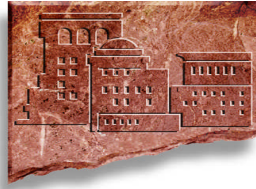


Development Management Group, Inc.

economic development ■ fiscal & economic analysis ■ development management



SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

Project: 12-043-C09-T04

(Imperial County, California)



Economic Forecast 2014

Final Report

November 13, 2013

Introduction (Task Order Number 12-043-C09-T04: Economic Forecast for Imperial County, California)

The Southern California Association of Governments (SCAG) has contacted with Development Management Group, Inc. (DMG) to provide an economic recovery update and forecast for Imperial County, CA. The forecast will provide key data points and analysis in a number of areas. This information is used in concert with similar research and analysis to better determine the potential for economic growth across Southern California.

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1. Introduction to Imperial County

Imperial County is located in the southeast corner of California and shares borders with San Diego County, Riverside County, Yuma County (Arizona) and Mexico (and the region and City of Mexicali). The County has a population of approximately 181,709. This represents an increase of 7,181 from 174,528 (or 4% since 2010). The private sector economy has historically been based on agriculture and geothermal energy generation. In more recent years, there has been increased economic activity in the areas of logistics (to support both the agriculture industry and the maquiladora industry in Mexico) and additional energy production (geothermal, solar and wind).

As with most agriculture dominated regions, unemployment rates in Imperial County are higher than the national average. One of the core questions facing Imperial County is how or when will it develop additional core industry categories that provide year-round employment opportunities at wages that appropriately support families.

2. Status of Economic Recovery

Imperial County has historically struggled with a high rate of unemployment. As of September, 2013 (the latest number available), the unemployment rate in Imperial County was 26.3%. This figure is down from rates that have been as high as 32% and have had annual averages as high as 30%. Puzzling in the analysis is that while the rate of unemployment remains high, the actual number of persons employed has steadily increased over the last few years. This is a statistical anomaly when compared to many other regional or sub-regional economies throughout Southern California. In fact, the September, 2013 data shows 55,800 persons employed (out of a total labor force of 75,700). This is within 300 jobs of the all-time high found in 2007 just prior to the economic downturn. This also means that when comparing constant periods (September 2012 to September 2013 to allow for the seasonality found in Imperial County employment), 1,500 more people are employed in the region today than just one year ago. For comparison purposes, the labor force is constant from 2012-2013.

Exhibits A-D provides trend data regarding the labor force, employment, total persons unemployed and the unemployment percentage. Our analysis is that unemployment rates have “topped out” and are likely to stay in the mid to high 20% range and not move higher. It also appears as though the number of persons in the labor market has peaked for now. If the primary research is correct and the spike was partly caused by displaced workers from other markets returning to Mexicali, then an economic resurgence would likely cause workers to migrate to larger metropolitan areas to see work.

SCAG has often posed the question to regional economist, “When will the County recover the jobs lost in the economic meltdown of 2007-2009?” In the case of Imperial County, the jobs lost have already been restored. While on the surface this seems like good news, the real question that should be asked is, “When and how will the Imperial County economy be such that unemployment rates, general economic opportunity and poverty rates are at the statewide average?” Keys to answering that question will be found in the pages that follow.

Exhibit A: Total Available Labor Force (Including Projections 2014-2015)

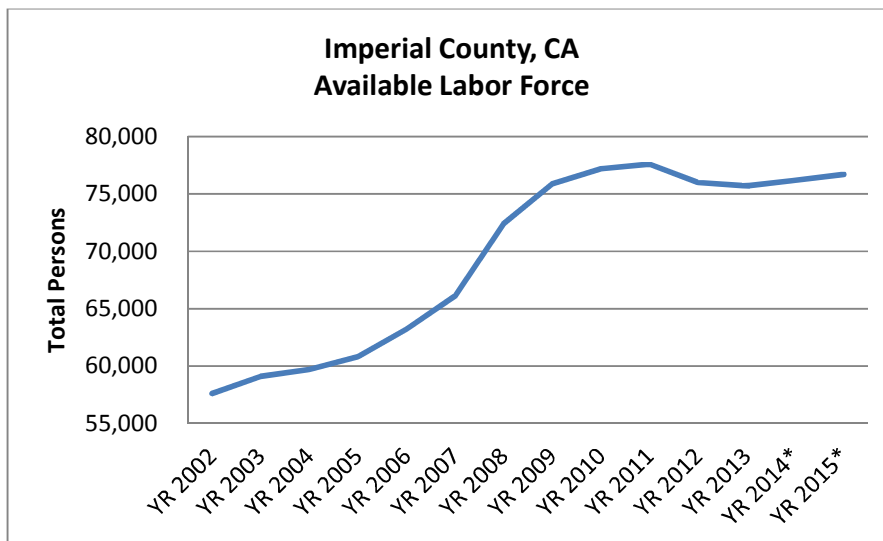


Exhibit B: Total Persons Employed (Including Projections 2014-2015)



Exhibit C: Total Persons Unemployed (Including Projections 2013-2015)

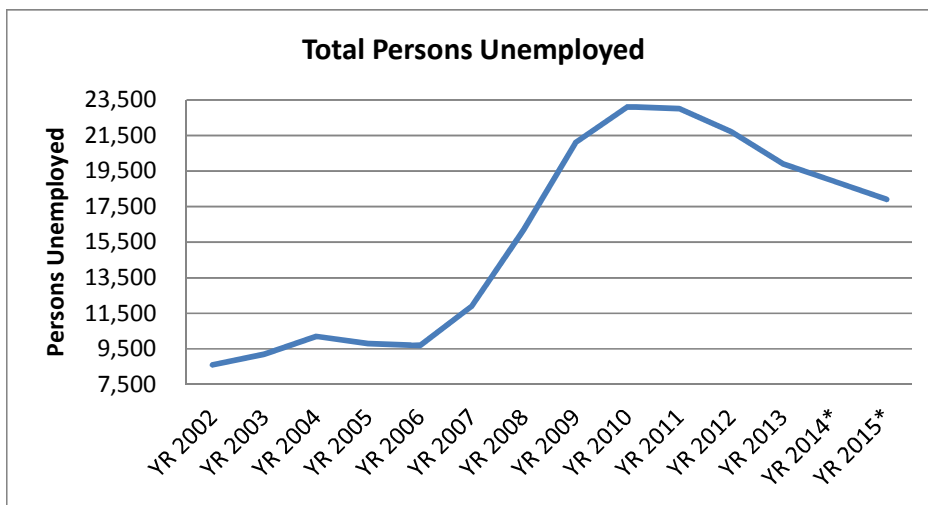
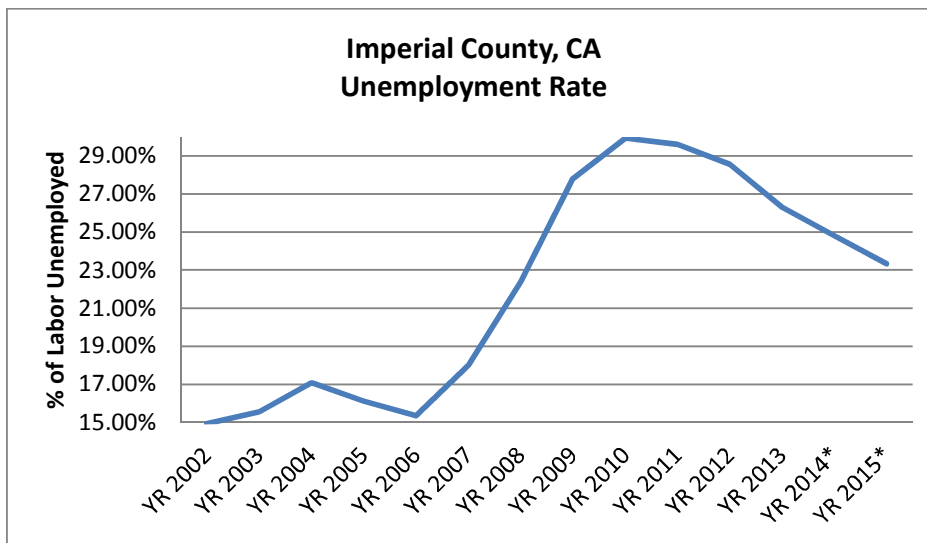


Exhibit D: Unemployment Rate



3. Industry & Occupational Analysis

Economist note: the graphs and analysis that follow in this section are based on minimum current employment of 120 persons within a specific category (position). While this sounds low in terms of pure numbers, consider that the population of Imperial County is about 180,000. Scaled in comparison to Los Angeles County where the population is almost 10 million people, the same minimum requirement would be more than 6,500 positions for a particular job category to qualify for inclusion.

Traditionally almost one-third of the jobs in Imperial County have been in government (local, state and federal). The seven incorporated cities along with the school and utility districts account for local jobs while state jobs are driven by the presence of state prisons and Federal jobs are predominately by border security (Department of Homeland Security). The greatest numbers of private sector jobs are in the agriculture and retail sectors. Exhibit E provides a breakdown of the number of jobs by industry for the most recently available time period (July, 2013).

In terms of professional with anticipated growth, Exhibits F & G provide two such charts. Exhibit F shows the professions where job growth is expected to exceed 15% over the current 10 year period. It is anticipated that the largest growth will occur in professions within the medical industry. In fact the top six growth occupations are all health related. Outside of health, much of the anticipated growth is in governmental type positions (probation, compliance, detectives and postal clerks). In terms of pure job growth, there is great need for personal and home care aides (likely due to the number of baby boomers reaching an age where additional help is needed) and retail sales (likely to support a modestly growing population). What is missing from the hard data are statistics relative to growth in the construction and renewable energy industries. This item will be addressed further during the 2014 Forecast portion of this analysis.

