

Mendocino County 2019-2020 First Quarter Economic Status Report



Economic
Development &
Financing
Corporation

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Overview

Every quarter, Economic Development and Financing Corporation (EDFC) releases a Current Economic Status Report, which explores the state of Mendocino County's economic status. The Current Economic Status Reports are quarterly snapshots of Mendocino County's Economy.

This report covers July-September, 2019, unless otherwise noted. As this report reflects the time-frame prior to the most recent round of fires and Public Safety Power Shut Offs (PSPS) events in October, 2019, it will serve as an important baseline when looking at the economic impacts of these events, which will be covered in the following quarterly and annual reports.

EDFC uses the same four indicators to assess and track the county's current economic: real estate trends, taxable transactions, industry employment, and state issued cannabis licenses. In reviewing these indicators, EDFC's analysis is that the economy remains stable, with some indicators of minor growth.

Real Estate Trends

- Real Estate trends remain steady with no major changes between 2018 and 2019.

Taxable Transactions

- There was a 7% increase in overall taxable transactions in the county. This may be related to increased spending, or it may be the result of reduced sales tax leakage related to the Costco warehouse that opened in Ukiah in July 2018.

Industry Employment

- Overall, there was an increase in total industry employment between 2018 and 2019. Consistent with the annual economic assessment, most of this increase is service sector based, including retail, private education, and health services. However, there was a significant increase in the Mining/Logging industry sector which may be related to an increase in the demand for building materials.

Cannabis Licensing

- There is an increase in the number of active cannabis cultivation, processing, and manufacturing licenses issued by the State of California in Mendocino County between 2018 and 2019. While there is a question as to whether these businesses are making a profit yet, there appears to still be investment of time and finances into the industry as it continues to take shape.



In the News: Events that Impacted Our Local Economy

In the last quarter there were some very positive news items regarding housing, which is one of the most challenging issues impacting Mendocino County's economy. In addition to the market-rate housing development on Main St. in Ukiah, Guillon Inc. Construction from Chico purchased property and is restarting the process of developing as many as 180 homes south of Ukiah. The Ukiah Daily Journal reported that Guillon Inc. is also working on a project on West Gobbi St.¹, Ukiah. Both are expected to be single-family market-rate housing.

Another major issue the county faces is available skilled labor. In early August, the Mendocino College announced a program to provide free tuition to eligible first-time college students.² This is an important action in addressing this issue as the college offers certificate programs in Sustainable Construction and Energy Technology, Information Technology and Web Development, Nursing, Automotive work, and many other valuable skill sets.

Several recent news items indicated possible obstacles for the local economy in the near future. The Ukiah Daily Journal published an article about potential increases in power rates. The article notes that PG&E may increase power rates "to help reduce the risk of future wildfires," but it is not clear when or how much.³ EDFC will continue to track this as it could significantly impact small business.

Additionally, concerns for the Dungeness Crab fishery began to surface in late July when the Times Standard out of Eureka reported that the "marine heatwave" or "the blob" of warm water which has subsided in the last year may return this fall. In previous years, higher ocean temperatures have led to domoic acid producing algae blooms which shut down crab fisheries for the majority of the season.⁴

An issue identified earlier in the year, "a glut of grapes on the market" is playing out as fall harvests come in. According to an article in the Press Democrat, wine grape growers across the North Bay are seeing grapes left on the vine. There are a number of vineyards whose multi-year contracts were not renewed, leaving the grapes literally hanging. According to the article, "bumper crops in previous years are a big reason...In 2018, growers sold an all-time high 588,864 tons of grapes crushed across Sonoma, Napa, Mendocino, and Lake Counties, yielding more than \$2 billion."⁵

¹ Frederiksen, Justine. "Chico developer reviving stalled Ukiah housing project." Ukiah Daily Journal, PUBLISHED: August 13, 2019 at 4:07 pm | UPDATED: August 15, 2019 at 3:41 pm

