



# City Manager's Weekly Update

February 20, 2013

## UPCOMING MEETINGS

- 2/25** City Council Work Session, 7:00 p.m., Council Chambers
- 3/4** City Council Meeting, 7:00 p.m., Council Chambers
- 3/11** City Council Work Session, 7:00 p.m., Council Chambers
- 3/18** City Council Meeting, 7:00 p.m., Council Chambers
- 4/1** City Council Meeting, 7:00 p.m., Council Chambers
- 4/8** City Council Work Session, 7:00 p.m., Council Chambers
- 4/15** City Council Meeting, 7:00 p.m., Council Chambers
- 4/22** Joint City Council/SLUSD Work Session, 7:00 p.m., Council Chambers

**To:** City Council  
**From:** Chris Zapata, City Manager

## Mark Your Calendar

BART - Downtown Pedestrian Interface Project Public Meeting (reminder)  
**Wednesday, February 20, 6:00 p.m., Main Library Lecture Hall, 300 Estudillo Avenue**

- The BART-Downtown Pedestrian Interface Project provides for pedestrian-friendly improvements in front of the San Leandro BART Station along San Leandro Boulevard between Davis Street and Williams Street. The City Council awarded the contract to Gallagher and Burk on November 19, 2012.
- Construction will begin on March 1 and extend through November 2013. A public meeting will be held on the evening of **February 20** to notify the public of the start of construction and its traffic and pedestrian impacts.

Lunar New Year Celebration (reminder)

**Saturday, February 23, 1:00 p.m. to 3:00 p.m., Main Library, 300 Estudillo Avenue**

- Welcome the Year of the Snake with lion dancing, folk dancing and music that will delight all ages! The San Leandro Public Library will host a free Lunar New Year Celebration at the San Leandro Main Library on **February 23**.
- Free Asian arts and crafts sessions for children will be hosted by the Asian Community Cultural Association of San Leandro. Beverages and delicious Asian cuisine will be available for purchase.
- For more information, please call the library at 577-3971.

Ancestral Memories Quilt Exhibit and Reception (reminder)

**Currently through February 28, Main Library Atrium, 300 Estudillo Avenue**

- As a part of the San Leandro Public Library's 2013 Big Read, the library will be hosting "Ancestral Memories," an exhibit of quilts by the African American Quilt Guild of Oakland. "Ancestral Memories" is an exhibit which honors the memory of the quilters' families and heritage.
- Call the library at 577-3971 for more information.

The Downtown Farmers' Market Returns April 10, 2013!

**Wednesdays, 4:00 p.m. to 8:00 p.m., Parrott Street and East 14<sup>th</sup> Street**

- The popular Downtown Farmers' Market offers delicious and nutritious fresh fruits and vegetables, mouth-watering breads and baked goods, and a wide assortment of other goods at a fun and safe community event. The City of San Leandro is pleased that the Pacific Coast Farmers' Market Association will continue its partnership with the City and the Downtown Association in producing the seasonal return of this anticipated market. See you at the Market!

Community Meeting on the Proposed Residential Chicken and Bees Ordinance (flyer attached)

**Thursday, March 14, 5:30 p.m. to 7:00 p.m., Senior Community Center, 13909 East 14<sup>th</sup> Street**

- Members of the community are invited to attend and provide comments regarding the proposed revisions to the animal control ordinance, which include provisions to allow for chickens and bees in residential neighborhoods. The purpose of this community meeting is to receive public comment on the proposed ordinance.

## Council Information

Hyper-Reach Selects Grant Recipients for Public Mass Notification System (press release attached)

- The (Integrated Public Awareness System) IPAWS program is fully funded through 2014 and will be used in conjunction with our mass emergencies notification systems (Code Red, Nixle, cable channel, etc.) As we move away from some of the dated technology like the siren system, we need to find enhanced technologies that can send messages out quickly in an emergency or disaster. The IPAWS/ Commercial Mobile Alert System (CMAS) system sends emergency text messages to mobile phones within range of cell towers. The cost if we choose to continue this system beyond the grant could be between 2k to 4 k annually, depending on the service provider we select.
- We are also finalizing a recommendation on Wireless Priority Service (WPS) from your cell phone which is a capability developed in response to White House tasking following the September 11 attacks that improves end-to-end call completion on wireless public telephone networks. It supports national leadership, including Congress, Federal, State and local government, and other authorized national security and emergency preparedness users. In the event of wireless network congestion, a WPS user invokes WPS by dialing \*272 prior to dialing the desired destination number. The WPS call then receives priority over public calls, thereby greatly increasing the probability of call completion. This is important for key city officials during a disaster: City Council, certain Department Heads, Public Safety Chiefs and Command, City Manager and Assistant City Manager. More information to follow on this in the future.

SLPD Supplemental Jail Services Update

- Effective March 15, the Hayward Police Department has notified us of their intent to end the long standing agreement with SLPD for supplemental jail services. They are unable to meet our needs, and in addition, they continue to raise booking fees.
- We will be using the Alameda County Sheriff Department's office jails (Oakland and Dublin) to book prisoners. This alternative should reduce our booking costs (over time), reduce the amount of hospital visits for pre- booking medical clearances since the County jail has medical staff on site and is also the same travel distance as the Hayward jail. This change will have no impact on our operations.

San Leandro Police Department (SLPD) January Crime Statistics (view statistics [here](#))

- In the SLPD year-to-date crime stats for January 2013, we are seeing a significant increase in burglary and larceny the first month of the year; however, we are still trending lower than many other cities. SLPD has made several significant arrests related to burglaries and robberies in the last 3 months.
- Workload continues to increase in the area of calls for service. The overall increase in calls last year was 11% (10,807 calls). This is a significant increase for the dispatch center, and the reason is that we are inconsistent in meeting our 911 answer times. For the year to date, the calls for service have increased by 10% compared to this time last year. In addition, we have a 9% increase in arrests for the month of January, despite being at minimum or below staffing levels due to vacancies and injuries.