Exhibit E: Distribution of Jobs by Industry

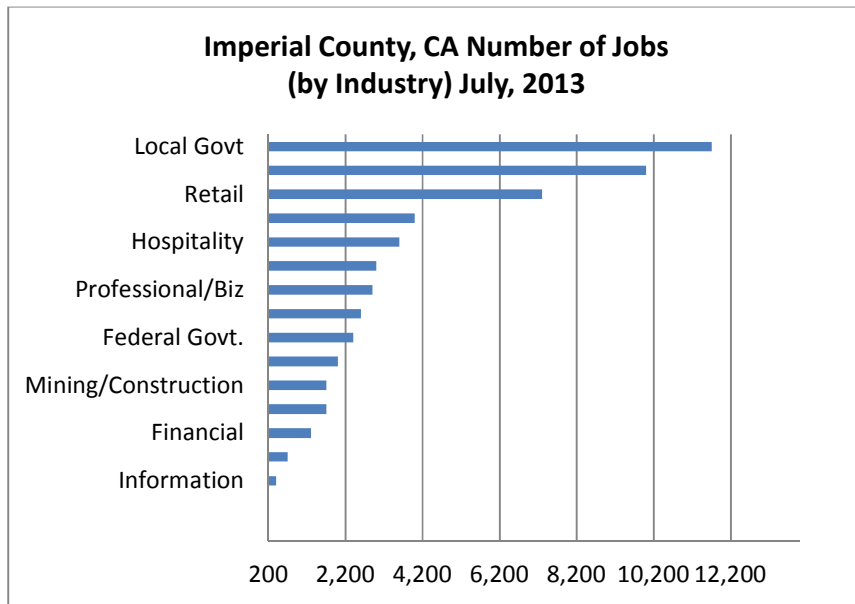


Exhibit F: Professions with Anticipated Growth Exceeding 15% (2008-2018)

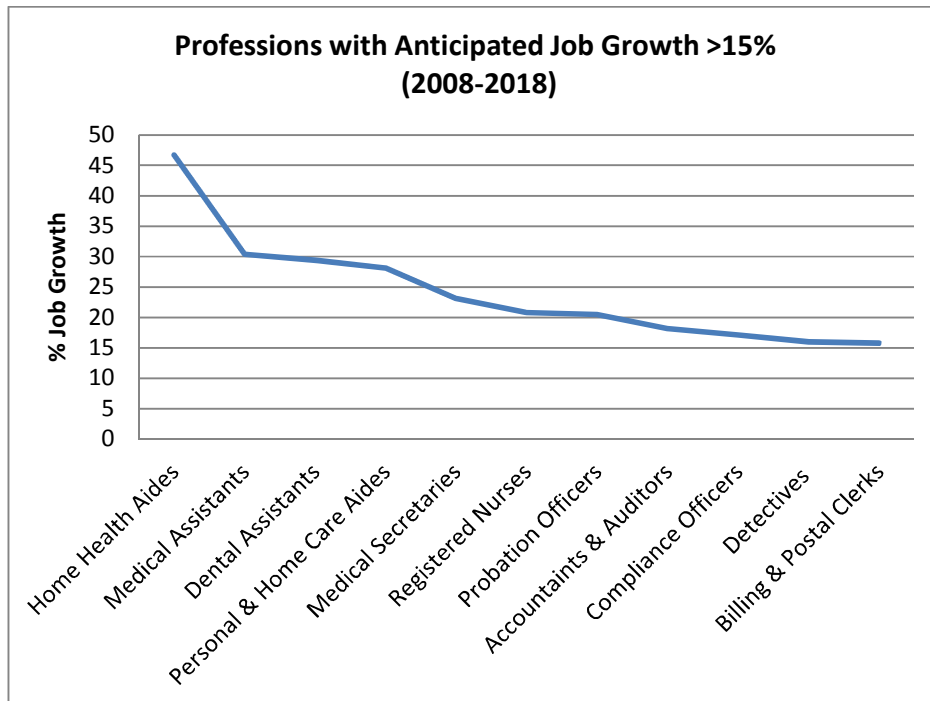


Exhibit G: Professions with Anticipated Growth by Total Number of New Positions (2008-2018)

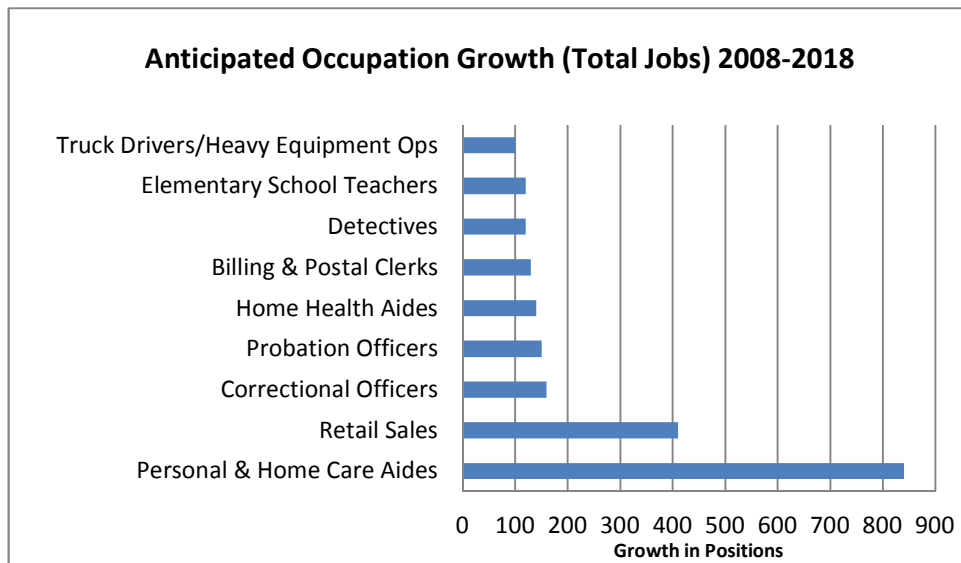
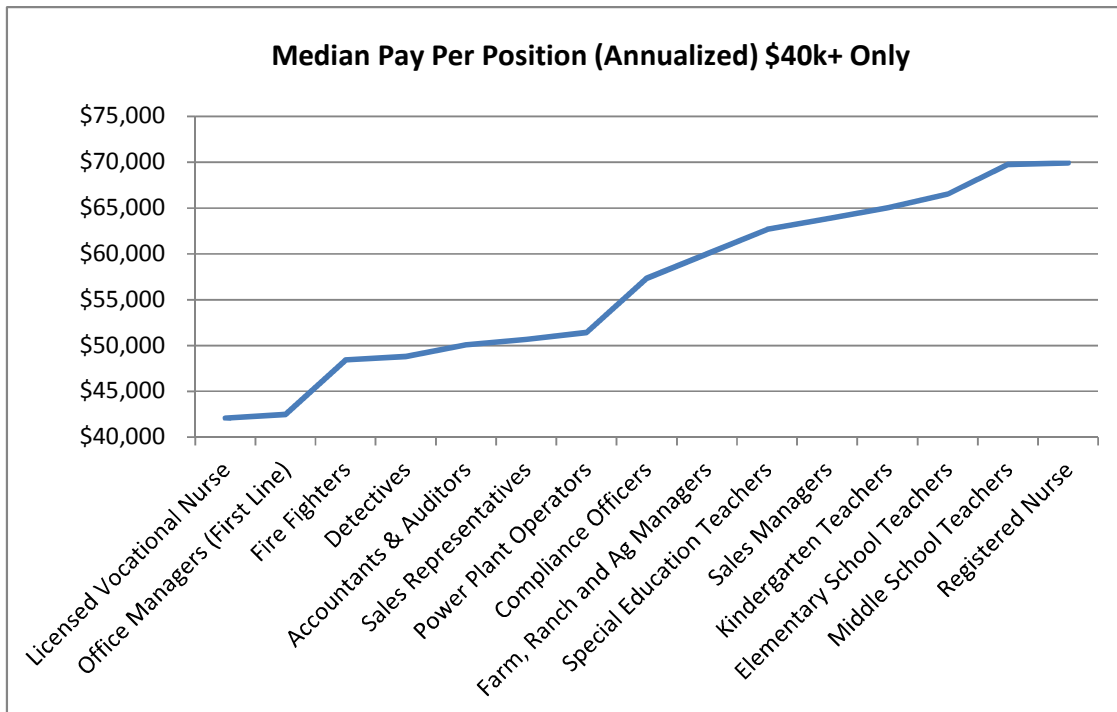


Exhibit H provides a chart of positions where the median pay is \$40,000 or more annually. This provides what could be considered an unofficial “living wage” that would support a family within the region.

Exhibit H: Median Pay for Occupations of \$40k+ Annually



4. Agriculture Production as a Leading Industry

Agriculture is by far the largest private sector industry in the Imperial Valley. While the jobs associated with the industry are traditionally low pay, agriculture supports many families in a variety of occupations (direct farming, professional/business (including accountants) and transportation. Since many of the agriculture related companies are family owned, the “private” wealth within the region is often rooted in agriculture. For these reasons, additional analysis is provided on this specific industry.

