs.
	No incentives
	Red Tape / Bureaucracy
Opportunities	Threats
Creation of higher wage jobs	Loss of Water Resources
Airport	Air Quality (Quality of Life)
Port	Prop 13
Value-Added Agriculture	Weakening Attitudes
Increase Funding Sources / Access to Capital	Local Press
Capturing High Skill / Educated Workforce	Growth Opponents
Delta College / College of the Pacific	High Crime
Incubator / Accelerator	Not thinking / Acting regionally
Grow Art & Film Industries	Energy Costs
Expand Tourism (Wine Country)	Weak Education (K-12)
Redevelopment and In-fill projects	Declining Infrastructure
	Declining State Economy
	Political Instability

2.0 SITES AND INFRASTRUCTURE

Issue 1: Intermodal service in San Joaquin is excellent – this is an asset that can be further leveraged.

By linking port facilities, highways, railroads, and aircraft, the **San Joaquin Valley has an excellent intermodal system.**

A highly accessible highway transportation system links San Joaquin County to major California urban markets. San Joaquin County is a major Northern California distribution point where two primary North-South highways, Interstate 5 and Highway 99, intersect and are joined by the Stockton Cross-town Freeway and Highway 120 through Manteca. Interstate 5 is the main North-South route for freight movement along the West Coast from Canada to Mexico. Highway 99 is the main inland route through California connecting major cities in the San Joaquin Valley.



Interstate 580, running West to Oakland and the San Francisco Bay Area, and Interstate 80 to the East places Stockton in the middle of a great East-West thoroughfare. Numerous trucking lines and carriers enhance San Joaquin County's ground transportation infrastructure.



San Joaquin County is also a **confluence point for two national rail lines**, the Burlington Northern Santa Fe (BNSF) and Union Pacific Railroad. Reciprocal switching agreements between lines provide local firms with efficient service.

The Stockton Intermodal facility is part of the BNSF main line. The BNSF facility is the result of an \$80 million investment by the company that will connect freight to BNSF's 33,000 miles of track across 28 states and Canada. The new facility contains two loading and unloading tracks, averaging 7,000 feet in length, with the capacity to hold approximately 150 intermodal railcars. Three storage tracks will accommodate 230 intermodal railcars and will have more than 800 containers and trailer parking spaces. In addition to building the facility, BNSF established a 55-acre wildlife sanctuary for the preservation of native species and contributed more than \$9 million to intersection and roadway improvements.

The Union Pacific intermodal terminal also plays a critical role in the railroad's California service profile. In 2002, the facility was made the western US terminus for the railroad's "Blue Streak" cross-country container service. Operated in cooperation with the Norfolk Southern Railroad, the expedited service provides a major link for double-stack container trains moving eastbound and westbound via Chicago between the Port of Oakland and major transshipment terminals in eastern Pennsylvania and New Jersey. Last year, the "Blue Steak" service was expanded to handle containers moving between California and Atlanta, Georgia. The Northern California-Northeast corridor through Lathrop also connects to the Union Pacific's service connecting Los Angeles with Dallas, Texas and Memphis, Tennessee.

Speculation about the potential for a rail container shuttle connecting the Ports of Stockton and Oakland is an attractive option as highways increasingly become overcrowded. The "inland port" concept allows seaport facilities to be duplicated in inland locations reducing the amount of waterfront property needed at prime seaport locations. According to a 2002 Tioga Group study, a dedicated rail shuttle between The Ports of Stockton and Oakland is technically and economically feasible with a sufficient amount of public subsidy. There is doubt in the report, however, that it may not be the best investment for the Port of Stockton. The key element in the Tioga Study is to continue to focus on cargo while studying the long-term costs of a rail system. A combined strategy of near-term cargo opportunities, facility investments, and support for non-port rail initiatives is most likely to increase cargo volume.

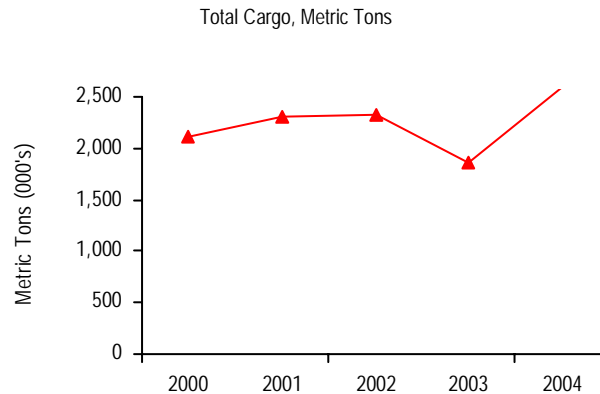
Issue 2: The Port of San Joaquin is underutilized; this opens up more opportunities for competitors.

Located on the Stockton Deepwater Ship Channel, 75 nautical miles due east of San Francisco, the Port of Stockton owns and operates the second busiest inland port on the U.S. West Coast. **The Port is well suited and situated to many types of cargo with excellent connections to trucking, rail, and air.**

Over the course of the last five years, Indonesia continues to be the Port's strongest trading partner in terms of inbound cargo while Japan is the destination of much of the port's outbound cargo. Revenues from property management and dockside terminals fluctuate from year to year but remain steady overall.

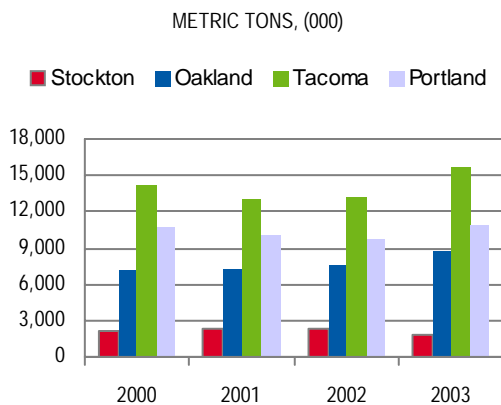
However, the Port of Stockton is significantly trailing other major ports on the West Coast in terms of cargo volumes measured in metric tons. The Port of Stockton imports goods that the Port of Oakland is unable to handle due to lack of capacity -- but this may soon change. **The Port of Oakland has increased its capacity by 50%** in recent years to handle an increasing amount of new business.

PORT OF STOCKTON



Source: Port of Stockton

PORT ACTIVITY



Source: Port Authorities

The Port of Stockton reportedly plans to spend \$190 million on the 1,400-acre Rough and Ready Island that once served as a U.S. Navy supply base and communications center. The Port of Stockton Expansion Project includes: upgrading seven wharves, constructing and operating a 105-acre container terminal and a 300-acre auto processing facility, developing an intermodal rail yard, dredging to provide access to 75% of the world's largest ocean-going vessels, and bridge and road improvements to accommodate increased port operations.

The Port projects this activity would result in an additional 130 vessel calls to the Port each year.

Issue 3: The Stockton Airport has a loosely defined future plan; this could translate into lost revenues.

The Stockton Metropolitan Airport is located on 1,549 acres on the southern boundary of the city of Stockton in the heart of California's Central Valley. The airport has substantial room for facility development and expansion. Home to over two-dozen jets, a substantial **opportunity exists for additional executive jet service and new development** surrounding the airport.

Although currently there are **no commercial flights present**, the airport has full-service general aviation and commercial travel facilities. Stockton's air cargo capabilities, long runway, and warehouse facilities allow it to accommodate wide-body aircraft for transportation of all types of cargo.

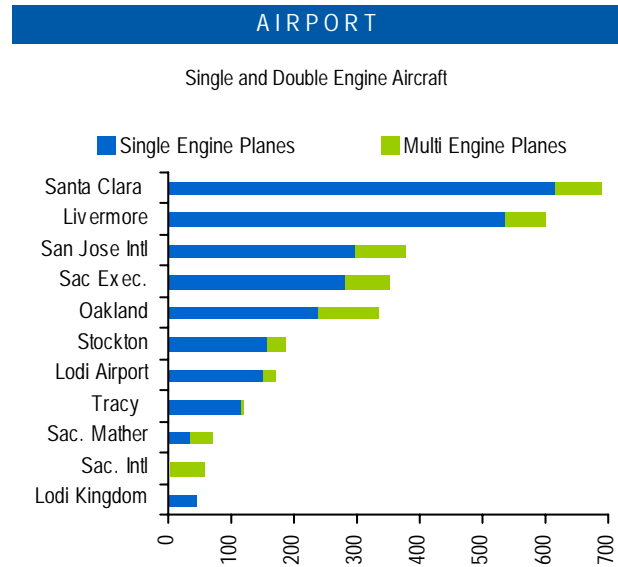
In review of competitive information, Stockton is not as strong within the region as it should be for future growth. Livermore is handling most of the area's private and corporate jets – this illustrates Livermore's advantage in technology with related company relocations and expansions. Oakland is clearly the largest competitor for Stockton in all categories. This reflects Oakland's activity in business at all levels, including its active port – (much of its airport cargo activity is tied to port businesses).

Taken in combination, however, Stockton/Lodi/Tracy's air activity represents the same levels seen at Sacramento Executive – this should be further studied for potential leveraging.

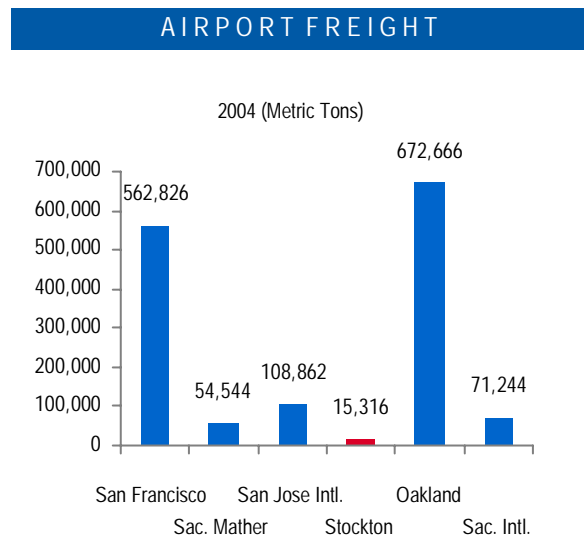
In 2002, the airport launched a **\$10-million improvement program with air cargo in mind**. The primary enhancement is an expanded cargo ramp area encompassing approximately 10 acres. Warehousing and cold storage facilities are available adjacent to an additional air cargo apron.

Low landing fees and convenient access to the region's highway system make Stockton Metro an extremely cost-effective alternative to other Northern California airports.

Another note: the Stockton Airport is **home to the largest refrigerated warehouse on airport property in North America**.



Source: Airmav.com



Source: Airport Data

Issue 4: The region is faced with future water shortages.

Water is in high demand in the San Joaquin Valley. Facing a threat of shortages over the long-term, competition for water rights is increasing between agricultural producers and developers. It is estimated that the shortfall of water is 200,000 acre-feet annually over the next two decades. Due to a lack of adequate water supply facilities, **current water costs are high and little extra capacity exists.**

The two most significant projects in process to address municipal and industrial water are the City of Stockton's Delta Water Project and the South San Joaquin Irrigation District SSJID South County Water Project. The SSJID Project will open the flow of potable high quality water to Escalon, Ripon, Manteca, Lathrop and Tracy in July 2005. This \$250 million project will meet the long-term needs for water with cost recovery through the connection fees and monthly user rates.

The \$50 million Delta Project in the City of Stockton is pending final authorization and will provide treated Delta Water to the Stockton Metropolitan Area. The cost will be borne by new development through the connection fee and existing users through monthly user charges. The plant will bring high quality drinking water to residents through nearly 40 miles of pipeline. Work on the Water Treatment Facility itself is in the final stages and will be ready to deliver drinking water in summer of 2005. These improvements are expected to supply water to these cities for the next 50 years.