² Ukiah Daily Journal "Mendocino College announces one year of free tuition to eligible students." PUBLISHED: August 2, 2019 at 6:17 pm | UPDATED: August 5, 2019 at 10:55 am

³ Lin, Judy. "How much could PG&E's rates rise?" Ukiah Daily Journal, PUBLISHED: August 26, 2019 at 4:15 am | UPDATED: August 26, 2019 at 11:28 am

⁴ Waraich, Sonia. "California coasts recovering, but more marine heatwaves like 'The Blob' expected." Eureka Times Standard, PUBLISHED: July 24, 2019 at 8:05 pm | UPDATED: July 25, 2019 at 9:10 am

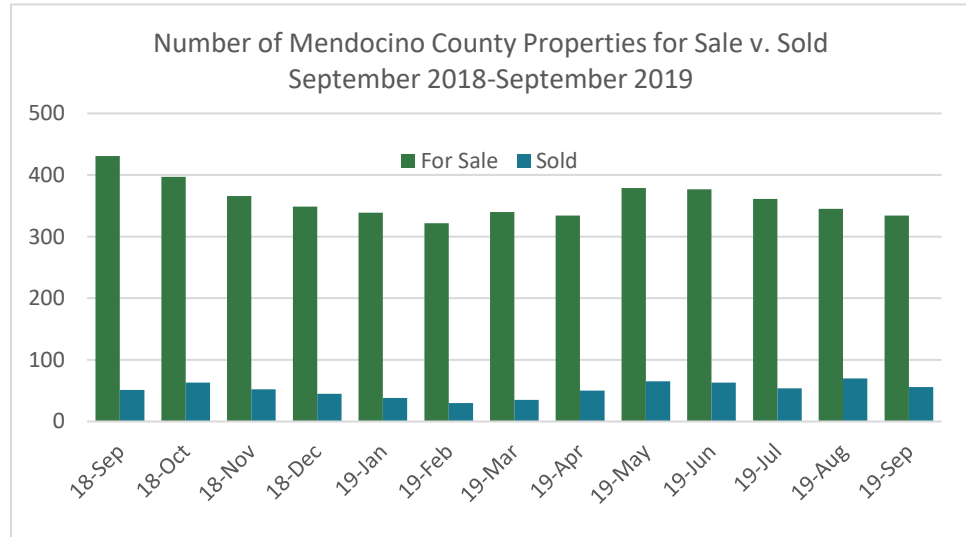
⁵ Swindell, Bill. "North Coast grape growers fear tons of fruit will be left on the vine unsold." THE Press Democrat September 20, 2019.