Exhibit I provides the total agriculture production for Imperial County. In 2012, agriculture production reached 1.945 billion, just shy of the all-time high that was set in 2011. Going into 2012, it was presumed that crop prices and livestock demand would push the total production value over the \$2 billion number, but storms in late August of 2012 during a key planting season impacted many farms in the northern portion of the region (Brawley). Exhibit I does show a prediction for 2013 (the current production year) to exceed \$2 billion for the first time (2012 production numbers should be available late 2nd quarter, 2014).

Exhibit I: Total Agriculture Production (in billions of \$) by Year

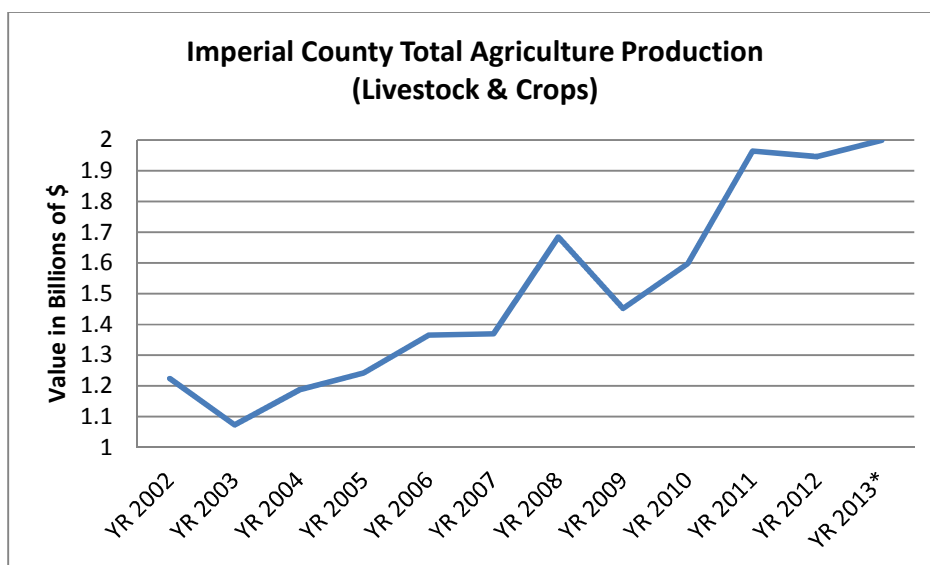
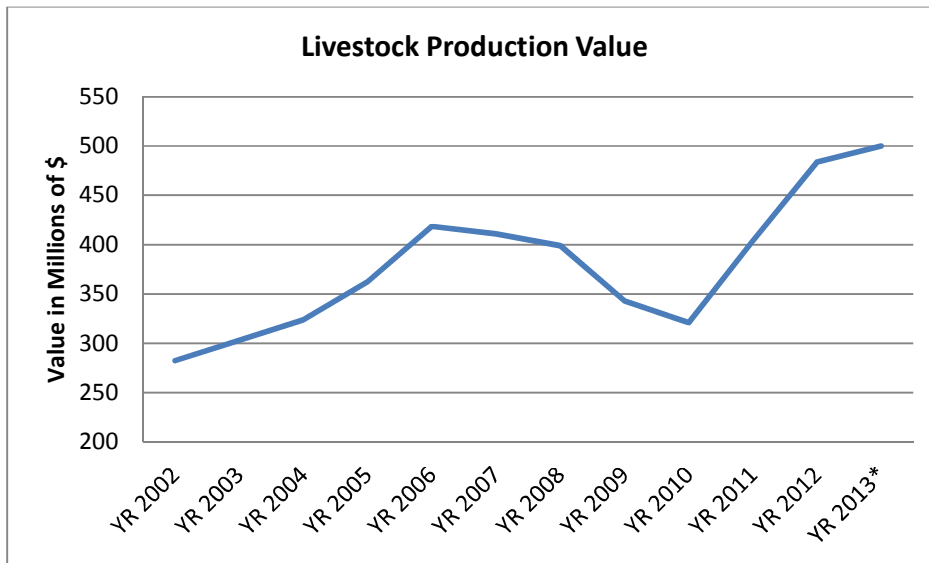


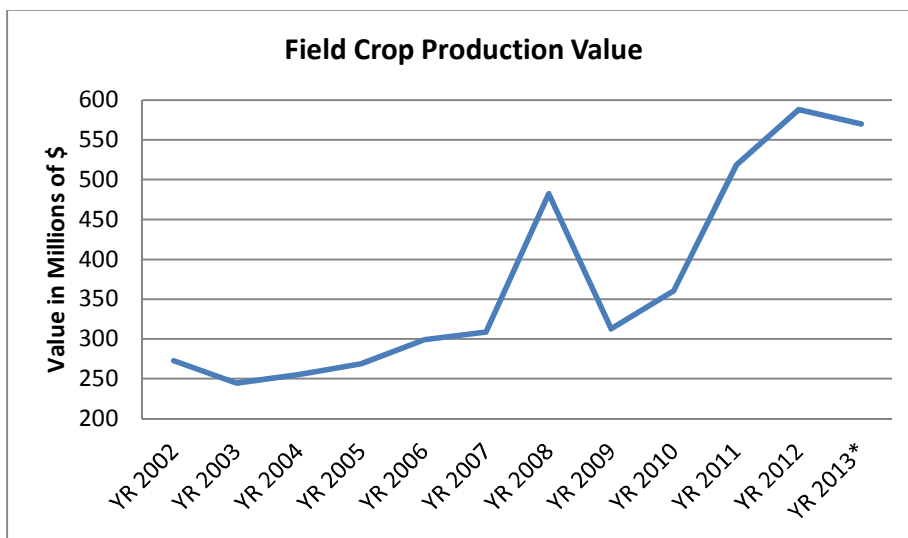
Exhibit J provides historic production numbers for livestock. Much of the livestock production is specific to “feeder beef” which is the raising of calves to prepare them for market. During this time an individual animal may consume approximately 3 tons of feed. Therefore the profit (value) in a particular animal is a function of both market price and the cost of food. In general the value of livestock in Imperial County has increased over the last four years. This is a factor of increased domestic and international demand for cattle (beef) as the world economy has continued recovery.

Exhibit J: Total Livestock Production (in millions of \$) by Year



Field crop production within the region continues to be strong. Leading the way for the region was production of alfalfa hay and Bermuda grass, between them accounting for over half of all field crops (in terms of value). In total field crops equaled over \$587 million in 2012 produced on some 396,000 acres (618.75 square miles). By comparison the City of Los Angeles is 486 square miles. Exhibit K provides a historical chart of field crop production in Imperial County.

Exhibit K: Total Field Crop Production (in millions of \$) by Year



Vegetables and melons accounted for \$718 million of production value in 2012. Broccoli, carrots, cauliflower, onions and various lettuce varieties comprise much of the overall production for this category. Overall this was down by about \$185 million from 2011 (segmented crop production value for 2011 was \$903 million). This was category most significantly impacted in the August 2012 storms. More specifically the leaf lettuce crop was most severely impacted as production was off by over 60% (\$236.5 million in 2011 and only \$80.8 million in 2012) a drop of \$156 million.

Exhibit L: Total Vegetable and Melon Crop Production (in millions of \$) by Year

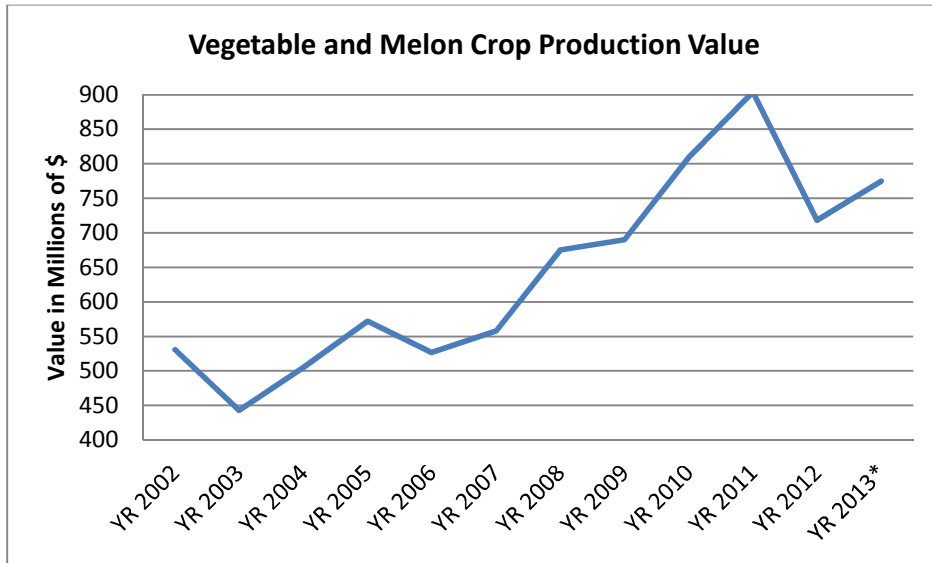
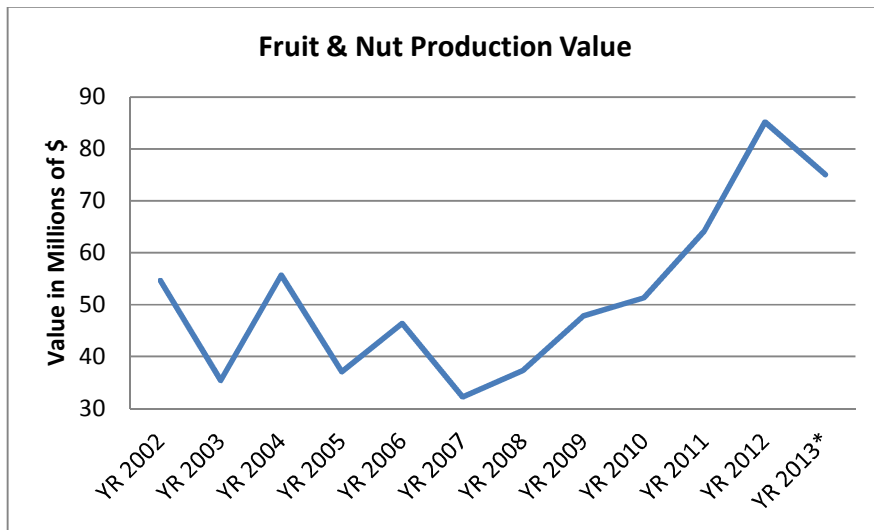