## Correspondence From Other Agencies

California Police Chiefs Association (press release attached)

- California Supreme Court Hears Arguments Regarding Marijuana Dispensaries

East Bay EDA Winter 2013 -- Regional Intelligence Report (report attached)

- The latest Regional Intelligence Report, prepared by Beacon Economics for the East Bay EDA, is attached for your information. The report was recently redesigned in an effort to provide important information about the region's economic health in an easy to digest format.
- Highlights of the report follow:
  - The East Bay labor market grew in 2012 and the region reached a new post-recession high in household employment and low in unemployment. The unemployment rate is expected to fall below 7% by the first quarter of 2015.
  - Taxable sales in the East Bay continue to grow. Spending is on the rise in every major category, with strong sales increases in: Autos and Transportation, General Consumer Goods, Restaurants and Hotels, and Business and Industry.
  - Sales of distressed residential properties are down from 50% of total sales in November 2011 to 35% in November 2012. The median price of an existing single-family home has grown by 14.0% year over year on a seasonally adjusted basis, to \$360,000, with 13% of this growth in the second and third quarters of 2012.

City of San Leandro  
Civic Center, 835 East 14th Street  
San Leandro, California 94577



## **Community Meeting on the Proposed Residential Chicken and Bees Ordinance**

**Date:** Thursday, March 14, 2013  
**Time:** 5:30 pm- 7:00 pm  
**Location:** Senior Community Center  
13909 East 14th Street

Members of the community are invited to attend and provide comments regarding the proposed revisions to the animal control ordinance, which include provisions to allow for chickens and bees in residential neighborhoods. The purpose of this community meeting is to receive public comment on the proposed ordinance.

For more information, including whether you will need translation services or require any handicapped accessibility accommodations for the March 14th meeting, please call the City Manager's Office at (510) 577-3351.

## **Hyper-Reach Selects Grant Recipients for Public Mass Notification System 12 Agencies Throughout the U.S. Selected to Study Use of New FEMA System**

February 20, 2013//Rochester, NY

Mass notifications systems are used by public safety agencies to warn citizens about local emergencies, hazards and other threats, calling huge numbers of telephones in just a few minutes time. But these systems are only available to about half of agencies in the US, and the shift from landline to mobile telephones is cutting down the effectiveness of existing systems. Hyper-Reach – an emergency notification system provider in Rochester, NY - is working to overcome the limits of existing systems and increase the use and reach of a new Federal government notification system focused on mobile telephones.

Hyper-Reach is pleased to announce that twelve public safety agencies from Maine to Oregon have been selected for a grant program that will allow unlimited emergency notification messages to mobile phones. The program provides access to the Integrated Public Awareness System (IPAWS) and a subsystem called the Commercial Mobile Alert System (CMAS), developed by the Department of Homeland Security. These systems must be accessed through specialized software, and the Hyper-Reach grants will provide that access through the rest of 2013 and early 2014.

The grant program provides a year of Hyper-Reach access service to send messages through the IPAWS/CMAS system. Once approved by the Federal Emergency Management Agency (FEMA), the selected agencies will be able to send out alerts to warn citizens of many kinds of emergencies, including floods, evacuation notices, environmental dangers and other situations.

IPAWS/CMAS messages provide special capabilities not available through other emergency notification media. They are broadcast text messages, which go to every qualified mobile phone in range of a selected broadcast area. Because they are broadcast, the messages are sent immediately and do not depend on prior registration of cell phone numbers. Visitors to an area, college students and others who would typically not register for emergency notification can be reached through IPAWS/CMAS messages.

The grants were awarded to obtain a diverse sample of geography, demographics and other factors. Communities selected for these grants range in size from Barnes County, ND (population 11,056) to the state of Texas (population 22 million.) Grantees include urban areas, such as Flint, MI and rural areas, such as Carroll County, MD. In total, over 27 million people will be served by the messages sent by grantees.

“It’s great to be selected for this grant program,” said James Weed, Sr., Emergency Management Division Coordinator in Carroll County, MD, one of the grant recipients. “Being able to reach young people with mobile phones as well as visitors during a crisis adds a lot to our emergency alert capabilities.”

“We’re thrilled to be of service to these communities”, said Sam Asher, President of Hyper-Reach. “We were so excited, we expanded the list of grantees from the original ten to twelve. In addition to the research results, it’s gratifying to know that we can play a small part in helping citizens protect themselves.”

The full list of grantees is:

- Barnes County Emergency Management, Valley City, ND;
- Carroll County Emergency Management Division, Westminster, MD;
- Clatsop County Emergency Management, Astoria, OR;
- City of Flint Police Department, Flint, MI;

- Galloway Township Police Department, Galloway, NJ;
- Oklahoma County Sheriff's Office, Oklahoma City, OK;
- Oregon Office of Emergency Management, Salem, OR;
- Randolph County Emergency Services, Asheboro, NC;
- St. Louis Emergency Management Agency, St. Louis, MO;
- **San Leandro Police Department, San Leandro, CA;**
- Scarborough Public Safety, Scarborough, ME;
- Texas Division of Emergency Management, Austin, TX;

Hyper-Reach ([www.hyper-reach.com](http://www.hyper-reach.com)) is a mass notification system with over 12 years of experience in emergency messaging. Hyper-Reach sends messages via automated telephone calls, text messaging (SMS), email, and social media, such as Twitter. Messages can be created by local personnel or automatically sent, depending on the emergency. Other uses of Hyper-Reach include Amber alerts, toxic chemical warnings, and armed shooter alerts. In addition to 911 centers, Hyper-Reach is used by law enforcement, educational institutions, and corporations.

For more information about Hyper-Reach, go to [www.hyper-reach.com](http://www.hyper-reach.com) or call 855-266-8439.



# MAYER ALERT

## California Police Chiefs Association



To All Members:

Marty Mayer's latest client alert is below and attached at the bottom of this email and will also be posted on the Cal Chiefs' website.

### CALIFORNIA SUPREME COURT HEARS ARGUMENTS REGARDING MARIJUANA DISPENSARIES

The conflicting opinions from various California Courts of Appeal, regarding the authority of cities and counties to ban medical marijuana dispensaries, will, hopefully, be put to rest shortly. On February 5, 2005, the California Supreme Court heard oral argument in the case of the *City of Riverside v. Inland Empire Health & Wellness Center, Inc.* which resulted from the Court of Appeal upholding the City's ban on all such dispensaries.