These projects represent an emerging regional approach which will be essential if San Joaquin County is to be efficient in providing for long term infrastructure.

Issue 5: Vacancy rates are high in large portions of the County.

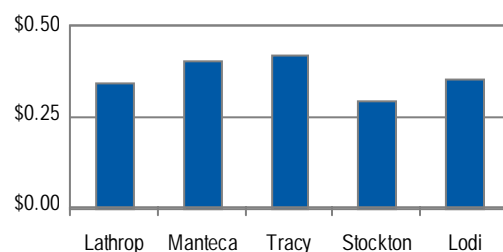
Few office projects in the County have available space for a large tenant. Currently, there are only eight office buildings with 10,000 sf. or more of space.

Industrial lease rates continue to increase across the County. Price ranges are based on a range of factors including: age of structure, existing tenant improvements, interior clear height and site size and improvements. Lease rates of \$.16 - \$.28 tend to be for buildings thirty to forty years old and generally 18-20 feet high. The new high cube buildings with 35-38 feet interior clear are in the \$.34 - \$.38 per sf range as a cold shell.

The City of Stockton currently has 34 available industrial sites followed by Tracy and Lodi each with 17 and 13 industrial sites respectively.

INDUSTRIAL LEASE RATES

2005 - PER MONTHLY SQ. FT.

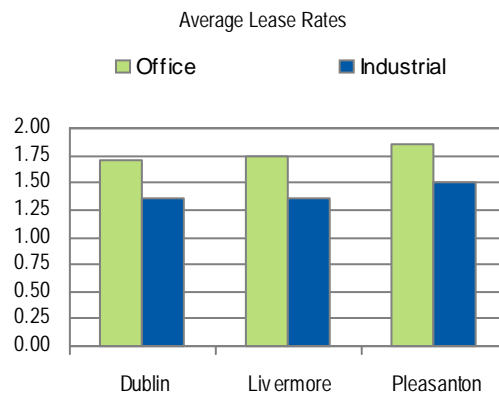


Source: SJP

Competition from the Bay Area and the Tri-Valley corridor is preventing new office development in San Joaquin. With increasing lease rates, San Joaquin County continues to face stiff competition from cities closer to the Bay Area. Cities including Dublin, Livermore, and Pleasanton have available office, warehouse, and manufacturing facilities at rates competitive to Stockton but closer to the Bay Area. Driven by demand and low interest rates, small building projects are emerging all over the Central Valley.

In San Joaquin, office rental rates have risen substantially throughout the marketplace due to pent-up demand in all cities. Rents have risen approximately 10-20% since year-end 2003. A lack of supply of land in cities is causing prices to range from \$8.00 to \$15.00 psf throughout the county.

OFFICE & INDUSTRIAL SPACE



Colliers International

Most area developers are not constructing speculative buildings/facilities. A current oversupply of buildings of this type exists – yet many of them in the County are not “ready” sites. In some instances there is a need for redevelopment; and in most instances, a need for broadband and/or fiber optic wiring. An increasing number of big box retailers combined with heavy activity in the industrial market should put to use many of the speculative buildings now in existence.

Downtown areas throughout the County offer potential facilities. Many high-tech companies are interested in rehabilitated buildings in renewed urban areas. With approximately 6 million sf of leasable office space in Stockton, but a low vacancy rate of 3%, many companies must get creative to find space. Most of the leasable property is located in central and downtown areas of Stockton in Class B office space. This is an opportunity for SJC – each of the communities has space available for this type of re-use. However, developers from outside the area will need to be recruited – developers at work now within the County do not really understand the risk/rewards, modeling required by such projects. Nor are these developers set-up for the marketing of these properties.

Issue 7: An abundance (and growing amount) of industrial and commercial space is available in the Tri-Valley area.

The Tri-Valley Corridor includes the cities of Livermore and Pleasanton. Similar to San Joaquin, these cities originally thrived in agriculture. Today, there is an influx of new industries including tourism, technology, research and development, light manufacturing, and warehousing/logistics.

The research and technology component in the area is experiencing growth due in large part to the location of Lawrence Livermore National Laboratories (LLNL) located in Livermore. LLNL is a Department of Energy (DOE) national laboratory that conducts science and technology research. Today, the Laboratory is the largest employer in the Tri-Valley area with over 8,000 employees and an annual budget of over \$1.5 billion. A second national laboratory also located in Livermore is the **Sandia National Laboratory**. Employing over 900 people, this DOE

laboratory focuses on national security issues, including nonproliferation, assuring energy and critical infrastructures, and countering terrorism. A major contributor to the local economy, Sandia's annual payroll is close to \$67 million dollars.

As of May 2005 Livermore has over 900,000 sq. ft. of office space available and nearly 2.5 million sq. ft. of industrial space available. Pleasanton has over 1.5 million sq. ft. of office space and almost 200,000 sq. ft. of industrial space available. **Currently there is over 500,000 sq. ft. of available industrial space near the airport at Airport Gateway Center alone.**

The presence of substantial office and industrial space, aggressive land development, and additional vacant land available will increase competition within the region all the way to San Joaquin.

The number of major employers throughout the Tri-Valley area is growing. This is another indicator of the level of competition for space this area presents for SJC.

Large TriValley Employers, 2004	
Company	Employees
Lawrence Livermore National Lab	8000
Chevron Texaco	4500
PeopleSoft	3928
Pacific Bell Corporation	2164
Safeway	1760
Providian Financial	1560
AT&T	1407
Pleasanton School Dist.	1350
Livermore Valley Joint USD	1170
Sybase	1000

Due to the high-technology drive in the Tri-Valley, the existing infrastructure is quite competitive as well.

The Tri-Valley area is certainly something SJC must monitor and comprehend from both a competitive standpoint as well as a potential partner in the way of leveraging its assets and base businesses to future opportunities located in SJC.

Issue 8: The County-wide debate between agriculture and non-agriculture segments creates uncertainty.

San Joaquin Valley farmland is amongst the richest in the world. The San Joaquin County General Plan protects agricultural lands needed for the continuation of commercial agricultural enterprises, small-scale farming operations, and the preservation of open-space.

However, past elections have pitted growth boundary initiatives and greenbelt legislation against land developers, leaving voters conflicted with land-use policies. The ensuing debate between competing interests creates uncertainty with rezoning for new sites and unresolved issues related to potentially available land.

This issue is not 'going away' any time soon. Therefore, related issues must be dealt with by all involved parties, with an eye on future opportunities for both the agriculture and non-agriculture segments of the County. Agriculture is a strong asset throughout the County and should be embraced. There does need to be, however, a long-range plan under development for the purposes of land-use and business development.

Conclusions: SJC's strategic geographical location has served it well for many years – its location will continue to be one of its greatest assets for business expansion and relocations. However, location is not necessarily its *strongest* asset without the infrastructure to support it. With transportation as easy as it is today, and with the number of competing distribution markets, SJC must add new assets to its "quiver."

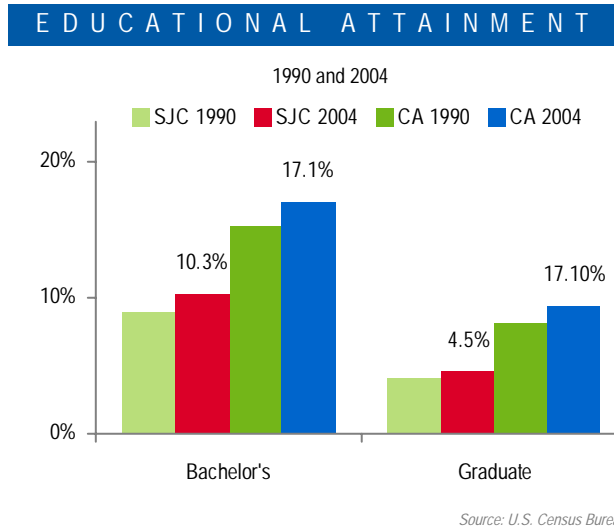
The port and airports are potentially the "critical" assets for the County's future growth. The sites must be made "ready" to attract the "right" companies and investment to the area. SJC must work quickly to develop further its sites and infrastructure, focusing on programs that do not require state or federal dollars. Raw land is no longer enough for business development and growth in the County. Planned land use is needed with a recognition that those businesses which are desired (future-focused, high-impact, high-tech) will have different requirements for sites and facilities, including an overarching need for high-level telephony and communications infrastructure.

SITES & INFRASTRUCTURE	
Strengths	Weaknesses
Airport	Roads
Port	Lack of Optic-Fiber / Broadband
Rough & Ready Island	Lack of Office Space
Intermodal / Freeway Transportation	High cost to all
Land Availability	Underutilized Port & Airport
Relative Lower Costs (vs. Bay Area)	
Overall Location	
Opportunity	Threats
Airport	No development of key resources: (Airport & Port)
Port	Oakland's 50% growth at Port
Rough & Ready Island	Vacancy at Tri-Valley Area
Downtown Redevelopment & Infill	Ag vs. Non-Ag debate
All Downtown's in SJC	Increased traffic on weak roads
Waterfront Development (Office, Office Park)	Continued increase in costs
Optic-Fiber & WI-Fi	State Reductions (further)
Lodi and Tracy Airports	Energy and utility costs rising
Renewable Energy Centers	

Issue 1: The educational attainment of San Joaquin County's workforce is improving.

San Joaquin's educational attainment is **improving** but falls short of state averages for residents with Bachelor's and Graduate degrees. While there has been an increase, it is much lower than the statewide average – and is well below the overall levels of attainment by national standards.

To a large degree, this gain has also come as a result of the relocation of residents from the Bay Area (those that still work in the Bay Area) – not from an increase within the local community.

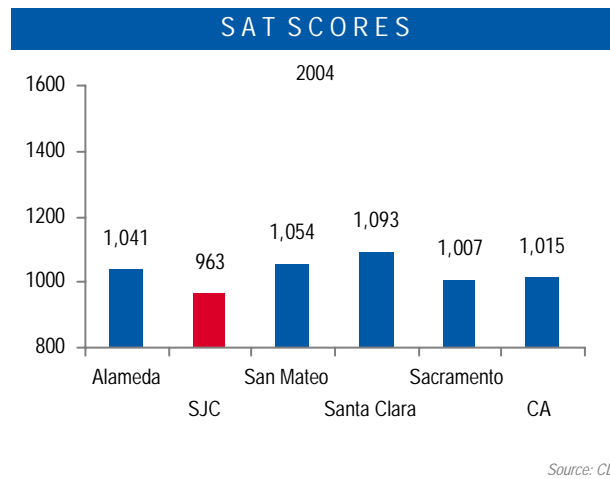


Issue 2: The County public schools are not performing well and do not offer a "ready" workforce pool for potential employers.

SAT scores for the County trail neighboring counties. With the exception of Lincoln Unified, San Joaquin County SAT scores lag behind state averages. The average SAT score for the county is 963 while the average score in California is 1015.