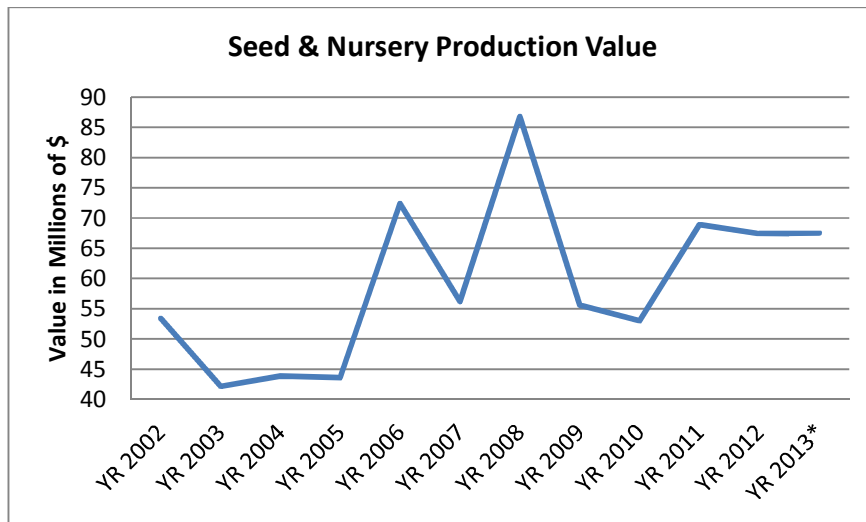
Exhibit M: Total Fruit & Nut Production (in millions of \$) by Year

The Imperial Valley is one of the largest producers of dates in the world. In 2012, almost \$60 million of dates were produced in the region. Other fruit and nut production within the region includes lemons, oranges and grapefruit. 2012 production for the entire category was \$85.1 million an increase of \$21 million from 2011 when total production was only \$64 million.



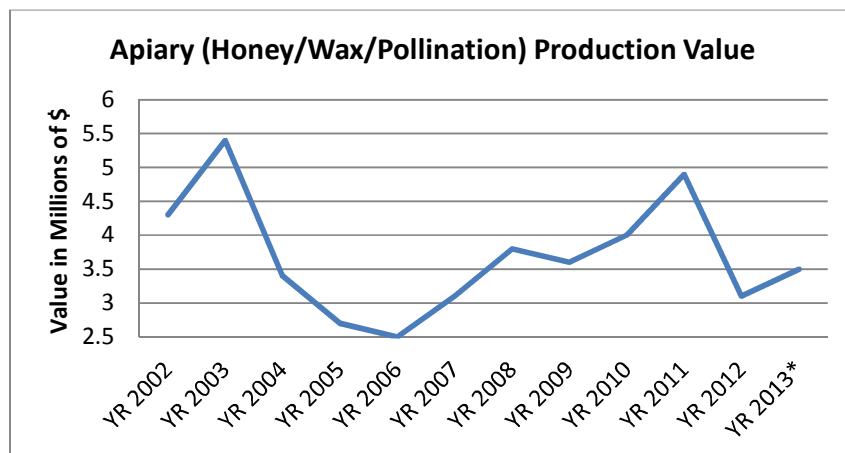
Seed production is a vital component to the agriculture economy. There are farming entities that specialize in the generation of seed that is used locally, domestically and internationally. Further, primary research (interviews) with those in this segment of the industry shows that there is significant technology and testing involved in creating seeds that provide for higher production, greater drought tolerance and overall hardiness. In 2012, some \$67 million of seeds were produced. Much of the production was specifically for alfalfa and bermuda grass (finished crop in these categories is predominately used for animal feed).

Exhibit N: Total Seed & Nursery Production (in millions of \$) by Year



The final segment of agriculture production analyzed was that of apiary which includes honey, wax and pollination (bee) production and use. While this industry only accounted for about \$3.1 million of overall production within the region, the need for pollination and therefore the potential production of honey and wax continue to be of extreme importance to the overall agriculture economy of the region. Exhibit O provides a history of apiary production.

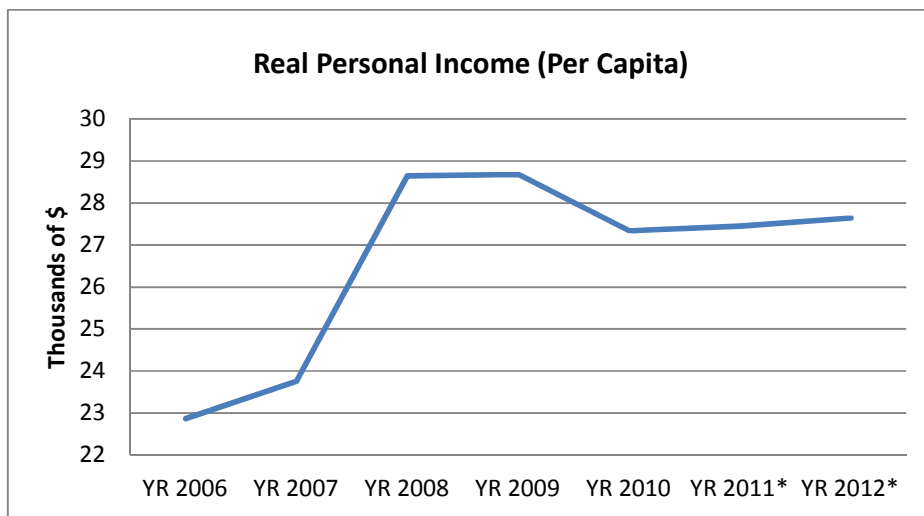
Exhibit O: Total Apiary (Honey/Wax/Pollination) Production (in millions of \$) by Year



5. Income/Poverty Statistics

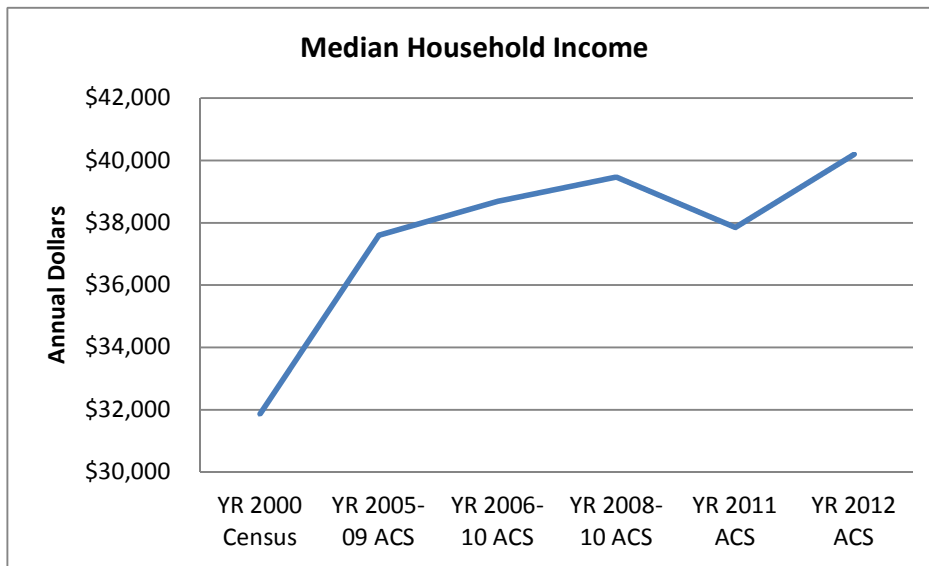
An important benchmark in economic advancement is whether personal incomes are growing. Exhibit P provides information from 2006-2010 regarding total personal income (all sources) in Imperial County. Note that incomes continued to rise during the recession (2008-2009) but did decline by about 3% in 2010. Based on the limited information available, DMG, Inc. has estimated that personal incomes grew slightly in 2011 and 2012 to about \$27,500 per capita. It is noted that the economy of the Imperial Valley is such that per capital personal incomes are not a true statistic in understanding standard of living or poverty as there are a large number of persons with substantial incomes that skew per capita statistics.