The firm of JONES & MAYER, as counsel to the California Police Chiefs' Association (CPCA), the California State Sheriffs' Association (CSSA), and the California Peace Officers' Association (CPOA) drafted and submitted an amicus curiae brief to the Supreme Court arguing that law enforcement's position is that dispensaries are illegal under *both* state and federal law. Nonetheless, recognizing that the Supreme Court might disagree that they are illegal under state law, we argued that, at the very least, the Court must find that local governments retain the authority to totally ban dispensaries, if that's their choice.

Up to that point, six different appellate court decisions addressing this issue had been published. In four of the cases, the courts ruled that local governments *could ban* dispensaries; in a fifth case, the court ruled that local governments *could not ban* dispensaries, since it was preempted by state law; and, in a sixth case, an appellate court ruled that local government *could not ban* dispensaries **but**, to be lawful, the dispensary had to cultivate the marijuana on site.

Ironically, the day after the Supreme Court heard oral argument, still another appellate court decision was published. The 3d district Court of Appeal held, in the case of *Browne v. County of Tehama*, (2/6/13) 2013 DAR 1706, that the County's regulations did not consist of an outright ban on all dispensaries and, therefore, was constitutional. The court stated that the California Constitution, Article XI, sec. 7 gives authority to "a county or city to make and enforce within its limits all local, police, sanitary, and other ordinances and regulations not in conflict with general laws."

The petitioners argued that the Tehama County ordinance was in conflict with the Compassionate Use Act (CUA). However, the court held that the Medical Marijuana Program Act (MMP) "does not 'prevent a city or other local governing body from adopting or enforcing law consistent with this article.'

A very recent amendment of the MMP expressly permits adoption and enforcement of 'local ordinances that regulate the location, operation or establishment of a medical marijuana cooperative or collective.'

## **Supreme Court's Issues**

Six of the seven members of the Court seemed to focus on (1) the fact that the CUA and the MMPA provided limited protection from the state criminally prosecuting qualified patients and/or primary care givers for cultivating, possessing, transporting, marijuana for medical use and (2) the City of Riverside was imposing a civil restriction on the dispensary, namely a zoning restriction. Justice Goodwin Lui observed that, although the law protects medical marijuana patients from criminal prosecution by the state, the law “says nothing about immunity from local sanctions.”

Questions and comments from members of the Court emphasized that the California Constitution, as stated above, confers local governments with the authority to make regulations to protect the health and safety of its residents. The City of Riverside argued that its ban on dispensaries was imposed pursuant to those constitutional powers.

Several justices commented that, if the Legislature wanted to prevent local governments from banning dispensaries, it could have so stated – but it did not. Justice Marvin Baxter asked, “If the Legislature wanted to prevent localities from banning dispensaries, why didn’t they say so expressly?” The attorney for the dispensary argued that the law states that its aim is to promote uniform application of medical marijuana laws throughout California and, therefore, individual localities must be consistent in applying the law. As such, allowing each jurisdiction to decide if it will ban the dispensaries would be contrary to the consistent application of the law.

Justice Lui stated that, nonetheless, individual jurisdictions could, even according to the petitioner, apply regulations short of a ban, but those regulations could be so severe as to effectively ban the dispensaries. When Justice Lui asked counsel for the petitioners if he “would have the courts get in the business of examining each of these regulations,” counsel’s response was “yes.”

## **HOW THIS AFFECTS YOUR AGENCY**

Pending the decision by the California Supreme Court, the law remains as it has been – convoluted and confusing. The majority of court of appeal decisions, up to this point, support a local government’s decision to ban dispensaries, if that’s their desire. But, it must be recognized that others say a ban is not permitted.

The Supreme Court has ninety (90) days to publish a decision and, at this time, all we can do is wait. Once the decision is rendered, and assuming it is permissive, meaning it states that local jurisdictions can ban dispensaries – but are not obligated to do so – then each city and county will have to determine what they want to do.

It is obvious that, when the Court renders it’s decision, seeking advice and guidance from legal counsel becomes imperative. As always, if you wish to discuss this case in greater detail, please feel free to contact me at (714) 446 – 1440 or via email at [mjm@jones-mayer.com](mailto:mjm@jones-mayer.com).

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# REGIONAL INTELLIGENCE REPORT



BEACONECONOMICS Prepared by Beacon Economics, LLC



Second Edition

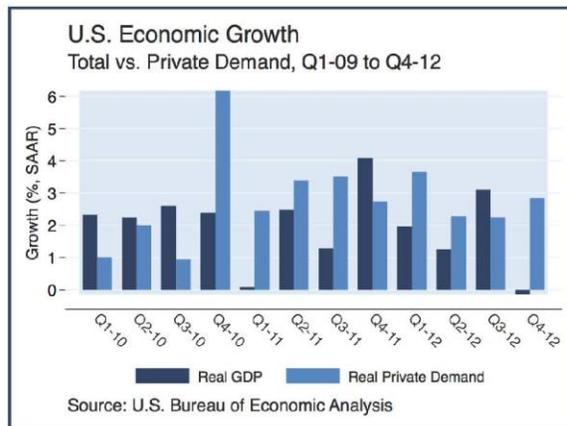
February 2013

## The National Economy

### Growth despite fiscal cliff worries.

Fourth quarter numbers for U.S. GDP growth were recently released and Beacon Economics had expected them to come in at roughly 1.3% Seasonally Adjusted Annualized Rate (SAAR), well below the third quarter tally of over 3%. Due to weaker than expected spending in the defense sector, preliminary GDP growth for the fourth quarter came in at -0.1%. Many pundits will blame the ridiculous drama of the fiscal cliff debates for this poor showing. But in reality, the year ended on a solid up-note despite the ongoing saga of partisan politics inside the beltway. While the overall growth number was low, it's not because of weak domestic demand but because of significant negatives coming from two different parts of the GDP report: inventories and the public sector.

Strip these away you come up with growth in gross private demand. Here we see a much different picture, where the economy sustained over 2% growth throughout the year, and the high point happened in the first quarter when growth came in at just below 4%, and was just shy of 3% to close out the year. As Beacon Economics forecasted, 2012 ended stronger than it began.