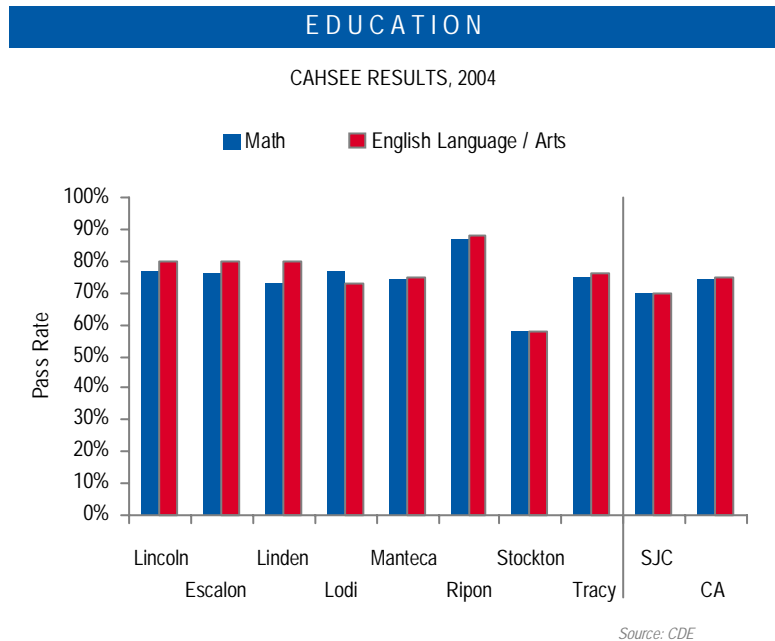
The overall graduation rate for the county is 92.3% led by Escalon Unified with a rate of 98.8%. The overall graduation rate for the state is 85.1%.

Linden Unified had the greatest percentage leap in Academic Performance Indicator (API) testing with an increase of 3.1%. The median increase for all school districts was 1.1%.



According to the 2004 California High School Exit Exam (CAHSEE), Ripon scored highest among major school districts with a pass rate of 87% in Math and 88% in English. Stockton is lowering the County numbers with pass rates of only 58% in both Math and English.

County-wide, the pass rate was 70% for both Math and English. This is below the statewide pass rates of 74% for Math and 75% for English.



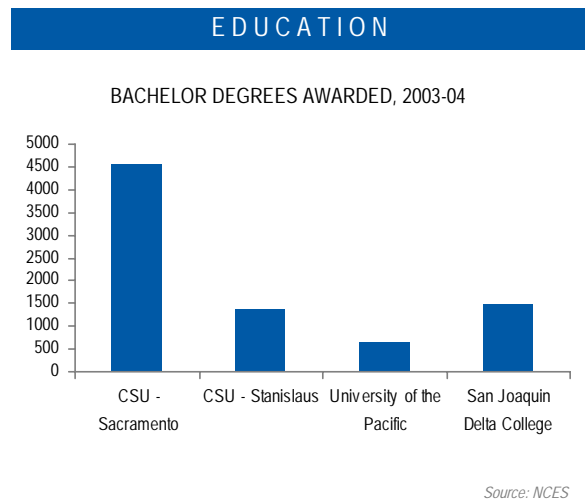
Issue 3: A large supply of college graduates exists in the Tri-Valley/Bay Area region from which potential employers can draw.

Major universities are nearby such as The University of the Pacific, San Joaquin County Delta College, and CSU-Stanislaus. Local community colleges and universities provide valuable training to San Joaquin's future.

But most of these graduates are moving outside of the County to work; those who do stay are greatly "under-employed."

Additionally, the programs from which they are graduating are not those which give them the job skills and training demanded by many of the SJC businesses in growth mode, or demanded by those businesses which are future targets for the area's long-term growth.

Another related note: The average age for students is 27, indicating that adults are returning for re-training, and/or for graduate school.



Issue 4: While technical degrees are currently offered, class enrollment is low.

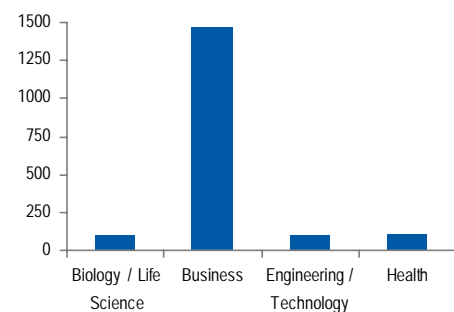
San Joaquin Delta College has almost 25,000 students enrolled in various programs. Engineering programs are currently experiencing a 100% placement ratio with firms in Silicon Valley. San Joaquin Delta College offers degrees in Agriculture, Business, Engineering, and Technology. These programs will train students and strengthen the workforce to fill future AgTech jobs. With dual entrance requirements in place, Delta College makes transferring to a state four-year university easy. Delta College has locations in both Stockton with plans to expand to Tracy in 2007.

For seven consecutive years, CSU Stanislaus has been ranked among the top universities in the western region out of 500 surveyed by *U.S. News & World Report* in its *Best Colleges* special edition. While CSU Stanislaus serves a global student population, a large majority of the 8,000 students live and work in the six counties that comprise the northern San Joaquin Valley and Central Sierra Foothills. In 2002 there were 1,235 students located at the Stockton campus.

Neither of these institutions has a fundraising campaign underway for programs specific to the growth industries in the area and/or those which will be targeted. Yet they do have the ability to create funds for this action, which will serve the community well.

EDUCATION

DESIRABLE DEGREES AWARDED, 2003-04



Source: NCES

Issue 5: The multiple workforce programs offered should be further leveraged by San Joaquin County businesses.

Workforce training and re-training programs have strong beginnings. The **Employment Training Panel** is a state agency that provides \$80 to \$100 million in funding throughout the state. Average contracts awarded range between \$1,000 to \$2,000 per trainee.

The **San Joaquin WorkNet** assists firms moving into the region with human resource needs. Industry-specific training is customized to the company by allowing the company to perform the training needed at the worksite or in the classroom. WorkNet then reimburses the company for the cost of training. Another program, On-The Job Training, offers a company reimbursement for up to 50% of wages paid during the training program.

The **Regional Occupational Program (ROP)** maintains resources to assist in the recruitment, assessment, and training of new employees. Using customized training in both on- and off-site facilities, the ROP works with employers to meet company training needs. Regional training facilities are located in Lodi, Manteca, Stockton, and Tracy.

CalWORKs provides training and job placement to welfare recipients in San Joaquin. Of the 18,000 adults in the CalWORKs system, 85% are female heads of households while 60% have completed high school or have a GED. The program offers training and services designed to offset the cost of hiring and training new employees and to assist employees with transportation and childcare.

Issue 6: Several programs at higher learning institutes can be leveraged.

With a strong graduate program in health care, the University of the Pacific (“Pacific”) has a solid foundation to provide training for healthcare jobs in San Joaquin. Pacific is ranked among the top half of the nation’s doctoral degree-granting universities in *U.S. News and World Report’s* annual guide to “America’s Best Colleges.” And for the fourth year in a row, the magazine has named Pacific one of the 50 “best values” in its class. Pacific has set some lofty goals for students. The school hopes to increase the retention of undergraduates from first to second year from 87% to 90% and increase the undergraduate six-year graduation rate from 62% to 70%.

University of the Pacific

College of Pharmacy and Health Science – The Thomas J. Long School of Pharmacy and Health Sciences offers professional and graduate degrees in pharmacy, physical therapy, speech-language, pathology. Current facilities include state of the art classrooms, a computer center, and well-equipped laboratories; each student is provided email and computer access to support a technology-assisted program. In addition to the Stockton campus, the college has satellite regions where students can spend their last year in Stockton, Sacramento, San Francisco, Palo Alto, Santa Clara, Santa Barbara, Fresno, Los Angeles, Honolulu, and San Diego.

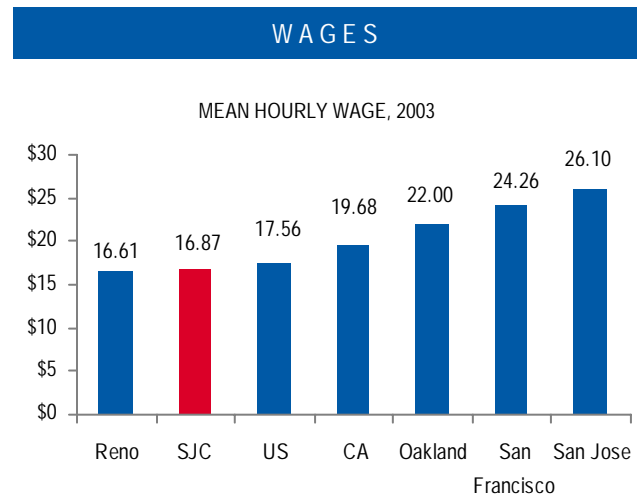
School of Engineering & Computer Science – The School of Engineering and Computer Science is one of the top 100 engineering colleges in the U.S., consistently ranking in the top ten in academic attention from faculty and financial aid awarded to students. Ranked as the 37th best value in the 2005 U.S. News and World Reports, the undergraduate engineering and computer science courses at Pacific are all taught by professors whose primary responsibility is teaching. The School of Engineering and Computer Science has eight degree options including Bioengineering, Civil, Mechanical, Electrical, Computer Engineering, Computer Information Systems, and Computer Science, along with Engineering Physics and Engineering Management. The students and faculty of the School of Engineering are involved in conducting research in many different areas of science and engineering. Projects include predicting landslides, developing efficient and cheap solar cooking equipment, and building robotic heads for object recognition and motion tracking. Research is funded by the school, the University, and by grants from the public and private sector.

Eberhardt School of Business – A fully-accredited California business school offering graduate and undergraduate programs in business and management, the Eberhardt School of Business currently has twenty-seven full-time faculty and an enrollment of approximately 600 graduate and undergraduate students. The Eberhardt School of Business offers the Bachelor of Science in Business Administration, a minor in Management, and a Masters in Business Administration. The School is accredited by the AACSB International - The Association to Advance Collegiate Schools of Business.

Delta College School of Nursing. With nearly 100 degrees awarded last year, the Associate Degree in Nursing program at Delta College prepares students with entry-level skills and knowledge to practice in the role of a registered nurse in a variety of health care settings. Graduates receive an Associate of Science Degree in Nursing and are prepared to meet the requirements of the state-licensing exam in order to obtain licensure as a Registered Nurse in the State of California. Despite high levels of farming in the area, Delta College only awarded six degrees in agriculture and zero degrees in Agri-business.

Issue 7: San Joaquin County has low wage levels.