Mendocino County's Economic Status

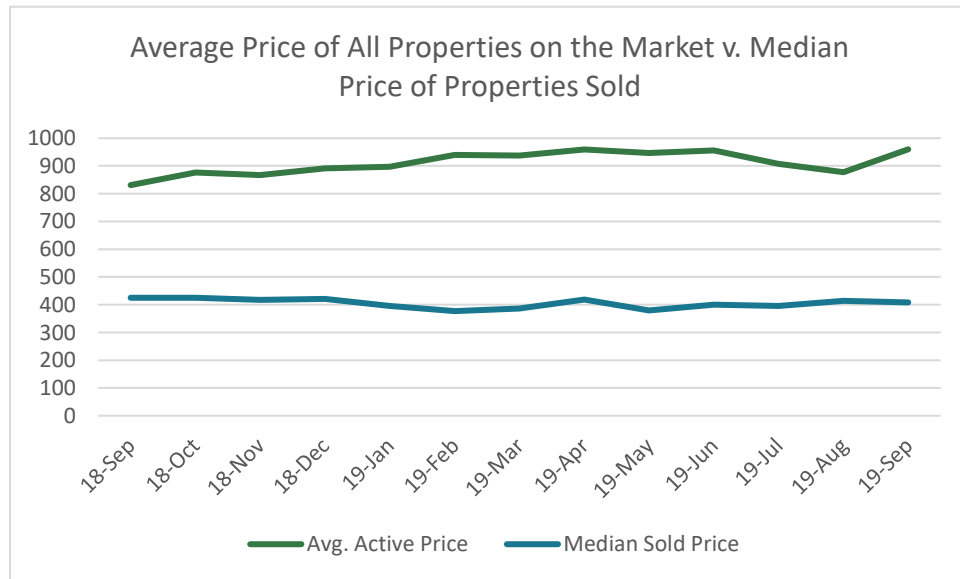
Housing & Real Estate Trends

Sales in the market continue to be fairly steady in the number of properties sold and in the median price of properties sold. The list price of properties on the market dropped in July and August, but increased again in September. Based on available data and real estate sources, this may relate to a drop in prices of overpriced properties that were previously not selling.



Source: TrendVision Report, AB Priceman, Garden Ranch Real Estate

The high demand for single family residential properties has kept the selling price steady, but there are concerns that the price of single family residential homes is close to the maximum affordability for the area based on the Median Household Income (see the 2018-2019 Annual Economic Assessment). New plans for housing developments will help alleviate some of the pressure on the market but it will likely be several years before they are completed. In the meantime, real estate trends in the county remain steady.

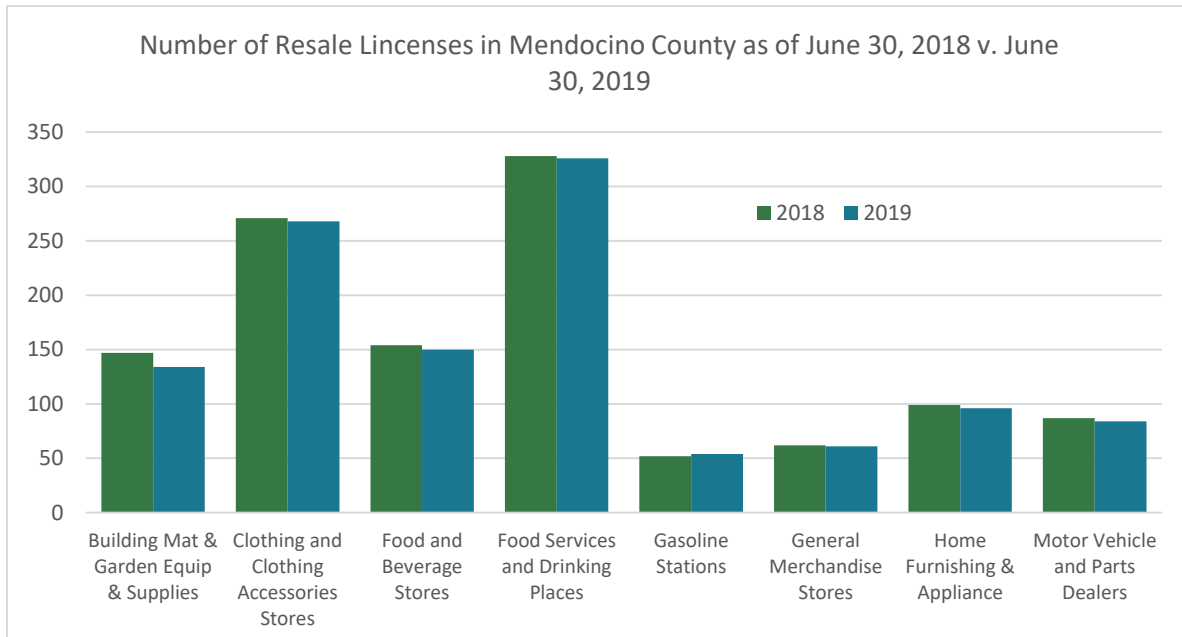


Source: TrendVision Report, AB Priceman, Garden Ranch Real Estate



Sellers’ Permits and Taxable Transactions in Mendocino County

A business is required to have a Resale License, also known as a seller’s permit if it will sell anything taxable by the state. When a new retail business opens, it should get a permit, and in the event that a business closes, it should cancel this license. While this isn’t always seamless, the number of sellers permits can be used to get a better understanding of the transitions in the business community. It can also help understand what is happening in a specific industry.