Exhibit P: Real Personal Income Per Capita (All Sources)



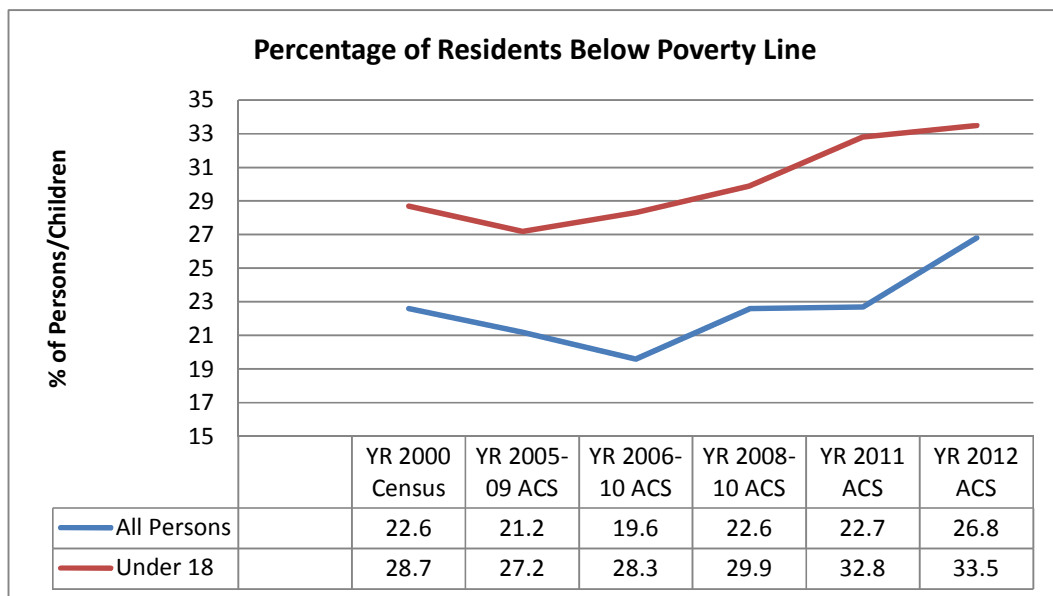
Median household income in Imperial County is approximately \$40,850. The average household income (not graphed) is \$55,944 (a difference of about 37%). This statistic shows a significant disparity between the “haves and have nots” within the region. Overall median incomes are on the rise and in fact are at their highest point, another sign that the region has statistically recovered from the economic downturn of 2008-2010. Exhibit Q provides a mixed source graphical representation of the increase in median household income.

Exhibit Q: Median Household Income



The greatest social issue in the region is poverty. In the United States the federal definition of poverty is a household income for a family of four that is less than \$23,050. Certainly there are additional families of all sizes that have incomes just above the poverty line that have substantial issues providing for the most basic of family needs (housing, food, medical care and transportation). Exhibit R shows that over ¼ of all residents and 1/3 of children in the region live in poverty. The poverty levels (using various American Community Survey studies) continue to increase within the region as the cost of the most basic of necessities continues to increase while real wages have long been stagnant (especially for lower skilled occupations).

Exhibit R: Percentage of Residents Living in Poverty



6. Healthcare and Coverage

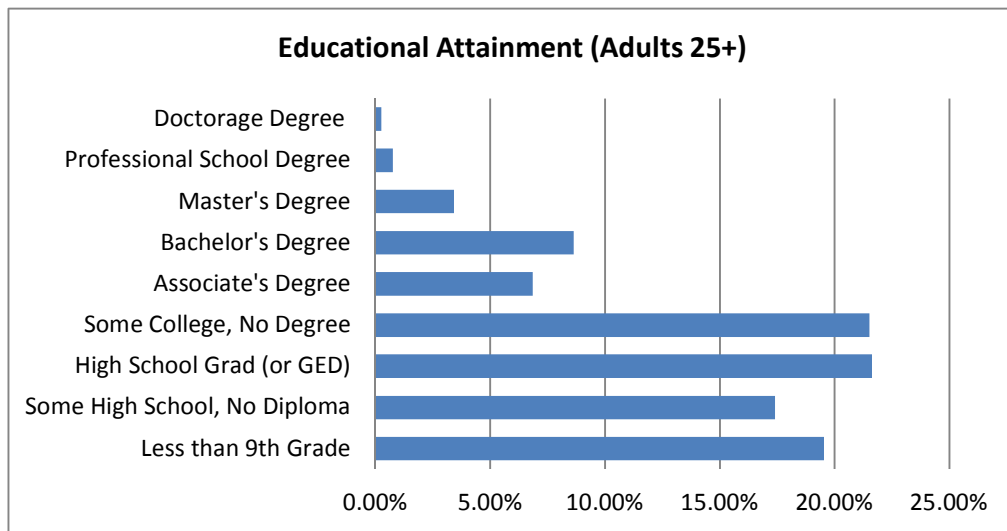
Since 2008, data new data has been kept on the percentage of persons with and without healthcare insurance. For the population as a whole between 20-22% of the population is currently without health insurance. For those under 18, the percentage is between 28-30%. For persons over 65 only about 10-12% are without health insurance. These figures are likely to change as the Affordable Care Act is implemented.

Note: as of this writing, the Board of Directors of El Centro Regional Medical Center has announced they are in negotiations with Scripps Health to potentially acquire the hospital and ancillary facilities. While the details are unknown at this time, the potential for this acquisition could greatly expand the availability of healthcare (emphasis on access to specialists) options in the region.

7. Educational Attainment and Earnings

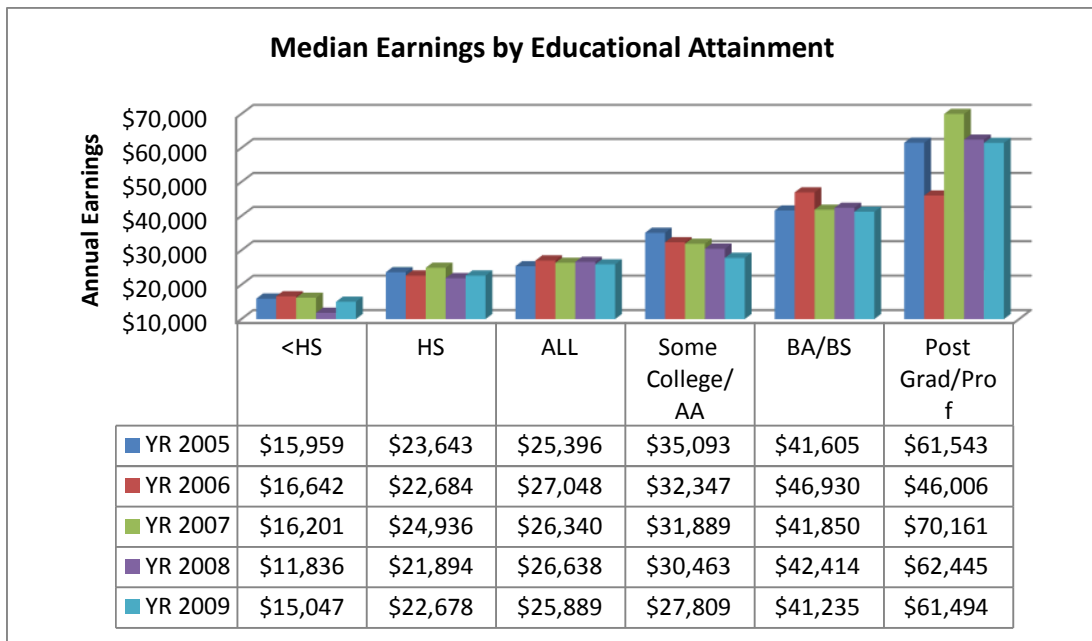
Economic opportunity in the United States has long been tied to education. The Imperial Valley has some of the lowest levels of education attainment by adults 25+ in both California and nationwide. Exhibit S provides an understanding of the highest level of education achieved by adults within the region. Thirty-six percent (36%) of adults lack a high school diploma or equivalent. An additional 22% only have a high school diploma. As the United States works to complete in a more global economy where technology has been introduced and plays a role in almost every industry sector, the lack of education directly impacts the employability of 6 in 10 adults within the region.

Exhibit S: Educational Attainment (Adults 25+)



Education impacts earnings. Exhibit T shows earnings of various levels of adults based on education from 2005-2009. While almost all persons saw their income impacted (in average) by the economic downturn, it remains that persons with a high school diploma make 50% more than those without and completing college (on average) means earnings almost twice that of a high school graduate and three times that of a person that did not complete high school.

Exhibit T: Median Earnings of Adults 25+ by Educational Attainment



Economic opportunities (statistically) for those workers with a lower level of skills are limited in Imperial County. Using only employment categories in which it is expected that at least 40 net new jobs will be created over a ten year period, heavy and light duty truck and equipment operators, stock clerks and childcare workers provide the greatest employment opportunities (outside of healthcare) for lower skilled workers. Most of the growth occupations are within industries based in goods movement and logistics. Exhibit U provides an outlook for potential growth of lower skilled positions within the region.

Exhibit V is a continuation of Exhibit U as it provides a graphical representation of lower skilled positions available within the region, but is specific to those occupations in the field of healthcare. Much of this growth is fueled by aging baby boomers and their pending need for additional healthcare services.