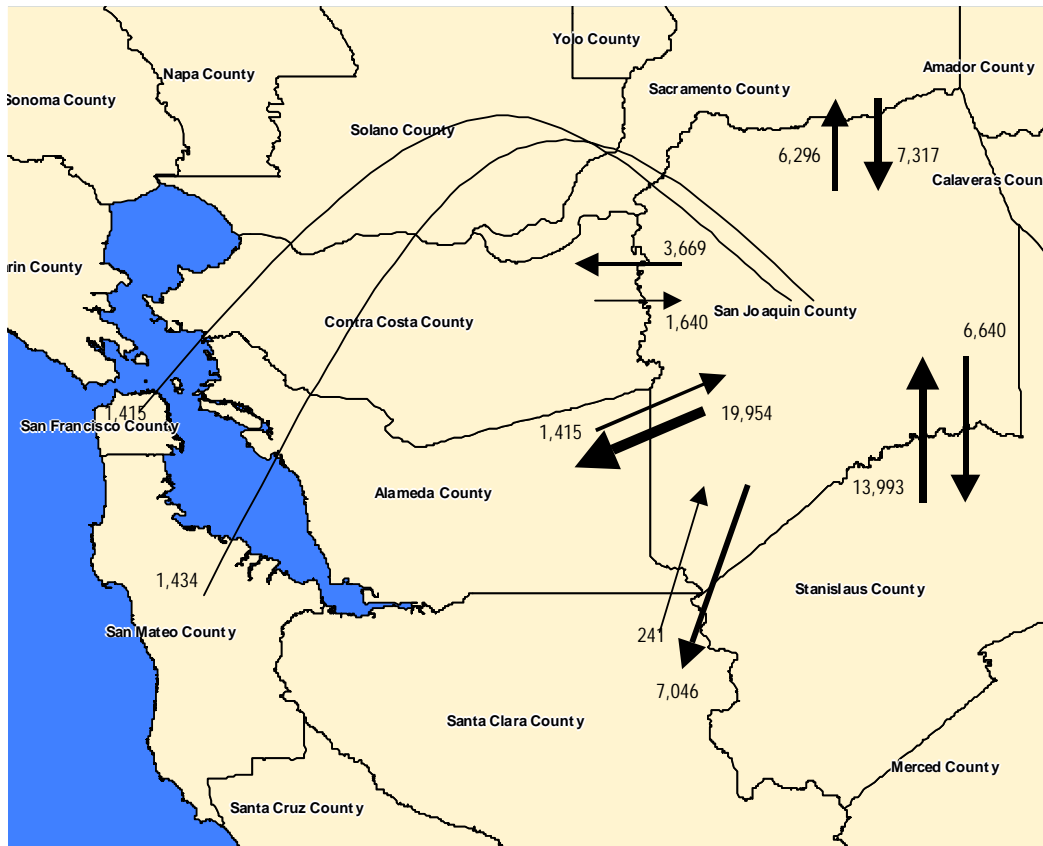
In 2004 approximately 3.6 million workers lived within 60 miles of Stockton. In order to attract these workers to SJC, the County will have to recruit companies willing to pay higher wages. Currently, SJC only leads Reno in regards to mean hourly wages, and lags behind national, state, and neighboring communities in wage rates. This has diminished any competitive edge for bringing highly qualified workers to the area.



Source: BLS

Issue 8: Commuter patterns show a net loss of 21,000 workers per day, which reduces the County's labor pool.

Of all commuters leaving the county, approximately 71% of commuters work in the Bay Area. The most popular county for "import" commuters is Alameda County -- it attracts nearly 20,000 workers. Gains in the daytime workforce include commuters from Stanislaus, Sacramento, and Merced counties.



In 2000, The San Joaquin Partnership and the San Joaquin Council of Governments conducted a survey of commuters traveling the Altamont Pass to the Bay Area. Seventy one percent of the commuters that responded to the survey started their commute from San Joaquin County. Additionally, 16% of commuters traveled to Livermore followed by Pleasanton with 14%. The rest of the respondents' destinations spread across all areas of the Bay.

Forty-three percent of Altamont Pass commuters held management positions with 9.4% classifying themselves as upper management and 20% in mid-management ranks. Nearly 88% of respondents would work closer to home if a comparable job were available. In addition, 92% of high-tech employees that have been with their companies less than three years were willing to change employers.

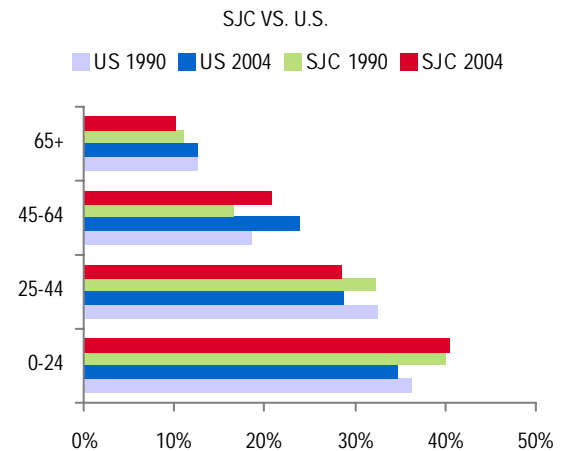
As increasing numbers of people relocate to San Joaquin, average commutes will continue to increase.

Issue 9: The County's young professional demographic is not growing.

Young professionals draw higher salaries than workers without college degrees. Between the years 2000 and 2004, salaries increased for workers during their prime earnings years. Young professionals earning over \$60,000 a year increased in San Joaquin.

San Joaquin's important 25-44 year-old age group declined between 1990 and 2004. This young professional population is important to generate new business for the region and attract outside capital to the region.

AGE DISTRIBUTION



Source: U.S. Census Bureau

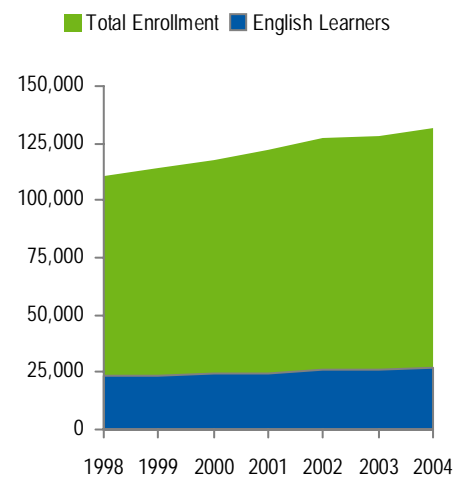
Issue 8: Existing language barriers make training and re-training difficult and skew the available labor pool.

Migrant workers provide seasonal services in agriculture and/or related industries. Because the work is seasonal, migrant workers follow the growing season and move from place to place throughout the year. This mobility causes a disruption of migrant children's education as well as that of resident children.

Total school enrollment continues to increase in San Joaquin at an annual growth rate of 2.5% per year. English learners in the district trail slightly that pace growing at about 2% annually.

The federal government has established and funded the Migrant Education Program. Migrant Education Region 23 (San Joaquin and Contra Costa counties) serves over 18,000 students in 21 school districts. It provides services to students aged 3 to 22 (if the student has not graduated from high school). The program provides supplementary health, academic, and support services.

EDUCATION



Source: CED

Conclusions: Education is the cornerstone of economic development. An uneducated or unskilled workforce makes it nearly impossible for a company to expand in or relocate to an area. This point cannot be overemphasized. It is incumbent upon a community to work with its public schools, technical schools, and institutions of higher learning to provide the facilities and programs that will work to properly prepare and educate its citizenry for quality jobs. **An emphasis on education and implementation of programs of learning will always positively impact the overall economy of the region.**

SJC has many such facilities and programs in place – however, there has not been enough emphasis placed on this area by the community overall – with the exception of two of its school districts. And those districts will suffer too as an aggregation of negative attitude and weak programming occurs; and that *will* happen if these issues are not addressed County-wide.

There must be an effort by community stakeholders to make education and skills training a priority.

WORKFORCE & EDUCATION	
Strengths	Weaknesses
Large Population	Weak Work Ethic
Strong Work Ethic	Low number of young professionals
Loyalty	High drop-out rate @ HS
Good Pay	Many unemployables
Well-Educated Segments	Low education available
CALWORKS & Other Programs	Lack of high wage jobs
Opportunity	Threats
High-skill workforce development & capture	Affordability
Leverage Delta College and Univ. of the Pacific	Declining / Lack of Infrastructure
Incubator / Accelerator(s)	Increased Traffic
Grow training / Re-training programs	High Crime
Grow & Recruit Businesses w/ high end eqpt.	Lack of quality of life / Entertainment / Amenities
	Retiring Workforce
	Seasonal Workers (Education & Wage) / Immigration
	Emigration of educated youth
	Declining State Economy

Issue 1: San Joaquin County housing prices have increased dramatically in the past five years reducing its "affordability" factor.

The average home resale price in San Joaquin County increased 101% over the last seven years. Sacramento's home resale price increased 123% while the State of California grew 118% over the same period.

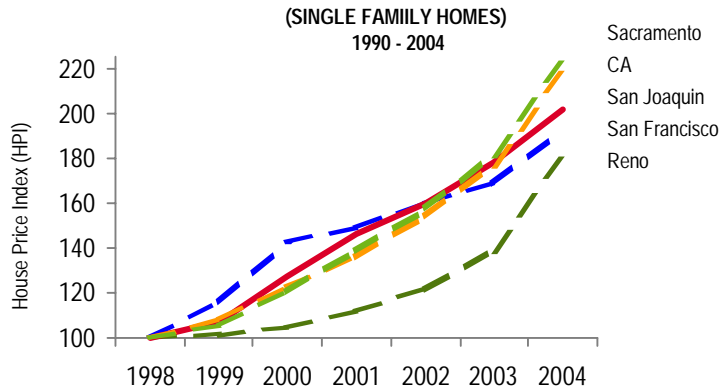
Much of the increase is due to increasing demand by commuters relocating from the Bay Area in search of affordable housing. Building statistics indicate that commuters are responsible for over half of the new-home sales in Stockton alone.

It is less expensive for builders to build new homes on open land in the suburbs instead of infill developments. In addition, limits on growth drive up the cost of land while various environmental and regulatory agencies further add to the cost of building homes anywhere. Additional costs are then passed on to the consumer.

That said, San Joaquin County still offers a relatively cost-competitive option for California households. In May of 2005, the average house price in San Joaquin County was \$390,500. The highest prices in the County are found in Tracy with housing prices averaging \$545,000. Tracy, Stockton, Manteca and the County as a whole all saw housing prices increase over 30% since May 2004.

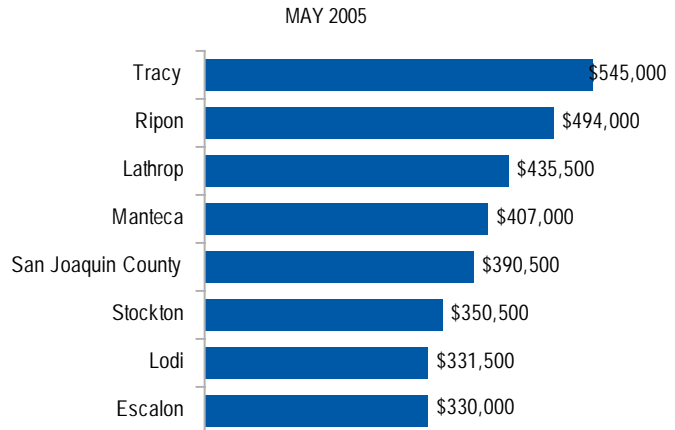
Another impediment to affordable housing are Urban Growth Boundaries (UGBs). UGBs restrict land availability for new housing by reducing land supplies and drive up the cost of housing. Slow-growth policies outside cities create an open-space preserve that is affordable only by high-income households.

HOUSE PRICE INDEX



Source: Office of Federal Housing Enterprise Oversight (OFHEO)

HOUSING PRICES



Source: SJP

Issue 2: The extreme commuting lifestyle found in San Joaquin County puts a strain on the economic and social fabric of each community..

San Joaquin County continues to export more workers to other counties than it imports. According to the 2000 Decennial Census and Altamont Commuter Survey, San Joaquin County has a commuting workforce of nearly 214,000 people.

- 77% of commuters are intra-county commuters (live and work in San Joaquin)
- Nearly 16% of all workers commute to the Bay Area
- 75% of people drive to work alone
- The average commute to the Bay Area is 1.4 hours

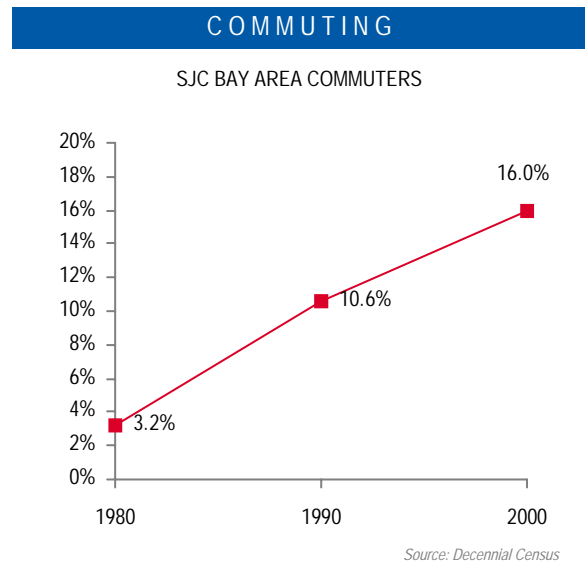
In addition, Census Bureau estimates indicate:

- 14% spend at least 1 hour on the road
- 1% take a bus to work
- Less than 1% use rail transportation

The most popular county in the Bay Area for commuters is Alameda County, where nearly 20,000 San Joaquin residents commute everyday. Within Alameda County, popular job destinations include: Dublin, Pleasanton, and Livermore.