Source: California Department of Tax and Fee Administration

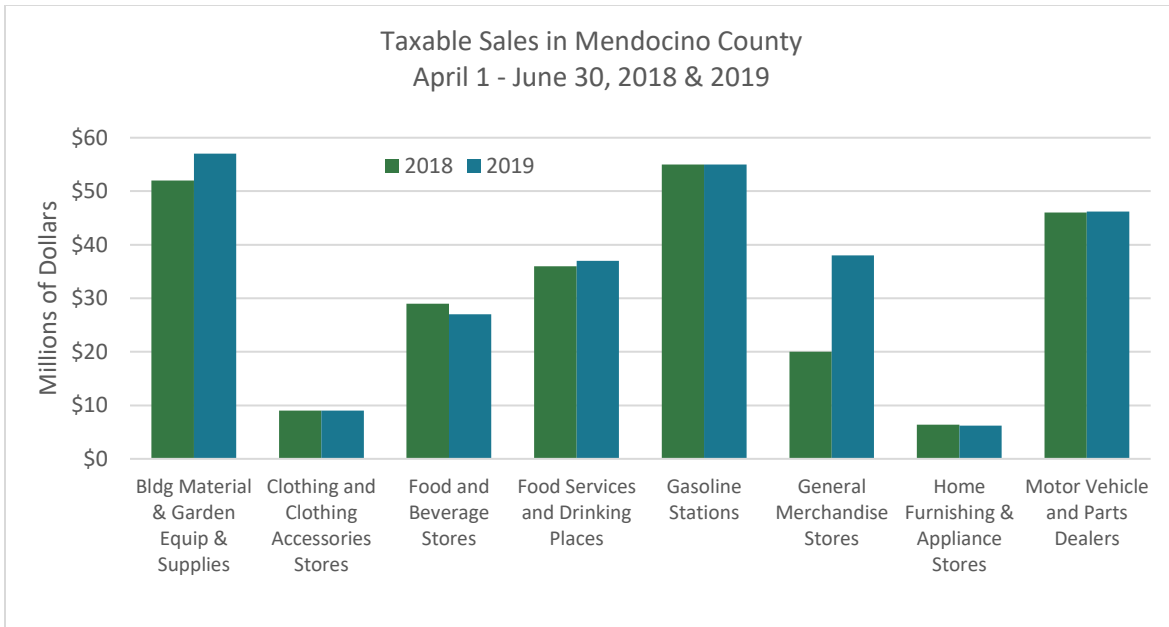
The most recent data available is from June 30, 2019. During this timeframe, there were 4,932 resale licenses or sellers’ permits in Mendocino. This was a 1% increase from March 31, 2019 and a 4% increase from June 30, 2018. While there was growth in the overall number of licenses, there was significant shrinkage in the number of resale licenses in the “Building Material & Garden Equipment & Supplies Dealers” category. Between June 30, 2018 and 2019, the number of resale licenses in this category dropped by 9% from 147 to 134 businesses. This is inconsistent with the actual taxable sales in this sector which has actually increased by 10% during the same timeframe. Because this category includes both building and garden supplies, it is hard to separate out what is related to building and what may be related to cannabis.

Total taxable sales showed comparative growth between April 1 -June 30, 2018 as compared to April 1 – June 30, 2019. Total sales grew by 7% from \$382.8 Million to \$408.1 Million. It appears that the opening of Costco is responsible for a significant portion of this increase. Costco opened in late July of 2018. This is shown by the fact that “General Merchandise Stores,” in which Costco’s seller’s permit is categorized, went up by 88% from \$20 Million to \$37.7 Million between 2018 and 2019.

