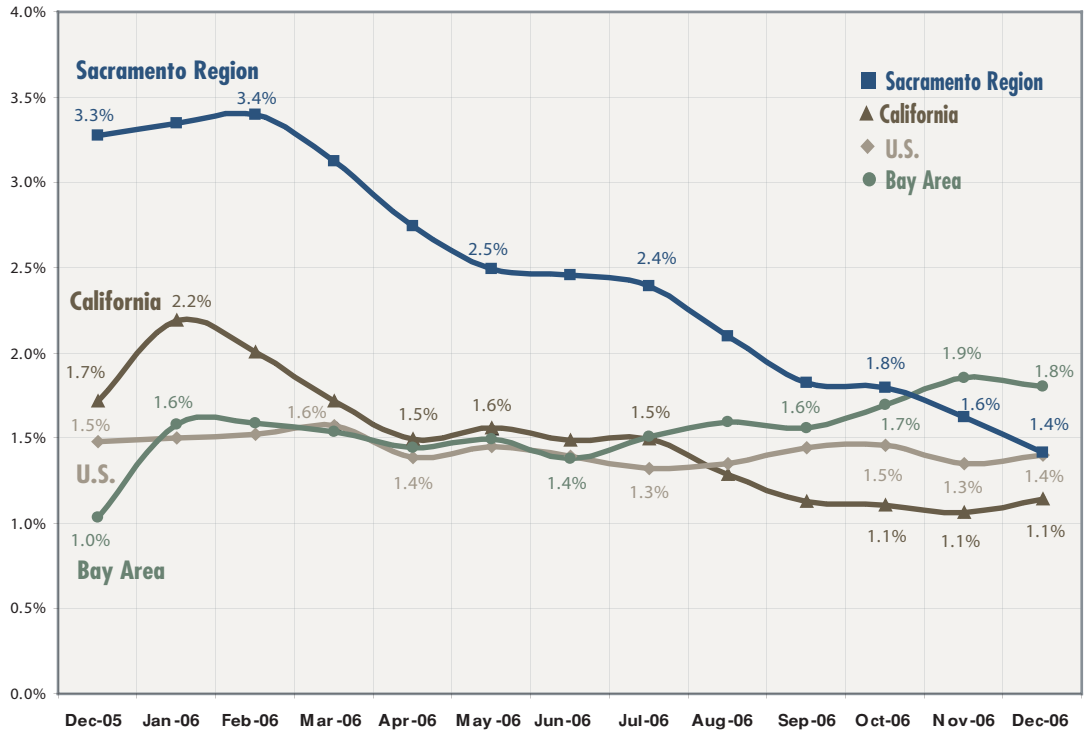
A PUBLICATION BROUGHT TO YOU BY SACTO AND SRRI

Q4 2006

Quarterly
ECONOMIC REPORT

Sacramento Region's Declining Job Growth Puts it in the Middle of the List of Major and Neighboring Regions in the State



Job Growth
Sacramento Region, Bay Area, California, and United States
Sacramento Regional Research Institute, January 2007
Data Sources: California Employment Development Department and US Bureau of Labor Statistics
Note: Job growth reflects year-over-year Nonfarm employment growth rates.

An economic report on the six-county Sacramento Region provided by the Sacramento Regional Research Institute (SRRI), a joint venture of SACTO and California State University, Sacramento