Focus group participants voiced strong concern about the social impact of long commutes. Long inter-county commutes reduce hours spent with family or at community functions. Many perceive a lack of community participation by those commuting due to related limits on their time.

Some area schools are suffering due to lack of parent involvement. Clearly, if San Joaquin continues as a bedroom community to the Bay Area, its economy, politics, and social structures will evolve downward.



Issue 3: The County suffers from a lack of "Curb Appeal."

This came up in every discussion held with locals as well as others in the state and throughout industry. This is not to be taken lightly. A person's FIRST IMPRESSION is very important in recruitment efforts (resident or business owner); it is also important in efforts to retain people.

This came up during focus groups. The City of Stockton has begun work in several of the areas noted, from discussions these included: South Stockton Project Area/Airport Corridor, Downtown, and Midtown Redevelopment Project Area.

Issue 4: The crime rate in Stockton (while improving) still puts a “drag” on the County for development.

Crime rates are mixed throughout the County.

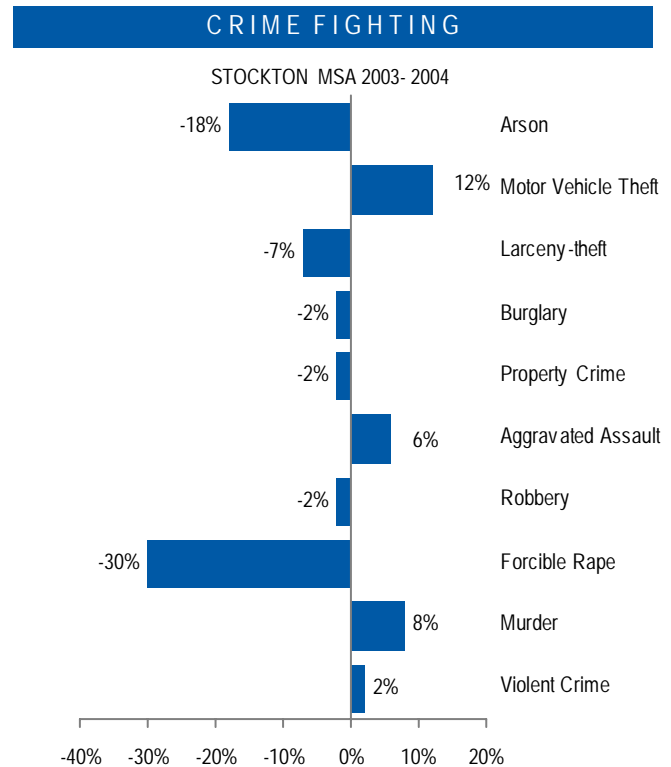
Although violent crime slightly rose in 2004, crime is improving over the long-term in San Joaquin. Significant declines seen in arson and rape were offset by increases in motor theft, aggravated assault, and murder. Reductions in property crime, larceny-theft, and burglary can be credited to uniformed guides in the central business district helping police monitor suspicious activity.

Stockton is perceived as more dangerous than the surrounding counties and communities despite a decrease in violent crimes since 2002. This is affecting “interest” in the area both inside and outside of the County.

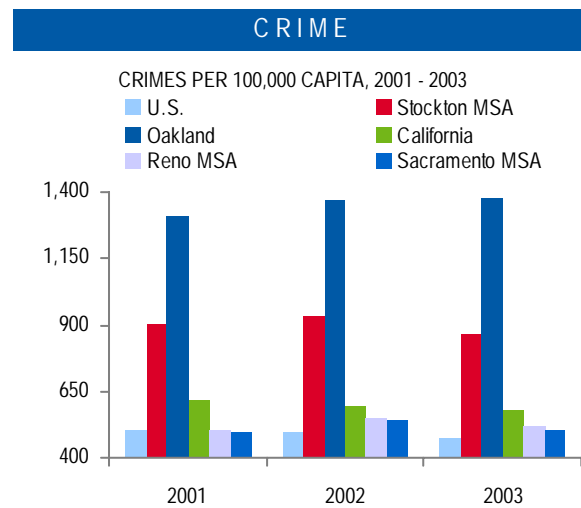
And on a per capital basis, crime is far more prevalent in SJC than its neighbors.

Crime is a major factor when businesses are looking to relocate – and for those businesses expanding, it is difficult to justify going into those “blighted” areas without incentives.

Crime in San Joaquin is declining but is high relative to California and other regional competitors. Similar to Oakland in Alameda County, much of the crime is centered in the city of Stockton with smaller communities having less crime.



Source: Federal Bureau of Investigation



Source: Federal Bureau of Investigation

Issue 5: Downtown areas are improving but still lack variety and entertainment offerings.

Little redevelopment was occurring in Stockton prior to two years ago. However, a strong commitment to regional economic development from both the public and private sectors is turning the tide. Numerous local, regional, state, and federal programs provide project funding in San Joaquin County.

Leading the county in redevelopment is Stockton with major projects in the downtown and port areas. These projects include: West End Redevelopment Area, Midtown Redevelopment Area, South Stockton Redevelopment Area, Port Industrial Redevelopment Area, North Stockton Redevelopment Area, and the Rough and Ready Island Redevelopment Area.

Within these redevelopment areas, the following projects have been completed or are in the process of completion and are contributing to the region's economic vitality: Gleason's Park, Children's Museum, Dean DeCarli Waterfront Square, Downtown Transit Center, (Fox) Bob Hope Theatre, Gateway Project, Hotel Stockton, Regal City Centre Cinema, Stockton Events Center, Weber Point Outdoor Events Center, and Weber Avenue Streetscape.

Lodi has also made a huge commitment to redevelopment. Lodi's downtown shopping district contains over 220 businesses including retail shops, movie theatres, restaurants, coffee shops, and other attractions. Lodi is investing over \$25 million to revitalize segments of core downtown properties. Over the next two years, an additional \$30 million will be invested in Lodi's downtown. Recently, Lodi completed Hutchins Street Square, a performing arts and conference center.



Tracy is the slowest of the SJC downtown areas to develop. With nearly 45% of downtown businesses being service-related, a built-in consumer base of employees has emerged, contributing to the area's high foot traffic. Three separate organizations oversee the success of the Downtown district: the Downtown Business Improvement Area (DTBIA), the Downtown Task Force, and the City of Tracy. These organizations oversee the marketing, special events, permitting, business development, and the recruiting efforts for the Downtown area – and yet, development and in-fill projects remain low.

Though many of the County projects are Stockton-specific – an argument can be made for their impact on the entire County, and certainly this is true from a business recruitment standpoint; but attention will still need to be given to County-wide projects.

Successful Programs are underway with federal dollars. One example is the Façade Improvement Program in which funds have been set aside to improve the façade of commercial, non-residential properties. SJC MUST CONTINUE TO DEVELOP THESE PROGRAMS AND DOLLARS.

Issue 6: The County offers great outdoor amenities.

The new ballpark and arena in downtown Stockton will be a tremendous area and regional draw, creating incremental revenues. The new stadium will hold 5,200 people and include luxury suites, an exclusive club area, barbeque areas, a back porch in right field and batting cages that can be used by both fans and players. In addition to the ballpark, a new 220,000 sq. ft. arena with 10,000 seats will be completed in December. Three professional sports teams will use the facility for minor league hockey, arena football, and indoor soccer. The total cost of these facilities amount to \$16 million for the ballpark and \$56.9 million for the event center. With break-even projected in five years, the event center is expected to create 205 jobs and attract 750,000 people annually plowing \$702,000 of revenue into local business.

The wine country of Lodi 'blesses' the County with beautiful lands and areas both residents and tourists can enjoy. Approximately 80,000 acres of vineyards surround Lodi. Lodi-Woodbridge wine-grape growers annually produce a \$300 million crop. With an abundance of wineries including Robert Mondavi, Ernest & Julio Gallo, Sutter Home, and Glen Ellen, Lodi is a tourist haven.

The Delta is becoming a central focus for recreation and business. Known as the California Delta, this system of interconnected waterways caters to visitors' needs. It boasts over 100 marinas and waterside resorts, full-hookup RV parks and campgrounds. There are quaint waterside restaurants for dining, grocery stores for provisions, bait and tackle shops, and over 50 boat launching facilities. Public parks and bank-fishing sites are numerous.

The year-round climate is very attractive for business and residents. Businesses will always choose a mild climate if given a choice. From a business perspective the roads are less hindered. And generally, the pleasant climate makes both living and working in the area desirable. It's the major reason why people choose California.

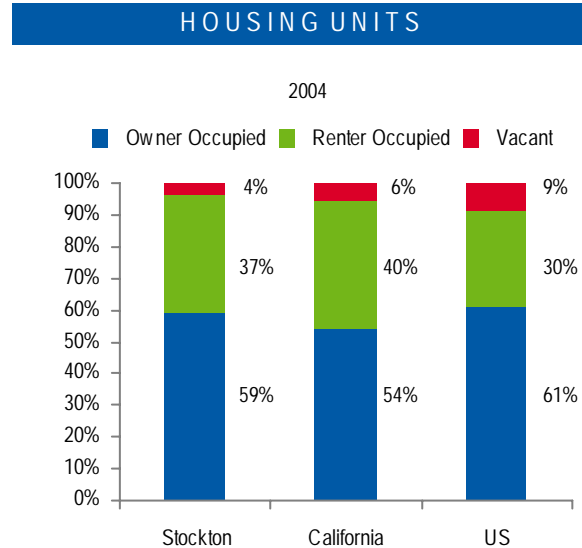
Issue 7: There is a lack of multifamily housing in SJC.

The cost of housing is high, regardless of “type.”

It is estimated that for every mile one is willing to travel east of the bay area, the cost of housing goes down between \$5,000 - \$7,000 dollars. The high cost of housing poses a major threat to businesses looking to relocate.

There is a lack of multifamily and single family attached housing due to past regulations. Local developers hesitate to venture into multifamily and attached housing. As a result, few multifamily or condo projects have been built in the past five years. According to the San Joaquin Inter-Regional Partnership, total household growth is projected to increase 57% throughout the county through 2025. Of the approximately 300,000 family units scheduled, only 39% are expected to be multifamily units.

Builders are reluctant to build due to growth control policies, lawsuits, and the permit approval process. Insurers have also been reluctant to cover affordable multifamily projects despite legislative reforms.



Source: U.S. Census Bureau

Issue 8: Public Schools are weak in parts of SJC and may reduce the attractiveness for relocating families.

In addition to 12 high schools, San Joaquin has over 40 elementary schools throughout the County. These are dominated by non-English-speaking immigrant students and lower-educated SJC residents.

This situation has led to the development of “alternative” learning environments. There are currently 12 private high schools with room for more. The largest private high school in the County is St. Mary’s High School in Stockton with an enrollment over 1,050. Following St. Mary’s, Ripon Christian School in Ripon has an enrollment of over 700 in grades K-12. Many of these schools exceed the state average of teacher-to-student ratios.