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Exhibit U: Lower Skilled (Blue Collar) Employment Outlook 2008-2018 (Minimum 40 Net New Jobs)

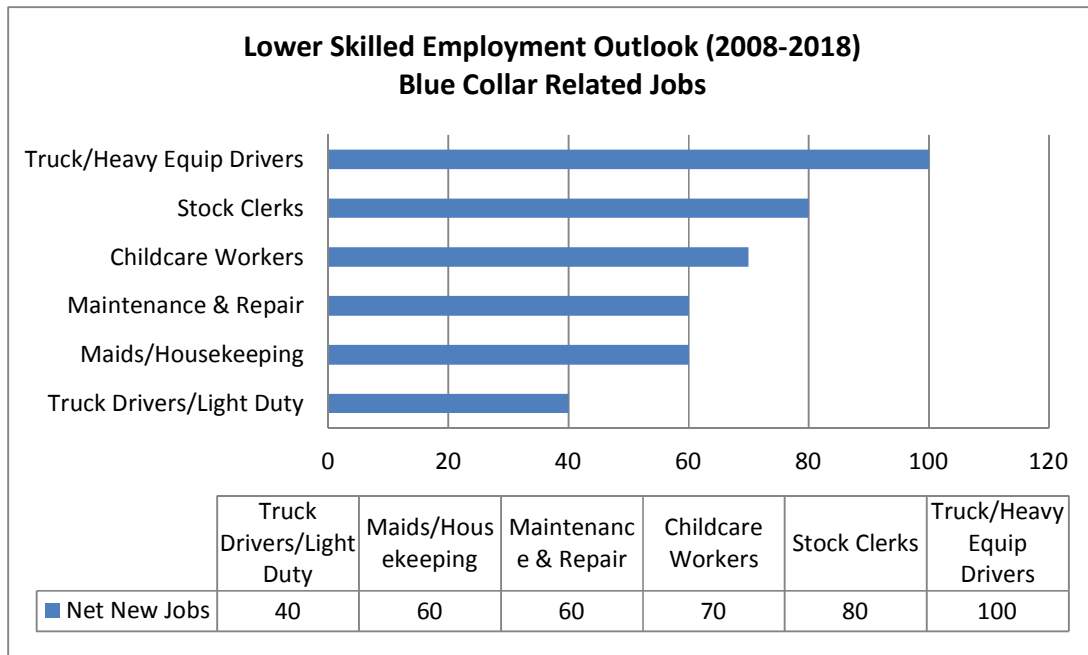
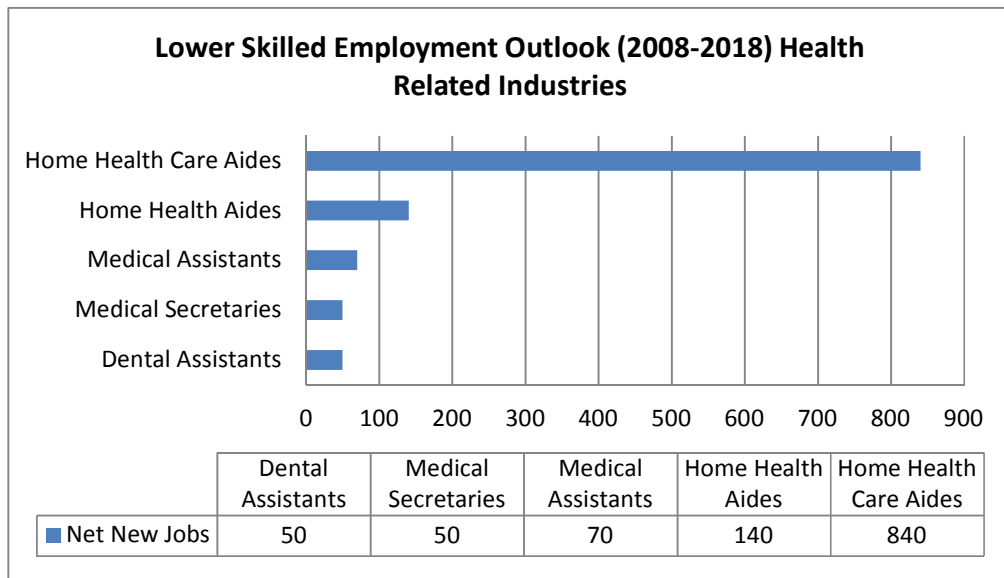


Exhibit V: Lower Skilled (Medical) Employment Outlook 2008-2018 (Minimum 50 Net New Jobs)



In Imperial County (as with most regions) there is a direct correlation between a lack of education and poverty. The unfortunate reality is that the vast majority of adults 25+ with a high school education (or equivalent) or less live in poverty. Countywide, 58.9% of residents with a high school education (or equivalent) or less live in poverty. Hispanic families are hit harder in that 62% achieving the aforementioned education live in poverty. While these figures have declined slightly over the last twelve years, they present a telling sign of what is needed to improve the overall economic standing of persons throughout the region.

8. Residential Real Estate & Assessed Valuation

Imperial County was one of the hardest hit regions relative to housing during the economic downturn. This section provides a number of graphical representations depicting both the fall of the housing industries (and therefore additional financial stress and burden on borrowers) as well as recent stabilization within the industry.

Exhibit W shows the number of new home sales over a ten year period. Note that the region saw about 1,800 homes sold in 2006. Scaling this figure to that of Los Angeles County for comparison purposes, it is tantamount to 100,000 new homes being built and sold during the same time period. New home sales appear to be stabilized in the 175-200 homes per year range from the period 2010-2013. Primary research through interviews with home builders show that there is demand for what the market deems as larger tract homes / semi-custom product being built for higher income professions (doctors, bankers and entrepreneurs/business owners) while the typical production (tract home) market is still limited.

Exhibit W: Imperial County, CA Total Home Sales by Year

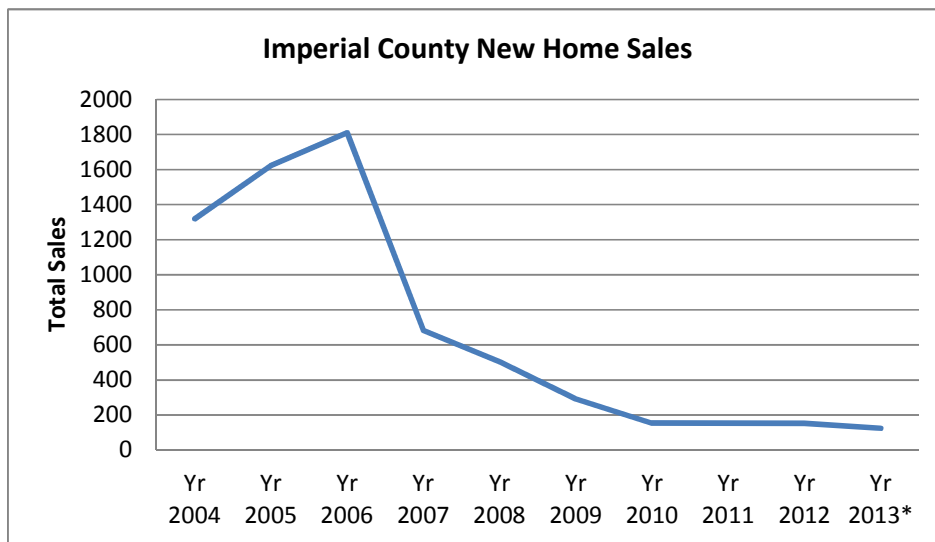


Exhibit X provides a representation of median home prices. Again, home prices began to stabilize in 2010 and actually grew by about \$10,000 to \$135,000 over the last twelve months. Home price increases are being driven by a significant reduction in the amount of foreclosures on the market creating additional competition for the limited supply of homes that are proceeding through the conventional resale market.

Exhibit X: Median Home Prices (Residential Real Estate)

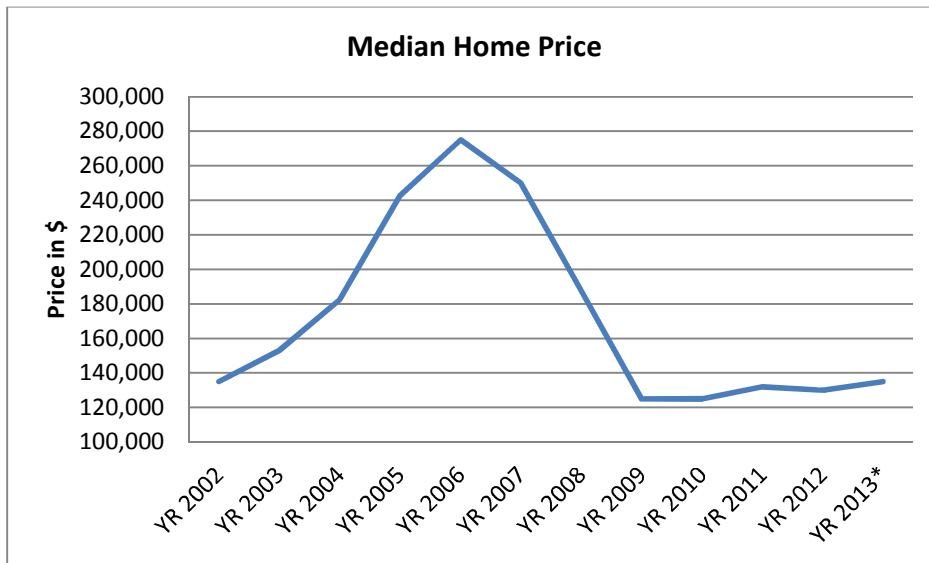
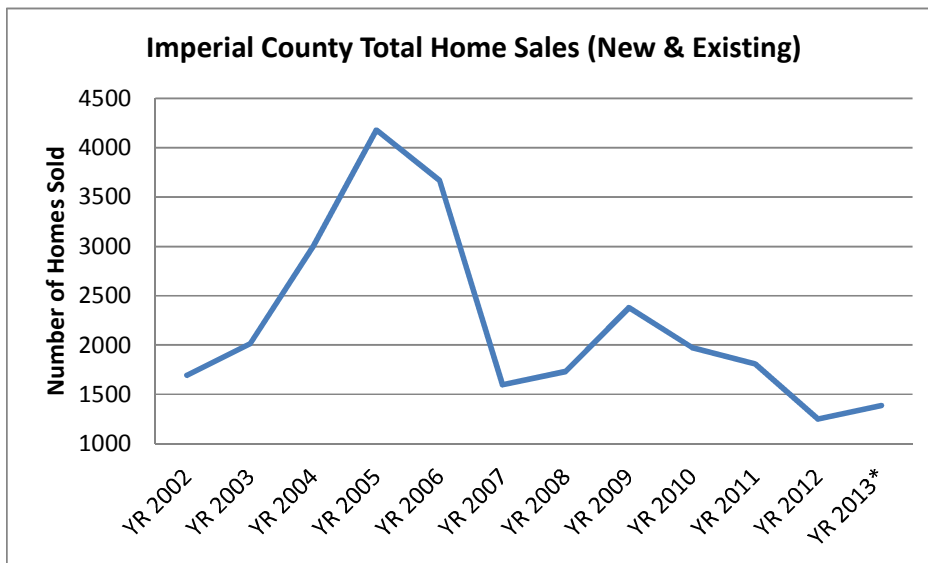