The good (but not great) news doesn't end there. Unemployment dropped below 8% in 2012, job gains averaged just below 200,000 per month during the last quarter, and real incomes have risen since the beginning of the year. Manufacturing, which showed signs of potentially contracting in the third quarter, firmed up by the end of the year as bank lending also started to grow. Corporate profits have remained high, and the stock markets ended the year up.

Most importantly, the housing sector hit a solid stride by the end of 2012. Low interest rates, small inventories of available units, and declining numbers of foreclosed properties finally lit a fire under this long languishing part of the U.S. economy—leading to solid increases in home prices. Additionally, housing starts surged past 900,000 units at the end of the year (SAAR). All said and done, the economy did a good job ignoring political antics.

And there are better tidings for 2013. Europe is finally finding a degree of stability, China has started to accelerate again, and Japan is working to stimulate their economic growth. A healthier world economy means exports will likely start to bounce back from the declines seen at the end of 2012. Moreover, it looks as if state and local governments are finally seeing revenues return to something resembling pre-recession normalcy. This means that a public sector that has recently been a significant drag on the overall economy, is on the edge of once again contributing to economic growth.

Needed: Strong congressional leadership.

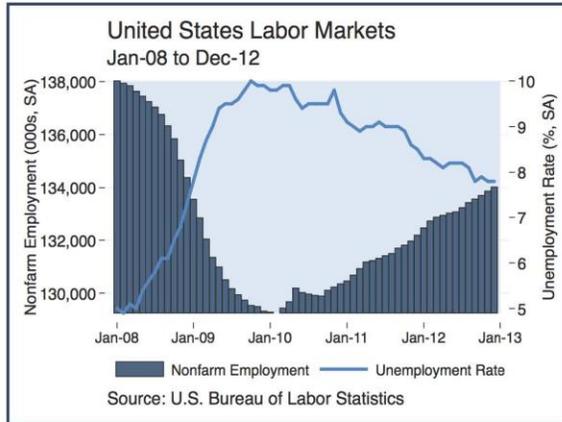
Solid momentum in the underlying economy means the economy can start to work to close the large fiscal deficit that has formed over the course of the past decade, first because of the tax cuts implemented by the Bush administration, and then because of the stimulus plan put into place at the start of 2009 by the Obama administration. Still, there is no immediate crisis. Yes, the nation is in desperate need of entitlement reform and growth in the national debt must be stemmed and eventually reversed, but there is still plenty of time to negotiate and address these problems before they become pressing threats.

In their recent budget negotiations, Congress could have helped firm up the growing strength of the U.S. economy by presenting a reasonable plan for raising revenues and cutting spending in a moderate, well mapped-out way over the next couple years. Our elected leaders also could have started the painful but necessary discussion about how to deal with the inability of our social insurance systems to meet future expectations in their current form.

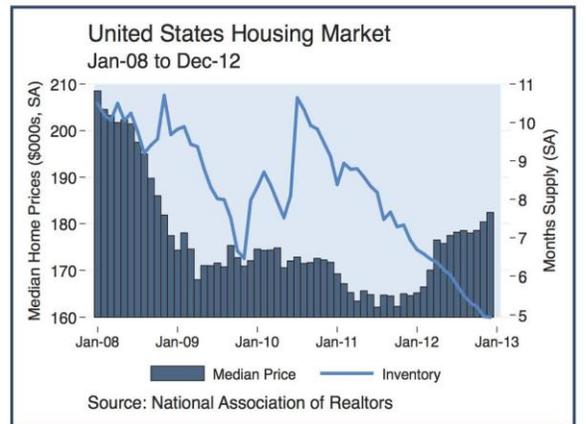
While failure to raise the debt ceiling would not be quite as cataclysmic as many are saying (the U.S. would not need to default on existing financial obligations as there are many less damaging places that would be cut first), it would most certainly push the U.S. economy back into a recession. This hard line being taken by the Republicans has pushed the Democrats back from even considering entitlement reform.

All the budget uncertainty clearly took some of the bounce out of the economy at the end of 2012—and it will likely continue to be a drag into the first part of 2013. The tax increases (particularly on the payroll side of the equation) will dampen consumer spending somewhat at the start of the year. And of course the fiscal spending side of the ledger remains an unknown. While Beacon Economics is cautiously optimistic, there are any number of ways this could unwind badly for the economy.

Beacon Economics' current forecast is for modest growth in the U.S. economy—but with a potentially serious upside or downside depending on how Congress decides (or doesn't decide) to act in the coming months.



Instead they went the other way—with heated partisan bickering preventing any reasonable conversation right up until the last minute. Fearful of a potentially brutal political backlash, they did a late night, closed-door deal to avert large tax increases—but kicked the can down the road on spending cuts, entitlement reform, and the debt ceiling. The uncertainty continues.



Where will it all lead? The Republicans are angry about the election and even angrier about the tax hikes on the wealthy that the Obama administration pushed through. There is a possibility that they will not agree to a hike in the debt ceiling without a painful pound of flesh for the economy.

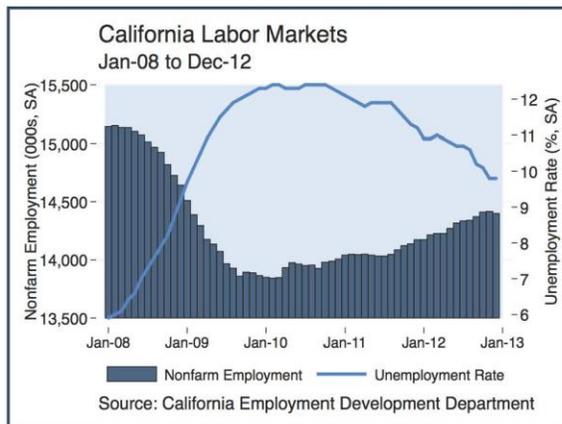
U.S. Real GDP Growth by Component (Contributions), Q1-10 to Q4-12