While private schools may offer a higher standard for students attending, (certainly) not all residents of SJC can afford to send their students to these schools. Without addressing this problem at a County-wide level, the negative ramifications on the County’s attractiveness to families will only grow.

Conclusions: While the draw of California – including statewide weather and recreational amenities, certainly true in the Northern California area – continues to help SJC, there are pervading issues which are hurting the strength of those assets: **lack of curb appeal, high crime, and under-performing schools.**

Quality of Life and all of its many components are very important to recruit people and businesses to an area. It is also the primary component of economic development that, if not kept a top priority, *will cause a community to lose its residents and resident businesses the fastest.*

Recent sociological profiling indicates that a major shift is occurring across the country. Today people are indicating that they care more about where they live relative to their environment (*where they play*) versus what they do (*work*). No matter the scale of this phenomenon, it is a trend that demands a community's attention.

It is no longer enough to provide a good job. A community must offer a good life – or at least the amenities, facilities, and programs which all of its citizens can enjoy.

QUALITY OF LIFE	
Strengths	Weaknesses
Location	Cost / Living increase
Weather	Minimum healthcare
Near Recreation (Beach / Ski / Wine)	Nightlife lacking
Fishing and Hunting Available	Weak / Poor (K-12 schools)
Downtown revitalization	Limited Cultural Activities
Diverse Areas / Restaurants	Low Curb Appeal
Golf	Limited in-town outdoor activity
Kids / Sports	Limited range of restaurants
Cultural Diversity	Childcare
Small town atmosphere	High crime
Wine Region	Lack of high-end food / grocery
Opportunity	Threats
Diverse / Affordable Housing	High crime
Quantity / Quality Green space & Parks	Gentrification
Bike Paths / Trails through County	Not embracing ethnic diversity
High-end shopping	Lack of spending on Arts
Increase downtown development	Re-locating population to the next most affordable market
Public Transit throughout County	Not integrating (NOW) commuters into communities
More nightlife & entertainment venues	Weakening schools - w/ no alternatives
Create Art scene: galleries, walks	Continued rise in cost/living
More individual & community involvement	Overbuilt CBD's (Lose hometown feel)

Issue 1: Economic development efforts have been successful in attracting new projects; but they are not in-line with desired future outcomes.

SJC's core economic assets include: major highway systems, two major rail lines, a port facility, and area airports. These assets lend themselves to warehousing, distribution, and transportation requirements, including logistics. These industry categories, however, do not provide the high-quality, or high-wage, jobs needed in the area.

The large land requirements and associated low wages of these industries are in conflict with SJC's rising cost structure.

The San Joaquin Partnership (SJP) while making tremendous strides for business recruitment over the last few years is struggling to gain the depth of support for business growth and expansion for the "right" relocation projects.

DEVELOPERS HAVE ADOPTED A "DEVELOPER" APPROACH, NOT "ECONOMIC" DEVELOPER. This has caused a lack of development and recruitment of future growth industries. And while recruited industries and businesses have, over the last few years, created jobs for the area, they are not jobs that best meet the needs of the community for future growth and economic expansion.

Issue 2: Redevelopment efforts throughout the County are increasing which provides an additional "tool" to SJP.

Smaller suburban towns have done well in creating a product that is attractive to residents and tourists. Tracy is currently investing in streets, sidewalks, and a new City Hall among other things. Pedestrian friendly designs will give residents and tourists easy access to the city's developing cultural and performing arts centers.

Lodi is investing over \$25 million to revitalize segments of its downtown. A Farmer's Market and festivals make use of Lodi's numerous parks and recreational facilities across the city.

Stockton has redeveloped areas in its downtown and in those areas around the college and university. Current major projects include the waterfront park and the ballpark. The new sports complex and surrounding development will be a sizeable leap forward for the city. As the catalyst for Stockton's Downtown Waterfront Event Center, the ballpark seats approximately 5,200 people and includes a mini-monster left-field wall and "Splash Landings" over the right-field wall.

All of these amenities are economic TOOLS for SJP's recruitment efforts.

Issue 3: The SJP is a strong catalyst for County-level economic development efforts (Regionalism).

The Partnership has been able to build Consensus. The Partnership has been able to bring together stakeholders throughout the County, and it has begun to bring a County-wide focus to projects which will provide for the area's future prosperity.

Regionalism is here to stay. With all of the competing interests in business development and recruitment – and particularly in California where decisions are made not based on entirely cost, but heavily on “synergy” – regionalism will play an increasingly strong role for SJC. A regional approach (in this case, a County approach) will help the overall effort, and help expand the outcomes.

Issue 4: The efforts to date have been too broad—not as focused as desired on relevant Target Industry development.

Quite simply, “things have changed.” The business development that has occurred up to this point in SJC has been a utilization of available lands, without much regard for the jobs that development is creating, or without much regard for the wages attached to those jobs. And as long as there was an “affordability” factor at play, major land sales to large distribution facilities (ex:), was a strategy that was working. This can no longer be the SJP strategy.

The industries previously targeted by SJP are now not realistic, given the global environment in which we live, the changing demographics and demands, and the related economy. The need exists for a re-drawn effort regarding Target Industries, as well as a strategy for overall development of the SJC economy relative to regional, national, and global markets.

The desired outcome by SJP is development of quality jobs with high wages. The revised strategy will yield those results.

Issue 5: The County lacks a unified position; this makes “selling” more difficult.

“San Joaquin” is relatively unknown outside California – even in California, most people think of San Joaquin *Valley*, not the County. And given the nature of competition, and the desired approach to doing business, “unification” will become increasingly necessary for the overall preservation of the County, its citizens, and businesses.

From a “selling” perspective, businesses have no notion of San Joaquin County and its combined assets. Businesses may be familiar with one of its cities, but that's typically where it ends. Companies look primarily at “regions” for their growth and relocation needs – specifically at its available transportation and workforce, most importantly.

Conclusions: It is time for the Partnership to reach beyond business recruitment and begin to work in overall economic development for the communities in San Joaquin County. The organization, its membership, and potential members need to better understand each of the components that drive businesses to, or from, an area.

It is also important that SJP and each of the communities of the County place focus on the COUNTY. It is a region that draws a business, not one community or city. Jointly, the cities and communities of San Joaquin County have the opportunity to come together, forge a stronger alliance, work for the creation of an environment that will attract and retain future-focused, high-impact businesses, as well as draw the young professionals needed to keep those companies going and growing.

An effort along these lines, coupled with a strategy and a focus on the “right” types of industry and businesses for the area, will bring near-term and long-term gains throughout the County.

Economic Development & Marketing	
Strengths	Weaknesses
San Joaquin Partnership	Cities v. County
Focused Leadership	Growth / Retention / Expansion Programs
Strong Materials / Communication	Ag v. Non-Ag Stranglehold
Nat'l Recognition	Not as focused as should be
Great Recruitment Program	Private Money has "strings"
Private Sector Support	
SJP Strong Catalyst for Community / Mediation	
Great Case Study to tout	
Opportunities	Threats
Regionalism	Declining Effort
Focus on Target Industries	Silo Efforts
Re-packaging Port	Lack of Redevelopment in area
Increase Airport Utilization	Continued Fight: Ag v. Non-Ag
Capital Formation	Political Atmospheres
Creation of Full fledged retention / Expansion Program	State Budget - No incentives
Re-Dev projects to package / promote	No funding
Embrace Ag / Help strengthen & Point to future	No private funding initiatives for key projects
	Unprepared for downturn

APPENDIX

Introduction

AngelouEconomics (AE) has conducted analysis of San Joaquin County's economic base to determine which industry sectors currently drive growth in the area. Additionally, we have examined and researched regional, **national, and global market and business trends for the purposes of making strategic recommendations for FUTURE Target Industries** that the firm believes will work to produce economic prosperity and sustainable growth. The objective of this analysis is to determine those industries San Joaquin County should expand and recruit based on its competitive advantages.

Traditionally, the economic growth of economies has been described in terms of the growth of a region's basic or primary industries. These industries typically export their goods or services outside the region, supporting ancillary industries such as retail, housing construction, and personal services. Increased competition and rapid gains in technology and productivity have altered the location requirements of many businesses. Any industry with growth potential is necessarily driven by cutting-edge technology trends; and *while an industry's ability to innovate will determine its future in the United States, a community's ability to nurture that innovation will determine that community's success.*

Target Selection

Selection of target industries involves a combination of both quantitative and qualitative factors. The process begins by answering the following four questions: **Does the industry match community goals?, Are there local assets that give industries a competitive edge?, Is the industry growing locally or does it provide transitional opportunities?, and Does the region meet the minimum requirements for the industry?**

Once criteria requirements are met for a target, the County was examined to see what might be their contribution to the industry. Contributions depend on factors such as workforce skills, infrastructure, and environmental assets. It should also be understood that as the target industries mature, industry roles might shift – which is to some degree what has happened with some of San Joaquin County's targets. Economic development is a fluid process.

In this document, AE will give an overall analysis of San Joaquin County's current Target Industries. The Strategic Plan (to be presented at a later date) will recommend additional, and/or new Target Industries for SJP's development and recruitment efforts, based on all of the inputs from this process.

Cluster Analysis

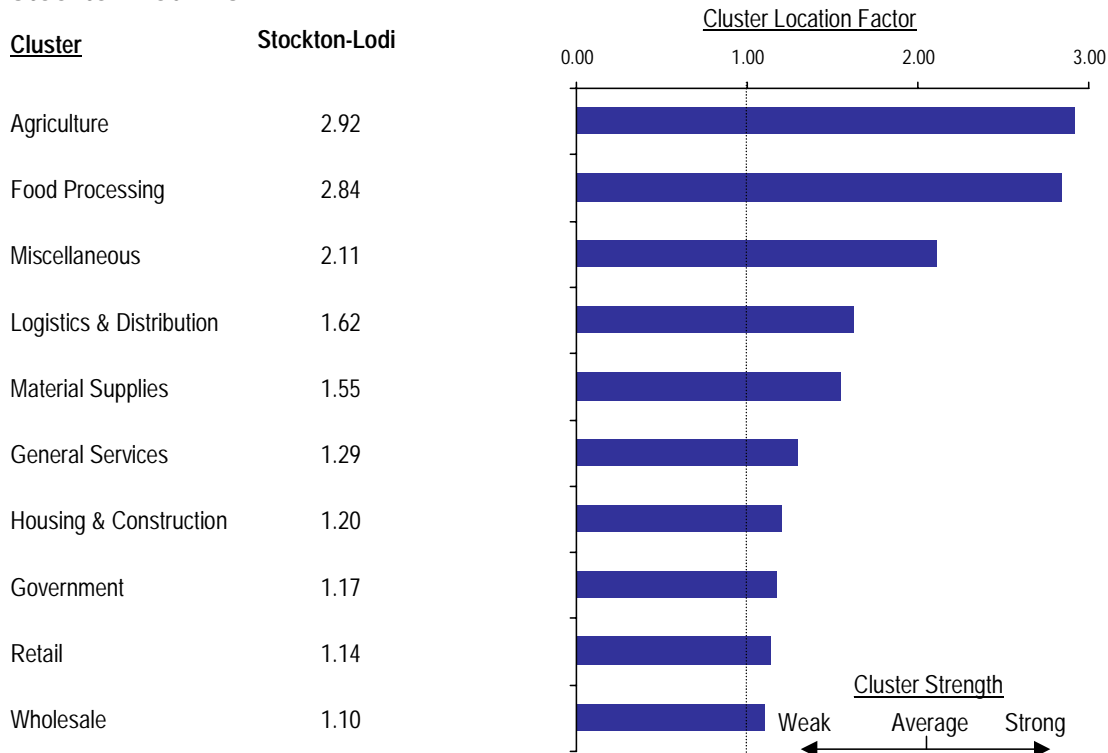
Clusters are highly integrated groups of businesses with strong vertical and horizontal linkages. They categorize businesses by their final product and how these products are related to each other and integrated along the vertical supply chain.