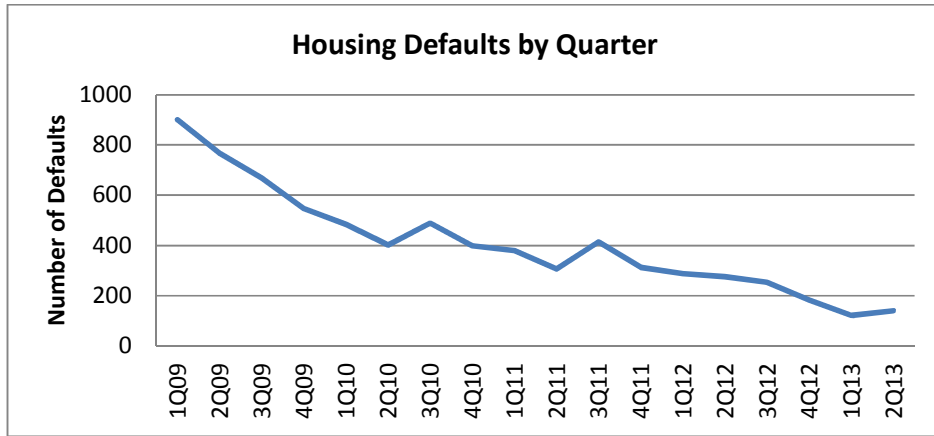
Exhibit Y further shows the decline in the availability of foreclosed homes for sale as total home sales (new and existing) are down from both pre-recession and early recovery time periods.

Exhibit Y: Total Homes Sold (New & Existing)



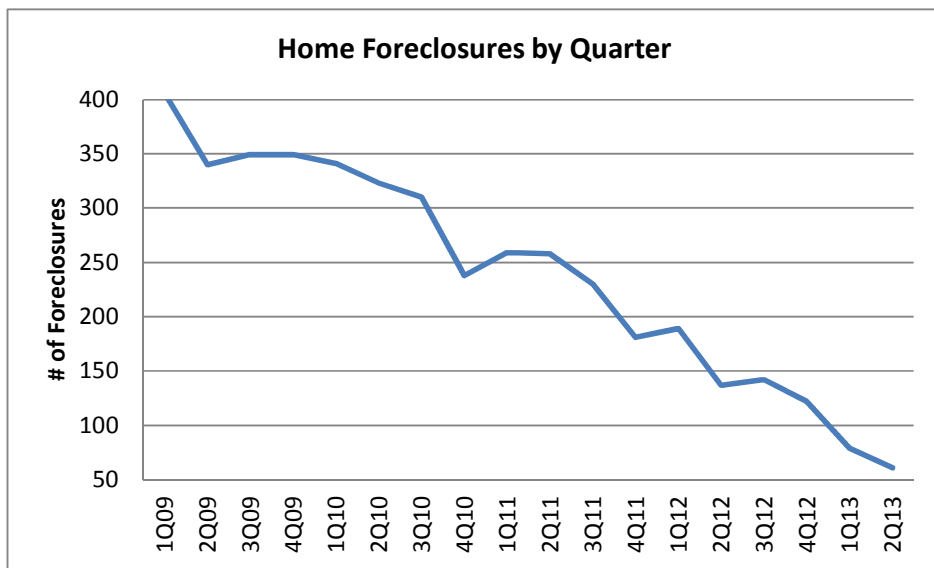
Two key matrixes used to determine the overall health of the housing market are defaults and foreclosures. Notices of Default are filed by lenders to inform borrowers that they are past due on their mortgage and that a foreclosure may ensue if it is not cured. Defaults are often a precursor to foreclosure and are therefore a warning sign of pending issues in the housing market. Exhibit Z shows that defaults in the Imperial County economy have steadily declined since 1Q2009 when over 900 were filed. (Scaling this figure to Los Angeles County would mean some 50,000 defaults being filed for the same period). For the most recent periods available, defaults have dropped to less than 200 per quarter.

Exhibit Z: Number of Residential Loan Defaults by Quarter



Housing foreclosures also continue to decline in Imperial County. This is largely a result of the number of “bad loans” already being cleared from the books of lenders and increasing home values. The increase in home values and in overall housing demand means that many homeowners are able to sell their property on the open market prior to foreclosure. At current, the number of foreclosures in Imperial County has dropped to just over 50 per quarter.

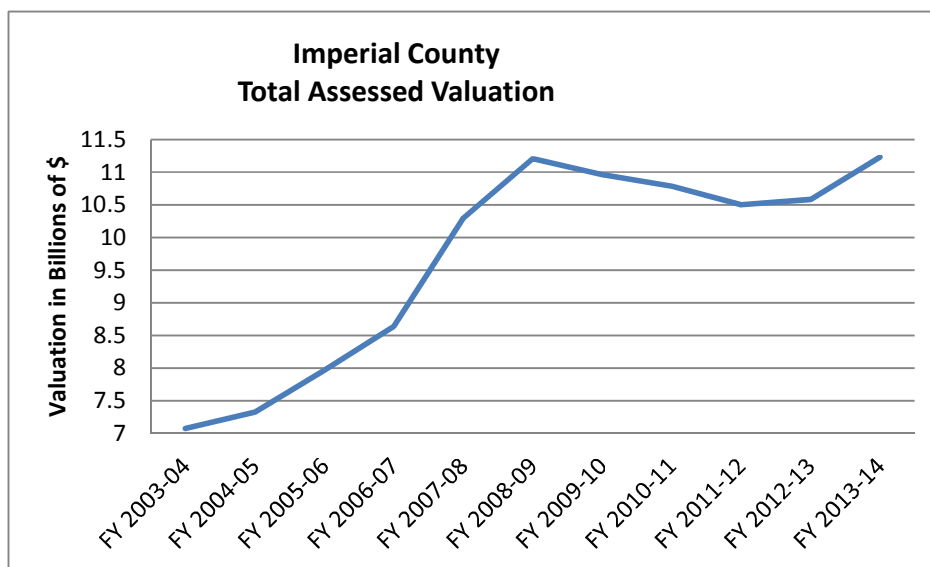
Exhibit AA: Number of Residential Foreclosures by Quarter



Assessed Valuation

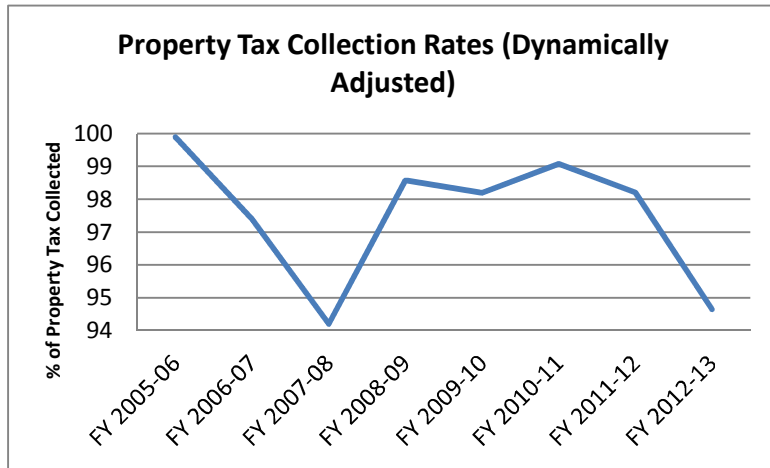
Imperial County experienced a boom in housing and commercial construction in the early-mid 2000's. This was reflected in assessed valuation that grew by over \$5 billion in just 5 years. As the recession took hold, the County did see a correction in assessed value, but the overall change was minimal and represented only a 5% or so decrease. Today, increased valuation is again increasing. There are three factors for this. First, home values in general are increasing so Proposition 8 appeals and assessments are both declining and reversing. Second, there is some new construction (both residential and commercial) that is adding to the tax rolls. Finally, as wind and solar energy projects come on-line in the region, the tax rolls increase. It is noted that wind is subject to property tax in its entirety. Solar does have a State Revenue & Taxation Code Section 73 exemption for the panels and posts, but ancillary improvements are subject to property tax (including substations, fencing, and interior roads). Finally, the new Sunrise Powerlink which has the ability to move over 1,000 MW of power from Imperial Valley to San Diego County is now on the tax rolls.