Component	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11	Q2-11	Q3-11	Q4-11	Q1-12	Q2-12	Q3-12	Q4-12
Personal consumption expenditures	1.72	1.81	1.75	2.84	2.22	0.70	1.18	1.45	1.72	1.06	1.12	1.52
Gross private domestic investment	2.13	1.65	1.87	-0.75	-0.68	1.40	0.68	3.72	0.78	0.09	0.85	-0.08
Structures	-0.70	0.31	-0.06	0.23	-0.84	0.77	0.51	0.31	0.35	0.02	0.00	-0.03
Equipment and software	0.90	0.76	0.76	0.60	0.72	0.53	1.20	0.62	0.39	0.35	-0.19	0.86
Residential	-0.30	0.51	-0.80	0.03	-0.03	0.09	0.03	0.26	0.43	0.19	0.31	0.36
Change in private inventories	2.23	0.07	1.97	-1.61	-0.54	0.01	-1.07	2.53	-0.39	-0.46	0.73	-1.27
Net exports of goods and services	-0.83	-1.81	-0.95	1.24	0.03	0.54	0.02	-0.64	0.06	0.23	0.38	-0.25
Exports	0.70	1.14	1.18	1.24	0.75	0.56	0.83	0.21	0.60	0.72	0.27	-0.81
Imports	-1.53	-2.95	-2.13	-0.01	-0.72	-0.02	-0.81	-0.85	-0.54	-0.49	0.11	0.56
Government consumption & investment	-0.69	0.59	-0.06	-0.94	-1.49	-0.16	-0.60	-0.43	-0.60	-0.14	0.75	-1.33
Federal	0.04	0.78	0.31	-0.35	-0.89	0.23	-0.36	-0.35	-0.34	-0.02	0.71	-1.25
State and local	-0.73	-0.19	-0.37	-0.59	-0.60	-0.39	-0.24	-0.08	-0.26	-0.12	0.04	-0.08
<b>Real Gross domestic product</b>	<b>2.30</b>	<b>2.20</b>	<b>2.60</b>	<b>2.40</b>	<b>0.10</b>	<b>2.50</b>	<b>1.30</b>	<b>4.10</b>	<b>2.00</b>	<b>1.30</b>	<b>3.10</b>	<b>-0.10</b>

Source: U.S. Bureau of Economic Analysis

## California's Recovery Gains Steam

As we begin the new year, California is poised for solid growth. Although California's labor markets ended 2012 on a disappointing note, with nonfarm employment falling by 17,500 in December, the state's economy actually picked up steam during the second half of last year. The federal tax questions associated with the Fiscal Cliff have been resolved, though it remains to be seen what actions will be taken on spending, meaning that some of the uncertainty over public policy has subsided. Recent reports from the Governor's and Legislative Analyst's Offices (LAO), show that California's long-plagued budget is expected to return to surpluses in coming years—primarily made possible because of the passage of Proposition 30 by voters on the November 2012 ballot.<sup>1</sup> With these major policy obstacles in the past, the state can begin to look forward.



Every major region in California saw job growth last year. Despite the lackluster December employment figures, nonfarm payrolls remain more than 225,000 higher than they were at the end of 2011. In fact, California has added back more than 550,000 nonfarm jobs since hitting bottom in February 2010, and the private sector has expanded by an even larger 633,000 over that same period. The state remains roughly 5.3% or (813,000 jobs) below its pre-recession peak, but things have clearly started to move in the right direction. Even the unemployment rate has finally dipped into the single-digits, though the coastal areas continued to outperform the inland regions. Virtually every sector of California's economy has entered into expansion mode. Information and Professional/Technical Services have added more than 50,000 new jobs over the past 12 months, and Real Estate and Construction have combined for an additional 35,000 jobs over that same time.

Indeed, real estate was one of the big swings last year—moving from a drag on the overall economy to an engine of growth. The median sales price of a California home rose by 21.5% in the past 12 months alone and stood more than 34% higher than they were at their 2009 trough. Currently, median home prices are just shy of \$300,000 in the state, and there were roughly 8.2% more home sales in 2012 than in 2011. With the labor markets healing and interest rates still near historic lows, demand for housing is expected to remain robust as the economy continues to heal.

Perhaps even more importantly from an economic standpoint is the fact that new construction has started to resume around the state. In fact, the 51,474 new residential homes permitted last year represents a staggering 27.9% increase over the level of construction activity in 2011. With defaults and foreclosures down dramatically across the state, it's clear that the worst of the housing crisis is well behind us. Indeed, California has actually seen its housing markets bounce back faster than states like Florida and Nevada, where the percentage of seriously distressed mortgages remain near peak, whereas California has experienced marked improvement.

Tourism remains a driver of growth in California as well. The Leisure and Hospitality sector was the fourth-fastest growing industry last year behind Information and Construction/Real Estate. Hotel occupancy, average daily room rates, and airport traffic all trended up solidly during 2012. Restaurants and drinking establishments also expanded last year—showing that residents are also feeling more confident. Indeed, consumer spending on everything from cars to clothes saw another year of gains.

A small minority of sectors continued to face difficulty last year including the Public Sector and Manufacturing. Government comes as no surprise given that local government budgets, although improving, are getting better only gradually at best. Manufacturing is a greater concern for California; it has been doing relatively well in the rest of the United States. This signals that California's "business climate" which has long been held to be very unfriendly, may be having a disproportionate impact on this specific area of our economy. Still, this weakness is being more than offset by strength in other sectors, and Beacon Economics expects that California will continue to outpace the nation overall during the next 12 months.

<sup>1</sup>Alison Vekshin, "California Budget Is 'Significant' Improvement, LAO Says," Bloomberg, January 14, 2013.

## Employment

The labor market in the East Bay has maintained the momentum of the first half of 2012, with a solid run of employment growth throughout the second half of 2012. The region reached a new post-recession high in household employment and a new post-recession low in unemployment—a standard feature of each successive month. The labor market in the East Bay needs to see further gains before it returns to the peak of employment reached in 2008, but the region is well over halfway to gaining back the number of jobs lost in the recession.

From May through November, the region added over 14,500 new jobs. While total regional employment leveled out in the last three months of that period, household employment remains up 2.3% year over year. The job gains in the East Bay are right in line with those in Silicon Valley in absolute terms—Silicon Valley added just over 14,000 new jobs over the same time period. In proportional terms, employment growth in the East Bay lagged slightly behind the growth in Silicon Valley, with household employment in Santa Clara County increasing by 3.7% year over year. San Francisco led the day in terms of the number of new positions gained, having added just over 31,000 jobs in that same time period, which is equivalent to 3.4% growth.