To assess the strength of a cluster in the regional economy, location factors are calculated by comparing the cluster's share of total local employment to the cluster's national share. This location quotient will generally yield a value between 0 and 2, where 1.00 demonstrates an equal share percentage between the local and national economies. Cluster location factors greater than 2.00 indicate a strong cluster agglomeration, while those less than 0.50 indicate extremely weak clusters.

California and the San Joaquin County area have a relatively large labor force. For that reason, it is easy for a few clusters to dominate the cluster model's results.

The chart below and supporting data indicate that Agriculture, Food Processing, and Distribution/Logistics are the leading clusters within the San Joaquin County area, including the "economic region."

Cluster Distribution, 2003 Stockton-Lodi MSA



Source: Dun and Bradstreet; AngelouEconomics

San Joaquin's Current Targets

The Partnership has been working to secure businesses in some previously “defined” sectors, but a great deal of shifting industries into somewhat “ill-defined” target industries is also taking place.

At present, SJP is targeting:

- Electronics/Communication Technology (software, hardware manufacturing & assembly)
- Backroom Office/IT (including: Call Centers & Fulfillment Centers)
- Food Processing
- Metals & Metal Fabrication
- Construction Materials
- Transportation/Logistics

Several of these sectors have undergone enormous change in the last two years – several of these industries are, in fact, in declining industry segments – due to changing technologies, global implications, or consolidations, among other factors.

Before moving into a review and analysis of current Target Industries, AE would present a “snapshot” of Growth & Declining Industries. This graphic represents only the first 12 industries per category – the appendix reveals the balance of industry information. It is important to the overall discussion of how to move forward a marketing strategy for Target Industry efforts.

Electronics, Computer Equipment, & Semiconductors

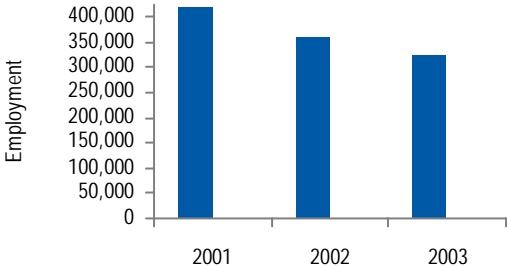
The electronics and computer equipment clusters are closely related. Often units produced in the electronics sector become inputs into computer equipment. The electronics industry produces goods such as printed circuit boards, resistors and capacitors, and measurement and control instruments. Many of these products find their way into computers, terminals, and storage devices in the computer equipment industry.

The personal computer industry has leveled off recently after booming throughout the 1990s. The communications equipment industry has suffered a huge recession. Semiconductors are deep in the biggest recession in their history.

Technological innovation has been at the forefront in the computer equipment cluster. The personal computer has started evolving from the immobile boxes that have characterized the industry for the past twenty years. Factory automation is still running at full strength. Innovation in the electronics industry focuses now on smaller, more portable equipment, with much of it in the form of custom, single-application uses. Specialty, custom electronics (versus mass-produced electronics) may prove to be the longest-lasting form for the U.S. industry. Specialty electronics requires a high degree of design and oversight in the manufacturing process and usually close proximity to the customer base.

EMPLOYMENT

CALIFORNIA ELECTRONICS, COMPUTER, & SEMICONDUCTOR



Source: BLS

The electronics industry in the U.S. differs from other manufacturing sectors in that it now relies much less on production workers than the rest of the manufacturing sector. This is mainly due to its high concentration in research and development in comparison to the typical manufacturing plant. In turn, these industries require a higher level of skilled workers to lead this advanced work. This type of value-added employment (such as R&D, design, and engineering) is very important for the electronics sector in the United States., as these operations are more likely to remain and grow here. Low-value added manufacturing plants will continue to seek lower costs and cheaper labor overseas.

OVERALL ASSESSMENT: These industries are all but “gone” in the US market – certainly for any new development. From a recruitment standpoint, with limited resources (time and money), AE believes the efforts should be placed in other areas. That is not to say that if an industry in these categories “comes knocking” they’re to be ignored; to the contrary – every effort should be made to accommodate them. However, in terms of go-forward, these industries do not make sense for San Joaquin County.

Software & IT Services

Software and IT Services are comprised of computer programming services, prepackaged software, information retrieval services, and technical business services outsourced to IT firms. This industry is expected to be the fastest growing sector of the economy over the next decade, as software touches every aspect of life. Packaged software sales (including traditional application tools, operating systems, and data management) are projected to increase by 7% annually well through 2006. Internet and networking application software should grow by as much as 12% annually.

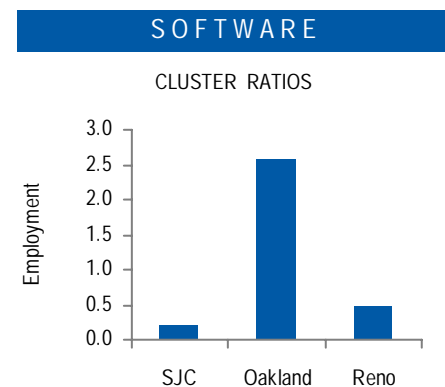
The software and IT industries in California – specifically in the Bay Area and what AE is now referring to as the I-580 Corridor -- are highly developed. This is surprising for areas known for their high tech. And while this would present a seemingly terrific opportunity for San Joaquin County, there are changes occurring in the industry, as well as the geographic region that indicate otherwise.

Software firms now have worldwide revenues in excess of \$200 billion. Approximately half of these sales come from software applications, with development tools and infrastructure software splitting the remaining market. Major areas of growth are in data security and business intelligence. Due to the low start-up costs associated with a software firm, many small software companies exist. However, the industry is quickly maturing and many analysts forecast consolidation of these firms. Large software companies such as Microsoft, IBM, and Oracle have already bought many smaller companies.

Other major trends in the software industry include outsourcing programming duties to low cost regions and the “open source” movement. China, India, and Russia have low-cost computer scientists, ensuring further investment in these regions. The “open source” movement has gained momentum behind the Linux operating system. Open source refers to the practice of allowing free access to the building blocks of a computer program, which in turn multiplies the number of programmers who can work on building solutions around that program.

As discussed earlier, data centers are businesses that provide digital information storage for their customers usually in the form of websites. Data centers are composed of clusters of computers and network switching gear that allows efficient transfer of data over the Internet. These computers store the software programs and databases needed to run an Internet website. Often these Data Centers are referred to as “Telecom Hotels .”

OVERALL ASSESSMENT: Software and IT are certainly still viable industries in the United States. However, the competition for them is fierce. Again, these are industries that if they show an interest in the area should be pursued – BUT focusing efforts and dedicated resources in these areas are not recommended. Alternatively, with revised and updated Target Industries, there may be opportunities in these categories per those determined industries.



Food Processing

The food-processing industry includes establishments that manufacture or process foods and beverages for human consumption as well as related products such as chewing gum, manufactured ice, and vegetable and animal fats and oils. The food-processing industry is the link between the agricultural and retail sectors. Raw fruits, vegetables, grains, meats, and dairy products are processed in plants and then sold to retailers or wholesalers, who then pass these finished products along to the consumer.

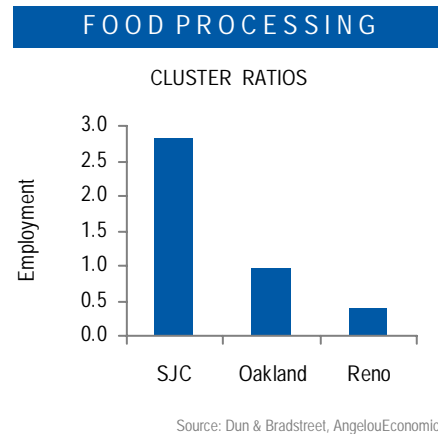
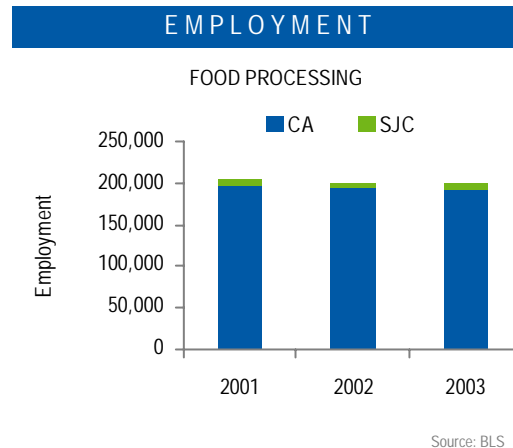
The production and distribution of food and beverages account for over one-sixth of the nation's industrial output. The largest concentration of food-processing employment in the United States is in meat production, employing 30% of the total workforce. Bakery goods and preserved fruits production employ an additional 25%.

Food processing is already a target industry for the San Joaquin County and continues to be a good fit. San Joaquin's location relative to The Valley makes it an ideal location for food processing companies.

The industry benefits from much of the same assets that the distribution industry uses and is actually a large user of transportation services. West Sacramento offers access to large markets like San Francisco without incurring the high prices.

Countywide food-processing employment has remained stable since 2001. This is due to a number of factors including a propensity for companies to be smaller. Large-scale automation has allowed producers to increase output while decreasing employment. Likewise, many of the newer companies serve specialty markets. This trend will continue, and the industry will be marked with either large mass producers or small specialty shops.

San Joaquin County has a concentration of food processing – despite the overall downturn in the regional industry – in Stockton. This includes:



OVERALL ASSESSMENT: There is quite a history in this area with food and food processing. That the County is still an agricultural “hotbed” (relatively speaking) it is important not to deny opportunities in this category. That said, a re-focused effort should occur. The focus going forward should be in “growth” areas of the food market: organics, specialty, value, fortified, and health foods.

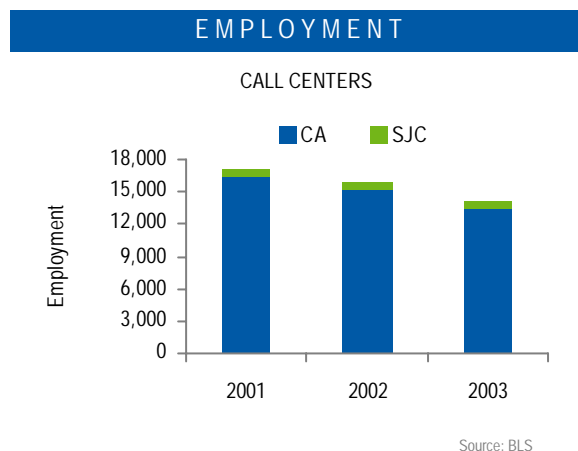
Call Centers

Call centers engage in a variety of activities with customers typically using a phone and a computer as a way to service customers. Companies depend on a combination of high-speed fiber optic networks and skilled employees to effectively communicate with customers – with employees of these centers greatly influencing the effectiveness of the center.

U.S. call centers expanded under the radar in the 1980s – emerging in the 1990s; and by 2001 employed close to 4 million Americans. The new century has brought about a leveling of American works in the field as foreign outsourcing of call center jobs to India and other parts of the world has occurred. The number of call center companies operating in the United States between April 1999 and April 2003 declined by 14%.