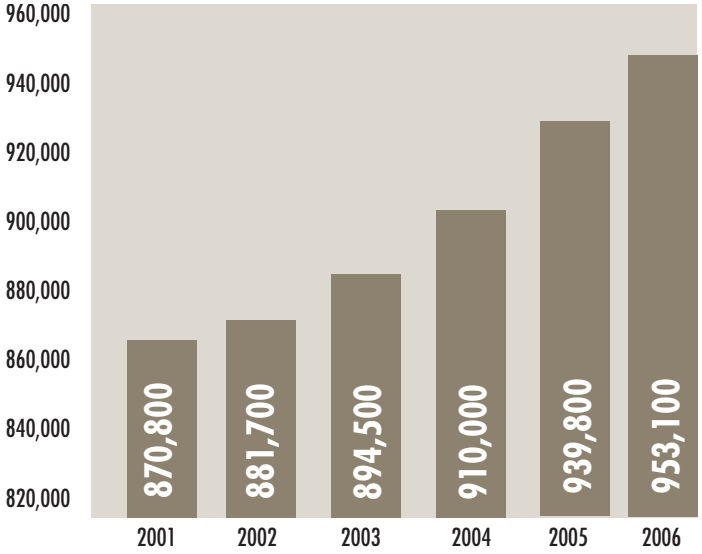
The six-county Sacramento Region ended 2006 with 1.4 percent job growth, a 2 percentage point decline from the 2006 peak in February of 3.4 percent. The December 2006 rate reflects a year-over-year gain of 13,300 jobs. Over the last quarter of 2006, job growth continued to decline, posting rates lower than the Region has seen since mid-2004 and falling toward the national average. The declining job growth throughout most of 2006 is primarily the result of slowdowns in housing-related sectors (Construction and Financial Activities) coupled with decreasing growth rates in other large sectors (such as Manufacturing; Professional & Business Services; and Trade, Transportation & Utilities). Despite the declining pattern, the Region's year-over-year employment growth rates remained above the statewide average for all of 2006. Accounting for all months' data, the Sacramento Region ended 2006 with an annual average employment growth rate of 2.4 percent, which is slightly lower than its 2005 annual average job growth of 2.5 percent, but notably above the statewide and national averages of 1.5 and 1.4 percent, respectively.

continued on next page

Job Growth *cont.*

Like the Sacramento Region, the state posted decreasing employment growth rates throughout 2006 due to diminishing job growth in housing-related activities; however, the state's decline was not as pronounced as the Sacramento Region, showing only a 1.1 percentage point drop off from the January 2006 peak of 2.2 percent. Between December 2005 and 2006, the state added 171,900 jobs with a growth rate of 1.1 percent. During the last quarter of 2006, the state's job growth consistently fell below the national average.

The nation saw a flat job growth pattern during 2006, fluctuating between 1.3 and 1.5 percent year-over-year employment growth for all 12 months. This allowed the nation to surpass California and catch up to the Sacramento Region as both experienced job growth declines. Over the 12 months ending December 2006, the nation posted 1.4 percent job growth, adding over 1.9 million jobs.

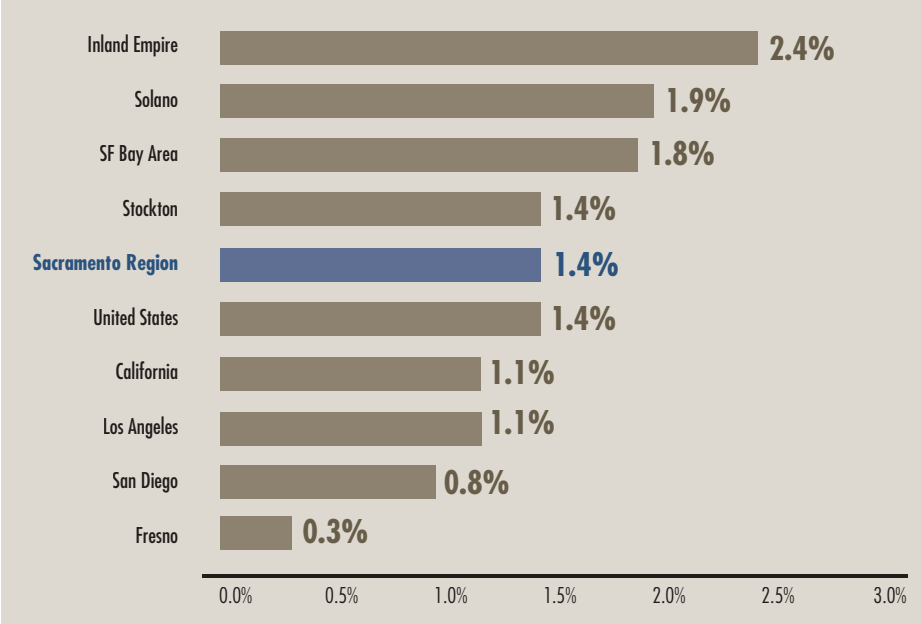


Sacramento Region Employment
December 2001–2006
Sacramento Regional Research Institute, January 2007
Data Source: California Employment Development Department
Note: Totals reflect Nonfarm employment.