Traditionally, household employment grows at a faster rate payroll employment in the East Bay; many unemployed residents from the East Bay find jobs in nearby San Francisco and the South Bay and opt to commute. This continues to be the case as the region's economy grows. East Bay payroll employment grew by 2.1% from November 2011 to

November 2012, or by 20,000 jobs overall. But the pace of payroll employment growth is increasing. Throughout the fourth quarter of 2011, year-over-year growth was flat. In the second quarter of 2012, year-over-year growth averaged approximately 1%.

Most employment sectors in the East Bay are growing, and many of the region's largest sectors are growing especially quickly. The Education and Health sector, which employs over 144,000 workers in the East Bay, grew by 4.4% from November 2011 to November 2012. This sector, which proved immune to the job losses in the recession, continues to expand now that the recovery is in full swing. Professional Services, a high-wage sector, has grown by 4.6% since last year, for an increase of 3,800 jobs. Even the beleaguered Government sector, which continues to struggle in many parts of the state, grew by 1.6% year over year in the East Bay.

This is not to say that these large sectors are the only sectors on the upswing. The comparatively small Construction sector, with just under 51,000 jobs, grew by a remarkable 10.4% year over year. Wholesale Trade grew by 5.6% year over year, or by 2,400 jobs in all, owing to continued strength at the Port of Oakland. Given that the economic recovery in the East Bay is already well underway, it's not surprising that the growth of the East Bay labor market has become very broad-based.

## Consumer and Business Spending

As in neighboring San Francisco and Silicon Valley, taxable sales in the East Bay continue to grow at a very quick pace. Year-over-year growth for the third quarter of 2012 stood at 7.9%, which is equal to the growth seen in Silicon Valley over the same period and slightly ahead of the growth in San Francisco (6.1%). From trough to present, taxable sales in the East Bay have increased—indeed, they have held their own relative to neighboring coastal areas. Taxable sales growth in the East Bay totaled 26.0%, compared with 34.8% in Silicon Valley and 22.8% in San Francisco. Consumer spending in the East Bay has surpassed the pre-recession highs of late 2007, and despite flat growth in the most recent quarter, it shows little sign of receding.

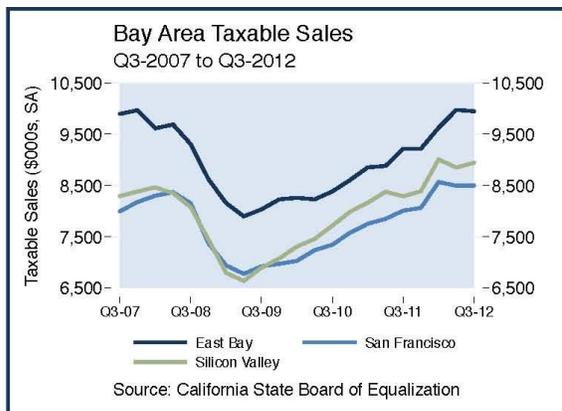
Spending is on the rise in every major category, but credit goes to some categories in particular: Autos and Transportation, General Consumer Goods, Restaurants and Hotels, and Business and Industry. Auto sales continue to flourish, having

**East Bay Employment by Sector**  
(Jobs Located in the East Bay)

Sector	November 2012 000s	October 2012 000s	(% Chg)	November 2011 (000s)	(% Chg)
Total Farm	1.5	1.6	-2.1	1.7	-6.9
Total Nonfarm	970.2	967.1	0.3	950.0	2.1
Total Private	805.4	802.5	0.4	787.8	2.2
Other Services	36.4	35.3	3.1	36.4	-0.1
Construction	50.8	50.0	1.6	46.0	10.4
Retail Trade	102.9	101.4	1.5	100.8	2.1
Wholesale Trade	44.6	44.1	1.0	42.2	5.6
Natural Resources/Mining	1.2	1.2	0.8	1.2	0.2
Trans/Warehouse/Util	31.9	31.7	0.6	32.0	-0.3
Information	23.4	23.3	0.6	22.8	2.8
Education/Health	144.5	144.3	0.2	138.5	4.4
Financial Activities	44.9	44.9	0.1	47.3	-5.1
Professional	86.1	86.1	-0.1	82.3	4.6
Admin Support	45.6	45.7	-0.3	46.6	-2.1
Manufacturing	76.8	77.1	-0.4	78.1	-1.6
Management	26.6	26.7	-0.5	25.9	2.5
Leisure/Hospitality	89.7	90.6	-1.1	87.7	2.2
Government	164.8	164.6	0.1	162.2	1.6

Source: California Employment Development Department

grown 17.5% from the third quarter of 2011 to the third quarter of 2012, demonstrating that consumers are feeling confident enough to undertake big-ticket purchases. General Consumer Goods are up 7.5% over that same time period. As shown above, Retail Trade employment is rising (by 2.1% year over year), and the increase in spending on consumer goods has been a key contributor to the growth in this sector. Similarly, as Restaurant and Hotel spending increased by a healthy 9.4% year over year, Leisure and Hospitality employment increased by 2.2% over the same time period. With consumer spending on pace to continue increasing, we expect the growth in spending to continue to spill over to the labor market, yielding more new jobs in the East Bay.



Consumer-to-business spending has grown impressively over the past year, but business and industry spending growth in the region has been substantial as well. Year over year, business and industry spending increased by 6.4%. There were serious concerns that the “fiscal cliff” would lead businesses to cut back on expenditures, and there were worries that the lack of a compromise would keep spending tight for a prolonged period of time, even as the economy remained fragile and crucially reliant on sustained spending. It remains to be seen whether the imminent threat of going over the fiscal cliff led to a significant decrease in business spending in the fourth quarter of 2012, but the eventual compromise, even if impermanent, should largely allay the concerns of business owners and encourage them to continue to increase their spending in 2013.