The call center industry is facing major challenges. Employee supply is significantly below demand – the education and skills requirement exceeds the pay scale currently offered in this industry. The overall average for an entry-level phone agent is approximately \$25,500 per year.

This, like other current Target Industries of San Joaquin County, is a declining industry with a low-wage base. This does not meet the criteria for “desired” job growth, nor is it reasonable to pursue given the cost-of-living in the area.



OVERALL ASSESSMENT: This industry is not really an “industry” any longer. And the international competition for these sites and centers is too great to compete at this point. A lot of this business (of course) has been caught up in the off-shore wave. While it is probable that some percentage of this business will return stateside, the timeframe is not near-term. From a recruitment standpoint, considering limited resources (time and money), AE believes efforts should be placed in other areas. This industry should not be pursued on a large scale, if at all, in San Joaquin County. There may be some opportunities that develop due to new Target Industry strategies – those can be further discussed, and perhaps developed.

Metals/Metal Fabrication

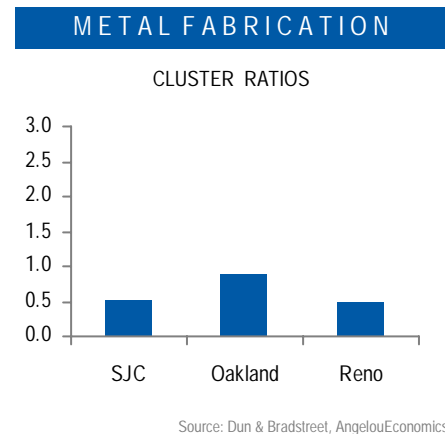
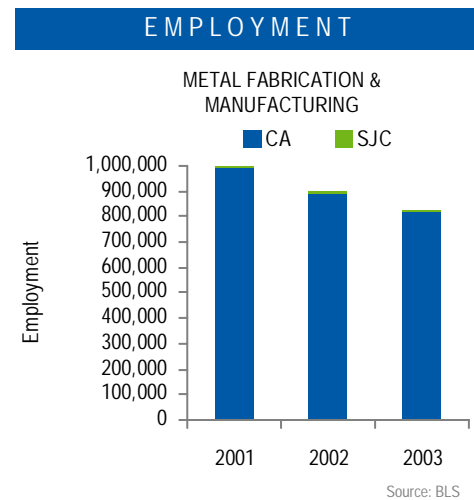
Two recent newspaper headlines pretty much say it all, “Western Michigan die casting factory to close” and “DaimlerChrysler moves Dodge Ram work to Mexico.” These two stories from February focus specifically on the metal fabrication sector, but they’re also indicative of the major obstacles facing the entire U.S. manufacturing industry – an industry that has shed more than 2.8 million jobs in nearly four years.

Nearly 300,000 of those unemployed workers have come directly from metal fabricators as companies continue to either move their manufacturing operations overseas or shut them down entirely. Again, foreign competition strikes.

At least 26 die casting plants have closed during the past two years. However, in those plants which have continued to increase in the areas of advanced automation, production climbs. For a segment of the manufacturing economy that is almost completely dependent on technology advancement for its growth, that is not good news for metal fabricators.

The bright spot in metals and metal fabrication is in the automotive industry – and there are cross-over applications to aerospace and aviation. Automobile-related companies represent the largest group of customers for fabricated metals, including aluminum, magnesium, and zinc. About two-thirds of all die castings produced in the United States in 2002 were used in this market.

However, AE believes that from a strategic standpoint of working resources to growth sectors and future development, technologies, and jobs, Metals and Metal Fabrication should not be a Target Industry for San Joaquin County. While it does perhaps employ the base of workers present today, it does not move the area forward in either education or future sustainability.



OVERALL ASSESSMENT: This is a highly competitive industry segment – with the bulk of the competition coming from the Northwest Coast. This again is an industry that has served SJC well, but is one that is “flat” across the country, and will likely not see an upswing any time soon. That said, there are some areas of specialization, driven by technology, which will be reviewed as they relate to revised Target Markets. The specializations will also drive new jobs with higher skills and wages.

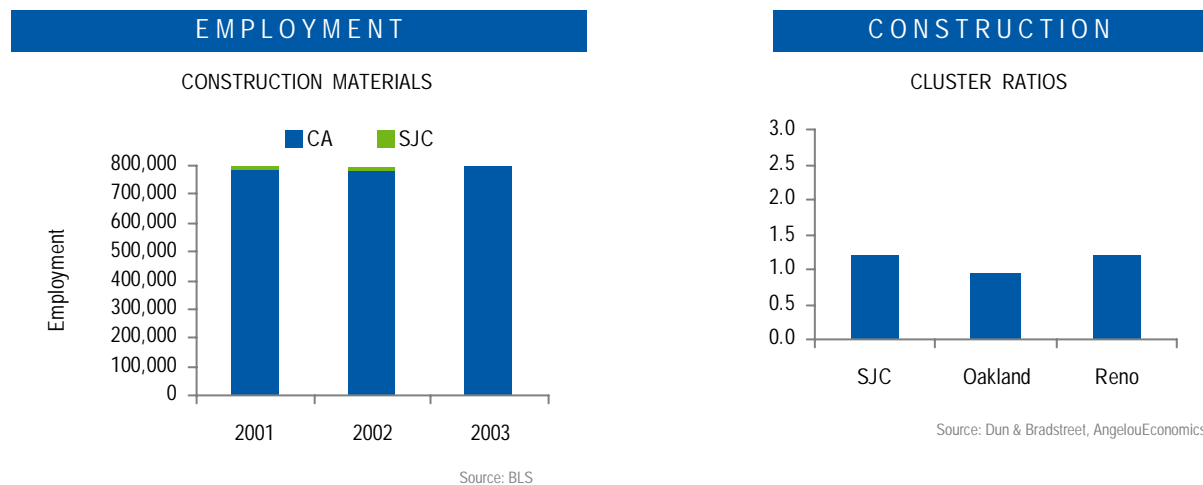
Construction/Materials

This is an industry sector that has already firmly established itself in San Joaquin County. AE believes that this industry will continue to grow in San Joaquin County due to the very nature of it being a reactive industry, primarily – reactive to growth. And despite the cost-of-living in the area, growth continues.

There are development opportunities in this sector. On a products and technology front, construction materials continue to develop and grow with various coatings applications, metals and steel components, as well as other replacement materials. This is largely due to the increased use of raw and natural goods (i.e., lumber and steel) by Asia/China – they have placed enormous demands and strains on these markets during the last five years, and that demand will only grow.

And while this perhaps does lend itself to opportunities for this market – particularly given San Joaquin's close proximity and trade with Asia – it is an industry that is under enormous pressure, with technologies and demands negatively impacting small and mid-sized companies.

AE believes that Target Industry efforts will be better spent in other, updated and new areas of focus.



OVERALL ASSESSMENT: This continues to be a strong industry for SJC – particularly in Stockton. The focus here should not diminish – however, only a limited amount of resources should be dedicated. One area to explore is newer, technology-driven materials that are currently on the market; many of these are in use, others are in development. These materials include everything from laser-coated roof coverings to composite lumber and other construction materials. These are the future of the industry and should be pursued by SJC. The primary pursuit of these “new” materials may be through efforts with existing businesses for their expansion and development.

Transportation/Logistics

Transportation companies are hauling freight on trucks, trains, ships, and planes and using state-of-the-art telecommunications to track cargo and ensure the fast and secure delivery of shipments – this includes satellites to radio tags (RFID).

At the forefront of the transportation industry's growth is technology that allows time-specific delivery and electronic tracking of cargo. The increased adoption of just-in-time (JIT) inventory management by manufacturers has spurred the growth of scheduled freight contracts in the U.S. trucking industry. Intermodal freight planning applications allow companies to select optimal freight routes and intermodal transport services via the Internet.

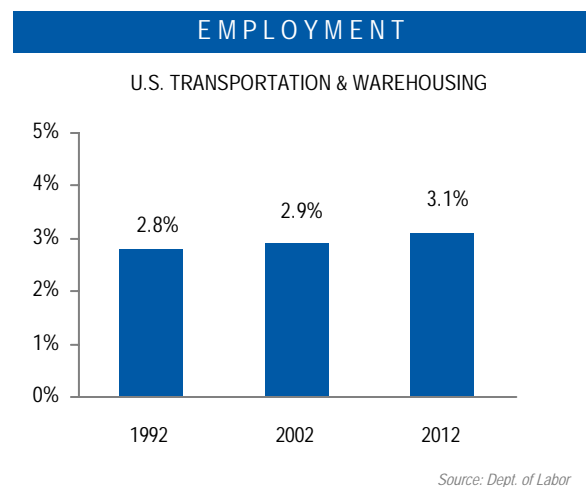
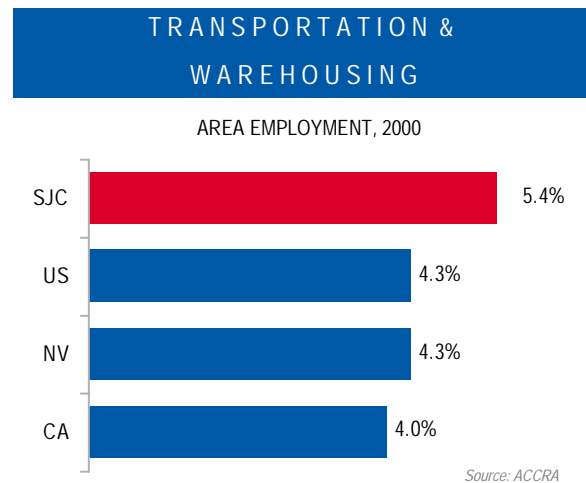
Freight-tracking technology also has security applications. There is an increasing need for verification of the contents of cargo containers and the development of methods and technologies to prevent tampering. Electronic container seals that use radio tags are among the devices under development.

Trade agreements and the globalization of business have led to the growth for logistics services companies, as more manufacturers seek to outsource management of their increasingly international supply chains. The use of in-cab mobile computers and transponders, linked to the home office via satellite, to monitor goods and vehicles is also increasing shipping efficiency.

Leading logistics suppliers include: C. H. Robinson Worldwide, Expeditors International, Exel, Kuehne & Nagel, and Stinnes.

Certainly one of the drivers of both the transportation and logistics service business sectors is the demand for import/export with Asia – specifically, China. China already accounts for a vast amount of the world's production including: 75% of toys, 20% of steel, and 18% of apparel and textiles. China is also the largest concrete manufacturer. Several leading U.S. third-part logistics providers (3pl) have a presence in China, many with expansion plans.

There are a growing number of issues related to these industries: ERP/Inventory Control, Multi-Enterprise Computing, Freight Forwarding, Reducing Global Trade Risks, Inventory Optimization, Expanding RFID, and Supply Chain Agility, among many others.



Universities such as the Air Force Institute of Technology, Georgia Southern University, and Ohio State University are offering courses, certificates, and degrees in Transportation/Logistics/Supply Chain Management. And while the American Society of Transportation and Logistics (ASTL) has been serving this trade category since 1946, “this ain’t your grandfather’s” industry anymore!

OVERALL ASSESSMENT: This is a category for future growth in SJC. However, there will need to be attention given to (again) technology advances, the training and education associated, and software applications which can just as quickly grow a business, as it can put one out of business. This is a very fast-paced, technology-driven industry. SJC should be careful in its recruitment in this area. There should be great consideration given to airport and port needs relevant to this industry – and work to develop the businesses for those specific purposes, rather than bring a business in this category to market for the sake of having one. There will be some specific recommendations made regarding this industry.