Exhibit BB: Total Assessed Property Valuation



Another barometer regarding the health of the economy is measured by the percentage of property taxes that are paid on a timely basis. Historically, 95% of property taxes are paid timely. During the recession, this amount dropped to below 90%. Today, tax receipts are beginning to rebound and have increased to 94-95% being paid timely. Exhibit CC is a dynamic collection rate chart. In this case dynamic is to mean that the County continues to collect property taxes that may have been due as many as five (5) years ago, thus continuously changing the collection rate. Notably, tax collection rates from 09-10 to 12-13 have exceeded 98% and tax collection in the most current year is already at about 95%.

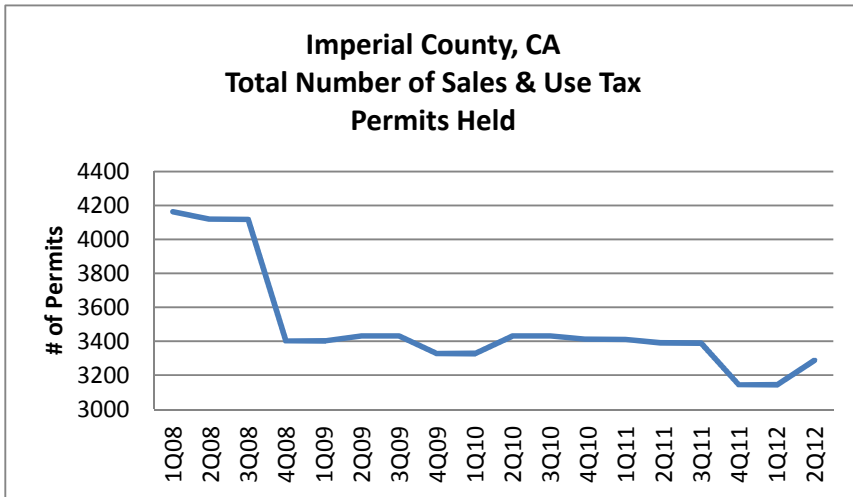
Exhibit CC: Percentage of Property Taxes Collected



9. Consumer Confidence (Retail Spending)

Economists look to consumer spending as a key factor in understanding confidence in the economy. First, we look at the number of Sales & Use Tax Permits held within a community or region. This shows the number of persons and companies engaged in retail sales. During the economic downturn, the Imperial Valley saw a decrease of over 800 permit holders within a 1 year time period (about a 20% decline). For a three year period from late 2008 to late 2011, the number of permit holders was stable. In more recent times, the number of retailers is beginning to increase showing that there is renewed interest in the Imperial County economy.

Exhibit DD: Sales & Use Tax Permits Held in Imperial County



Taxable sales in Imperial County have seen the largest increases in the State of California over the last three quarters. The large increase from about \$550 million in 2Q12 to \$900 million in 1Q13 and 2Q13 is directly related to the proliferation of new wind and solar energy generation projects in Imperial County. At the time these projects were entitled, the County placed into the Conditions of Approval a requirement for the developers to elect what is known as the Publication 28, Exhibit A option. This means that the “Point of Sale” for construction materials utilized in the building of these projects was designated as the project site itself. Exhibit EE provides a graphical representation.

Exhibit EE: Taxable Sales in Imperial County by Quarter

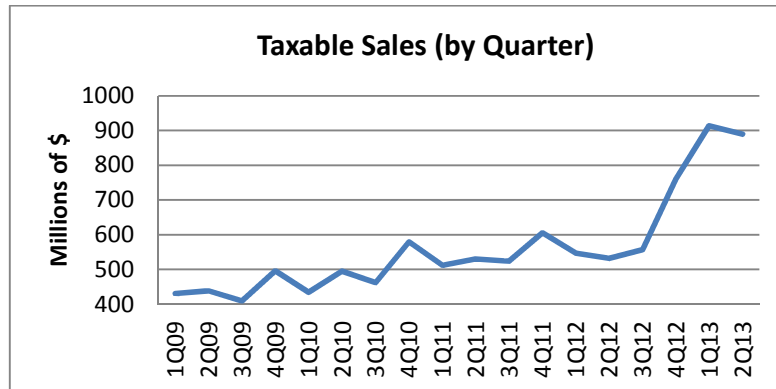
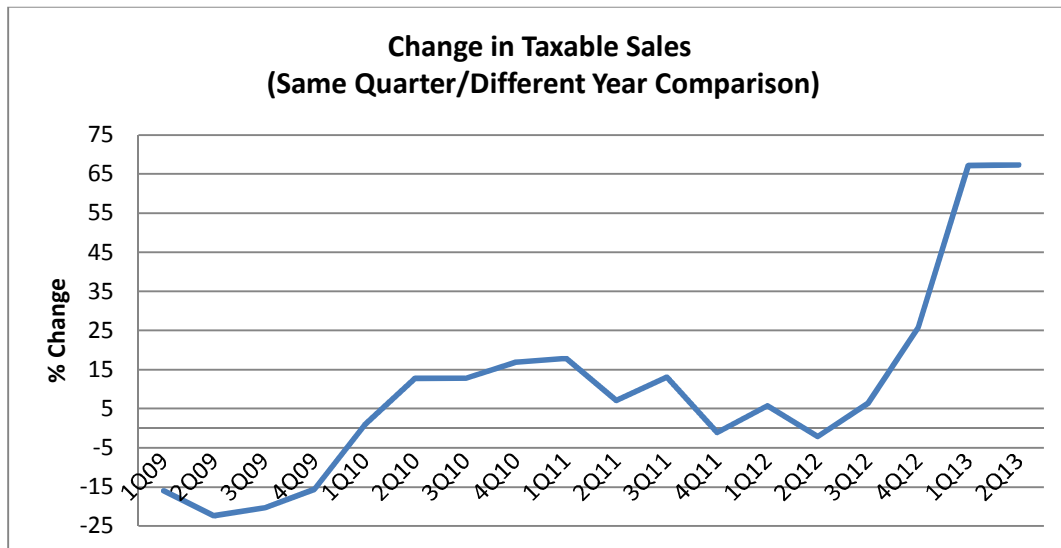


Exhibit FF shows the change in taxable sales from 2009 through the most current period (2Q13). Sales & Use Tax is up over 65 percent year over year for the most recent quarters, again this is largely due to the Publication 28, Exhibit A election for wind and solar energy generation projects.

Exhibit FF: Change in Taxable Sales (Same Quarter/Different Year Comparison)



10. Economic Outlook for 2014

The good news for Imperial County is the worst of economic downturn is over. Overall employment (net number of persons employed) has returned to pre-recession levels, defaults and foreclosures are down to pre-recession levels and the number of Sales & Use Tax Permits being issued is on the rise. Agriculture seems to be stable and in many cases growing.

The threats to the regional economy are as follows:

- A. Government regulation specifically such items as mobile and stable source air quality that may impede the growth and sustainability of the agriculture industry.
- B. Availability and stabilization of supply of water supply.
- C. For the cattle industry, the price of feed is always a concern. When cattle feed (for feeder beef) is high, the market crashes. Most professionals in the cattle industry joke that a roulette wheel in Las Vegas is a more stable bet than their industry.
- D. The housing market will be dependent upon the region finding new long term economic growth strategies that create a consistent demand for new housing.

Unfortunately, the region has larger socioeconomic issues that need to be addressed. One in four adults and one in three children live in poverty. Educational attainment is among the worst in the State of California and employment prospects are grim at best with the job outlook being limited to lower paying healthcare positions and some goods movement/transportation jobs.

The region must find solid long-term sustainable growth inducing industries in order to reverse what appears to be multi-generational economic struggle and poverty. Education must become a core value among residents, business and political leaders as college graduates are able to earn a median wage over the \$40,000 a year barrier.

The development of renewable energy facilities has been and will continue to be a short-medium term economic driver. There is some construction jobs attached to these projects (though they do not show up in any of the statistical matrix available through government sources). The County of Imperial has done a yeoman's job of insuring that these projects are not a burden on governmental resources through a combination of the Publication 28, Exhibit A election and Public Benefit Agreements which provide for both short-term and long-term financial resources for the region.

Based on the statistical analysis contained and an overall understanding of the Imperial Valley economy, it is predicted that 2014 will provide for similar economic results as 2013 for the regional economy.

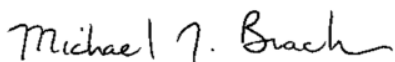
11. References

- A. American Community Survey
- B. California Department of Transportation
- C. California State Board of Equalization
- D. County of Imperial Assessor
- E. County of Imperial Agriculture Commission
- F. Dataquick
- G. Development Management Group, Inc.
- H. Imperial Valley Economic Development Corporation
- I. Nielsen/Claritas
- J. State of California Department of Finance
- K. State of California Employment Development Department
- L. United States Census Bureau
- M. Unnamed Agriculture Professionals (Primary Research) (Three)*
- N. Unnamed Home Building Professional (Primary Research) (One)*

*Often times business owners/operators will provide information for primary research under agreement that their names are not specifically mentioned. Interview information is available for SCAG audit/verification purposes only.

12. Certification

I certify that my engagement to prepare this report was not contingent upon developing or reporting predetermined results. The statements of fact contained herein and the substance of this report are based on public records, data provided by the Southern California Association of Governments and other sources as described in the reference section of this report. This report reflects my personal, unbiased professional analyses, opinions and conclusions. If any of the underlying assumptions related to this report change after the date of this report (November 13, 2013), then the undersigned reserves the professional privilege to modify the contents and/or conclusions of this report.



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