## Residential Real Estate

Sales of distressed properties in the Bay Area are down markedly—from 50% of total home sales in November 2011 to 35% in November 2012<sup>1</sup>—which is very good news inasmuch as it suggests that far fewer individuals in the region are failing to keep up with untenable mortgages. On the other hand, for many prospective homebuyers this is cause for concern. Homes in foreclosure increase the supply of inventory in the housing market, as foreclosure resales and short sales are a supplement to sales of nondistressed properties. An abundance of inventory keeps home prices low and offers prospective homebuyers a much better chance of closing on a new home. As the number of foreclosure resales and short sales quickly decreases, the inventory of homes on the market decreases in turn, which puts upward pressure on home prices and increases the number of prospective homebuyers per available property. As evidence of the decrease in supply, look no further than an analysis by Polaris Group, which finds that the number of available condos in Oakland and Emeryville has decreased to less than 175—less than three months of inventory.<sup>2</sup>

With the prevalence of investors in the housing market—a report by the Urban Strategies Council finds that 42% of Oakland homes that were foreclosed on between October 2007 and October 2011 were purchased by investors<sup>3</sup>—the likelihood of finding an affordable new home for a primary residence and closing on it decreases even further. On the other hand, continued economic growth should put upward pressure on incomes in the years ahead, which will help many prospective homebuyers to keep up with rising home prices. Furthermore, the growth in home prices is not expected to greatly outpace growth in incomes, as it did during the years of the housing bubble. Inventories will remain tight, but as home prices rise over time, these prices should not be severely prohibitive for many East Bay residents.

This is not to say that home prices in the East Bay are rising slowly. In fact, the median price of an existing single-family home has grown by 14.0% year over year on a seasonally adjusted basis, to \$360,000, with 13.0% of this growth coming in the second and third quarters of 2012. The Oakland Metropolitan Division (Oakland MD) is keeping pace with Silicon Valley, where home prices increased by 12.7% year

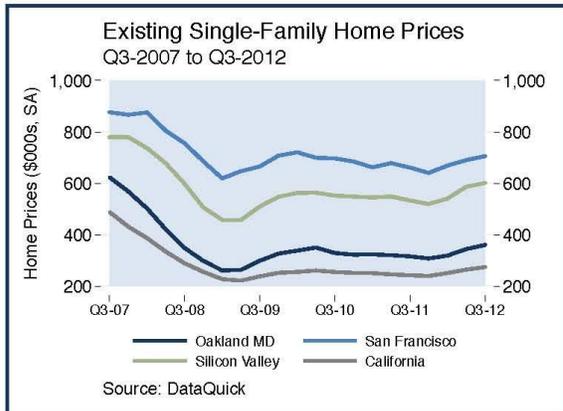
<sup>1</sup>Pete Carey, “Bay Area Continues a Year of Hard Won Gains in November,” *Oakland Tribune*, December 13, 2012.

<sup>2</sup>Blanca Torres, “East Bay Condo Market Rebounds, Inventory Shrinks,” *San Francisco Business Times*, December 14, 2012.

<sup>3</sup>Whitney Phaneuf, “The Flipping Frenzy,” *East Bay Express*, December 20, 2012.

over year, to \$601,000, and with the state overall, where home prices increased by 13.0% year over year, to \$275,000. The Oakland MD has also gained some ground on San Francisco, where home prices increased by 6.7% year over year, to \$706,000. Much of this steep increase may have come from an especially large number of sales of luxury homes in recent quarters, as owners of these homes sought to sell these properties prior to the implementation of new tax laws taking effect in the new year.

Home sales growth in the most recent quarters remains consistent with trends over the past few years. In the Oakland MD, home sales increased by 8.8% on a seasonally adjusted basis from the third quarter of 2011 to the third quarter of 2012. Year-over-year home sales have increased at a similar pace in other parts of the Bay Area: 9.0% in San Francisco and 10.2% in Silicon Valley. Home sales have grown more slowly in the state overall, at 5.3%. Consequently, the deep decrease in distressed property sales has not had an impact on overall existing home sales. Of course, these numbers only reflect the number of sales, not the type of buyer. Many of these sales may still have gone to investors rather than long-term buyers.



Fortunately, based on the number of housing permits issued in 2012, there will likely be more new housing units on the market than there were a year ago. Through the first three quarters of 2012, 1,854 building permits were issued for single-family homes, which is an increase of 56.6% from the first three quarters of 2011, and an increase of 21.5% from all building permits issued in 2011. Apartment and condominium construction has also increased in the past year: 1,930 building permits were issued for multifamily units in the first three quarters of 2012, which is an increase of 46.4% from the first three quarters of 2011, and an increase of 12.8% from all of 2011.

In fact, single-family construction in the East Bay in the first three quarters of 2012, far outgained construction in Silicon Valley and San Francisco. Only the East Bay exceeded its single-family building permit issuances from the 2011 calendar year within the first three quarters of 2012. On the other hand, the East Bay has a long way to go to catch up to Silicon Valley in recent multifamily construction, as Silicon Valley underwent a boom in construction in the fourth quarter of 2011 that carried over into 2012. Silicon Valley had already exceeded 2011 building permit totals by 20.2% in the first three quarters of 2012. Ultimately, it remains to be seen whether the recent spike in multifamily construction proves to be a trend or an aberration.

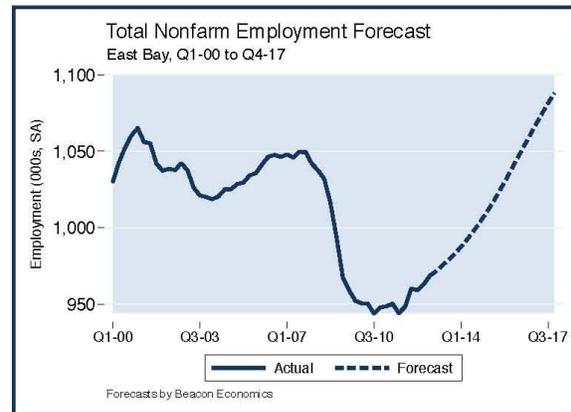
Bay Area Residential Building Permits

	2012 YTD	2011 YTD	2011	2010
East Bay Single-Family Units	1,854	1,184	1,526	1,716
San Francisco Single-Family Units	236	216	275	316
Silicon Valley Single-Family Units	956	718	978	826
East Bay Multifamily Units	1,930	1,318	1,711	1,826
San Francisco Multifamily Units	2,493	2,067	2,544	860
Silicon Valley Multifamily Units	2,686	864	2,234	3,627

Source: Construction Industry Research Board

## East Bay Forecast

With total nonfarm employment in the East Bay showing gradual growth quarter after quarter, Beacon Economics forecasts job growth to continue for some time, such that over the course of 2013, total nonfarm employment is expected to increase to 983,000 positions, for an increase of roughly 1.5%. Beyond that, the rate of employment growth is expected to pick up to 2.0% in the fourth quarter of 2014, with the East Bay reaching one million jobs by the fourth quarter of 2014.