One of the major concerns expressed by local businesspeople and community stakeholders was that Costco would negatively impact local businesses. This may have some validity as the total taxable sales for “Food and Beverage Stores” dropped from \$29.9 Million to \$27.2 Million, or -9% over the same time period. Home furnishings and Appliance Store sales also had a negative trend.



Mendocino County 2019-2020 Q1 Current Economic Status



Source: California Department of Tax and Fee Administration

The overall increase in taxable sales by \$25.3 Million may be an indicator of an improved economy, though it is more likely that a significant portion of the increase is actually a reduction in dollars leaving the county because many people who previously travelled to Santa Rosa to shop at Costco are now shopping in Ukiah. Either way, this is a positive increase in overall taxable sales in the county.

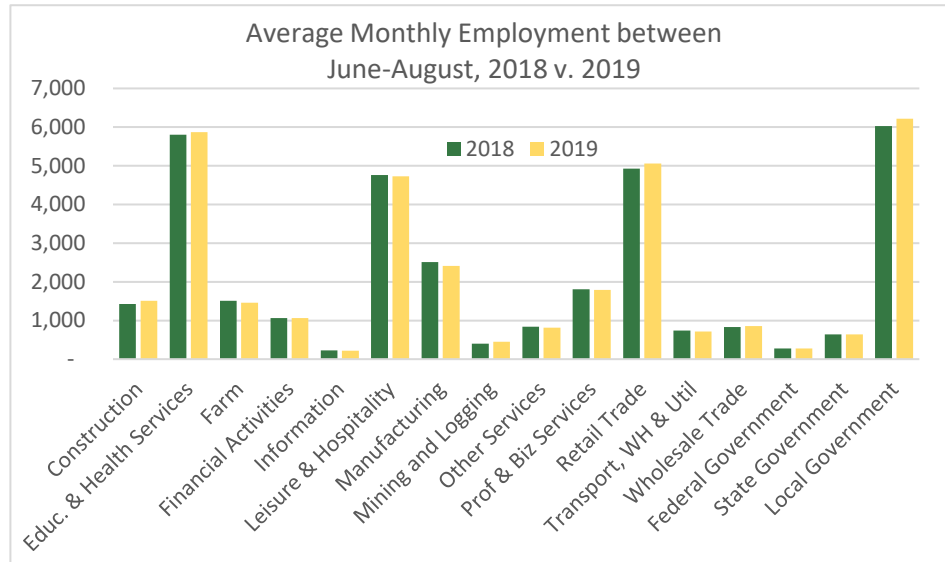


Industry Employment

Employment in Mendocino County is very seasonal. The tourism industries and natural resource industries all have higher employment between June and August. This analysis compares the average monthly employment by sector in 2018 and 2019 for June-August, the highest employment months.

The average monthly total industry employment for June-August grew by 1% between 2018 and 2019 with a net increase of 267 jobs in the county. The industry sectors with the highest growth were:

- Retail Trade: 3% growth (+133 employees)
- Construction: 6% (+80 employees)
- Education and Health Services: 1% (+67 employees).
- Mining and Logging: 13% (+50 employees)
- Local government: 3% (+190 employees)



Source: California Employment Development Department

The sectors that showed declining employment during the same time, were:

- Manufacturing: -4% (-103 employees)
- Leisure and Hospitality: -1% (-40 jobs employees)
- Farm Employment: -4% (-53 employees)

Despite the historical shift away from logging, the industry has stabilized, and since last year has grown significantly. In the most recent Mendocino County Agricultural Commissioner’s Crop Report it says “Timber represents the second highest value [agricultural] commodity, with a gross at mill value of \$132,516,260, a 30% increase over the previous year’s [2017] total of \$102,000,000....Continued high demand and increased prices for timber [in 2018] led to a 30% increase in gross value over the previous year.”⁶ The employment data also indicates a continued growth in the timber industry.

The retail industry showed growth in employment, however, this likely relates in part to Costco opening in July of 2018. However, taxable sales increased in other areas in the county, so it may be an indication of positive growth.