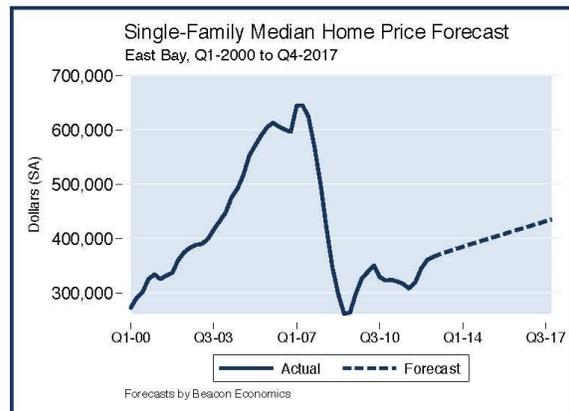
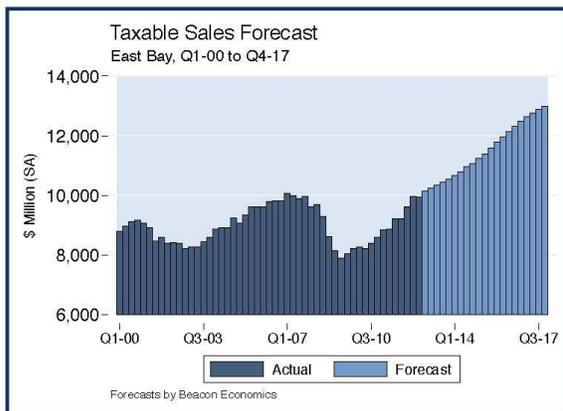
The East Bay labor force will continue to grow as well. As more East Bay residents find work, fewer residents will drop out of the labor force—more found jobs in the region will encourage job seekers to continue their searches for work. Beacon Economics forecasts the growth in the labor force in 2013 to be slower than the growth in total nonfarm employment, at 1.0%, with that rate of growth increasingly slightly through 2014. With the growth in total nonfarm employment exceeding the growth of the labor force in the East Bay, the unemployment rate will fall, such that by the fourth quarter of 2014, the unemployment rate will dip below 8.0%. The unemployment rate is expected to fall below 7.0% by the first quarter of 2015.

Much of this growth in the labor market will come from two sectors: Construction and Professional and Business Services. Beacon Economics forecasts employment in the Construction sector to increase by 2.4% over the course of this year, but to then accelerate rapidly—by the fourth quarter of 2015, year-over-year growth should reach 7.3%. Between the fourth quarter of 2012 and the fourth quarter of 2015, the Construction sector is expected to add roughly 7,000 jobs. Employment growth in Professional and Business Services is not expected to rise as quickly, but the growth will be substantial nonetheless. Beacon Economics forecasts 2.2% growth in Professional and Business Services from the fourth quarter of 2012 to the fourth quarter of 2013, increasing by roughly one percentage point per year until it reaches 4.9% growth year over year in the fourth quarter of 2015. From the fourth quarter of 2012 to the fourth quarter of 2015, Professional and Business Services is expected to add over 18,000 jobs. Growth in these two sectors will exceed growth in many other sectors, and they will be key drivers of total nonfarm employment growth in the region. This growth in overall employment will by no means be hasty, but expect the trend to continue to be positive for years to come.

Consumer spending, which has already surpassed a pre-recession peak of \$10.1 billion, should continue to grow as well. From the fourth quarter of 2012 to the fourth quarter of 2013, taxable sales are expected to increase by 4.1%, with

the rate of growth steadily increasing thereafter. By the end of 2014, taxable sales are expected to have grown by 9.2% from current levels, and by the end of 2015 they will have grown by 16.3%. Continual improvement in the job market will put upward pressure on spending, as the total amount of available cash for spending in many East Bay households will increase in response to new income. In addition, many East Bay residents will see their wages increase as the economy continues to get healthier, which should also lead to increased consumer spending. In all, consumer spending growth should remain robust for some time.

As noted above, existing single-family home prices increased quickly over the past year. Beacon Economics forecasts home prices to continue to rise, but the rate of growth will be a little more gradual than it was in recent quarters. A decrease in supply, as described above, combined with a steady increase in demand (in response to an increase in household incomes in the region, low home prices, and very low borrowing rates), will push prices up, but this increase will in no way mimic the increase in home prices during the housing bubble, which was driven heavily by rampant speculative buying. Over the course of 2013, home prices are expected to increase by 4.1%, to \$381,000, but to slow to 3.6% year over year by the fourth quarter of 2014. Home prices should reach \$400,000 by the second quarter of 2015.



Beacon Economics expects home sales in the East Bay to increase in the near future, with 2.2% growth from the fourth quarter of 2012 to the fourth quarter of 2013, rising to 6.5% year-over-year growth by the fourth quarter of 2014. Quarterly home sales are expected to reach 7,000 by mid-2014. However, a steady, large number of buy-ups of existing homes will cause growth to taper off quickly, such that year-over-year growth is expected to be less than 1% by the end of 2016. Even so, home sales are expected to reach 7,600 per quarter by that time, as the housing market recovery continues in full swing.



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## About Beacon Economics

Beacon Economics, LLC is an independent economic research and consulting firm that provides objective, top-tier research and analytics to help its clients make optimal decisions about investment, growth, revenue, policy, and other critical economic and financial issues. The firm's core areas of expertise include economic and revenue forecasting, regional economic analysis, market and industry analysis, economic impact studies, economic policy analysis, and international trade analysis.

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