A decline in manufacturing employment was expected after the news last year that both ReTech and Microphor closed their Mendocino County operations. This is a very concerning trend.

⁶ Donnelly, Jim. “Mendocino County 2018 Crop Report.” Mendocino County Department of Agriculture.



State Licensing of Cannabis Cultivation, Processing, Distribution, and Retail

While state and local jurisdictions continue to grapple with the challenge of regulating a long-underground industry, questions about profitability still linger and federal level road blocks continue to create complications for banking.

However, there are some trends in the industry that are now apparent through an analysis of California State Licensing Data. At the end of September in 2018, EDFC pulled the number of active or “soon to expire” permits issued by the State of California’s Cannabis Cultivation Division. The same data was pulled in September 2019 and we are able to compare the state issued licenses in the County of Mendocino.

License Type	2018	2019
Medium Indoor/Outdoor	1	2
Nursery	22	22
Processor	4	8
Small Mixed-Light Tier 1	92	111
Small Mixed-Light Tier 2	28	9
Small Outdoor	102	117
Specialty Cottage Indoor	5	7
Specialty Cottage Mixed-Light Tier 1	8	12
Specialty Cottage Mixed-Light Tier 2	9	4
Specialty Cottage Outdoor	12	14
Specialty Indoor	5	4
Specialty Mixed-Light Tier 1	26	31
Specialty Mixed-Light Tier 2	10	7
Specialty Outdoor	45	58
Total	369	406

While not all of these licenses are equivalent to fully operating enterprises, they do give an indication as to the number of operations that may exist in the county.

The total number of state-issued cannabis cultivation licenses has increase by 10% in Mendocino County. There was no change in the number of nursery licenses. However, the number of processors doubled from 4 to 8. There was also growth in the number of Small and Specialty Outdoor operations. The net increase in total permits indicates that the industry, despite its many challenges is still active and growing.

As of September 30, 2019, there were 12 currently active manufacturing licenses in

Mendocino County. This is an increase of one, since the end of the last quarter (June 30, 2019). While interesting, this is not enough information to indicate the status of the industry.

The number of retail and distribution permits also increased between June and September of 2019. While there are still major questions about the profitability and the future of the industry, these metrics indicate that there is still significant investment in legalized cannabis cultivation and the industry is still attempting to grow in Mendocino County.

	6/30/2019	9/30/2019
Distributor License*	30	32
Distributor-Transport Only License*	15	14
Microbusiness License*	4	5
Retailer License*	15	15
Retailer Non-storefront License	1	1
Total Licenses	65	67

* Includes “Active Temporary” Licenses for June 30, 2019



About Us: Economic Development and Financing Corporation



Since its founding in 1995, EDFC has had a twofold mission: to coordinate economic development in Mendocino County and to provide financing to support business development in Mendocino and Lake Counties. EDFC's board is made up of both public and private partners, which provides a collaborative format for jurisdictions, the business community, and stakeholders to engage in strategies to improve our economy.

In addition to our economic development and economic analysis activities, EDFC also runs a \$4 Million Business Loan Program. EDFC offers financing to start-up and existing business owners unable to access bank financing. Loans range from under \$5,000 up to \$250,000.

For more information, visit www.edfc.org. Be sure to join our e-mail list to get more great information about how EDFC and our partners are growing the local economy.

EDFC recently launched a new tool for helping startup and existing businesses grow in Mendocino County. Check out the new ZoomProspector site at www.edfc.org. This great new source of information provides the market data, planning, zoning, and demographic information alongside available properties to help connect business owners and entrepreneurs with sites in Mendocino County.

About the Author:

Heather Gurewitz is the Executive Director of Economic Development and Financing Corporation. She holds a Bachelor of Arts in Geography from UC Berkeley and a Master Degree of Community and Regional Planning from the University of Oregon. In addition to her graduate work researching and assessing community and economic indicators, Ms. Gurewitz has worked in the field of community and economic development for over 15 years including 10 years in Mendocino County.