The Bay Area continued its economic recovery in 2006, reaching 1.9 percent job growth in November 2006 and falling slightly to 1.8 percent in December 2006. At the same time last year, the Bay Area was adding jobs on a year-over-year basis at just 1.0 percent. The Bay Area added 52,200 jobs between December 2005 and 2006. In the last quarter of 2006, the Bay Area reached a new milestone in its recovery by outperforming the Sacramento Region's job growth in November 2006 and December 2006 (it overtook the statewide and national averages in August 2006). On an annual average basis, the Bay Area posted 1.6 percent job growth for 2006, considerably higher than its 2005 rate of 0.8 percent and slightly above the statewide and national averages.

With a December 2006 year-over-year employment growth rate of 1.4 percent, the Sacramento Region placed near the middle of the list of neighboring economies and the state's largest regions. While, in the past, the Sacramento Region and the Inland Empire regularly topped the list, the Inland Empire remained relatively strong at the end of 2006 as the Sacramento Region dropped off. The Inland Empire topped the list with 2.4 percent job growth, followed by Solano (1.9 percent growth) and the Bay Area (1.8 percent growth). Both Stockton and the Sacramento Region placed even with the national average and Los Angeles, San

continued on next page



Employment Growth Rates
Selected Regions,
December 2005–2006
Sacramento Regional Research Institute, January 2007
Data Sources: California Employment Development Department and US Bureau of Labor Statistics
Note: Growth rates reflect Nonfarm employment.

Job Growth *cont.*

Diego, and Fresno all posted job growth lower than the statewide average. Many of the state's inland areas continue to show relatively solid economic performance while the coastal regions present a mixed view—those in southern California (Los Angeles and San Diego) posted somewhat modest growth in the past 12 months as the Bay Area continued to gain momentum in its economic recovery.

Government; Leisure & Hospitality; and Professional & Business Services Acted as the Sacramento Region's Strongest Sectors at the End of 2006

The Sacramento Region's employment gains for the 12 months ending December 2006 were primarily supported by the Government; Leisure & Hospitality; and Professional & Business Services sectors, which, combined, added 13,600 jobs. The Region's employment losses were concentrated in the housing-related sectors (Construction and Financial Activities) along with Information and Manufacturing. While Manufacturing; Financial Activities; and Construction were showing year-over-year job gains in previous quarters, acting as strong contributors to the Region's job growth, all three posted losses in the fourth quarter of 2006. The Region's Government; Leisure & Hospitality; and Professional & Business Services sectors also supported the largest job gains on an annual average basis for 2006 while Educational & Health Services, rather than Leisure & Hospitality, was among the top three sectors for 2005.

Major Sector Employment Gains and Losses
Sacramento Region, Bay Area and California

	December 2005–2006		
Sector	***Sacramento Region***	***California***	***Bay Area***
Total Nonfarm	**13,300**	**171,900**	**52,200**
Private Sector	**7,400**	**132,900**	**46,600**
Public Sector	**5,900**	**39,000**	**5,600**
Government	5,900	39,000	5,600
Leisure & Hospitality	4,300	33,300	8,500
Prof. & Business Svcs.	3,400	45,400	11,400
Edu. & Health Svcs.	2,600	33,300	7,600
Trade, Trans., & Util.	600	12,100	5,700
Other Services	200	6,700	200
Nat. Res. & Mining	0	1,200	100
Information	-400	7,600	800
Manufacturing	-500	-1,200	3,000
Financial Activities	-600	10,200	3,100
Construction	-2,200	-15,700	6,200

Sacramento Regional Research Institute, January 2007
Data Source: California Employment Development Department

Professional & Business Services; Government; and Leisure & Hospitality also generated the most jobs at the statewide level between December 2005 and 2006. Together, these three sectors added 117,700 jobs and accounted for almost 69 percent of the state's net employment gain. The Construction and Manufacturing sectors posted the third straight month of year-over-year job losses while the Information sector moved back to positive growth in December 2006. Unlike the Sacramento Region, the state's Financial Activities sector maintained positive growth at the end of 2006 due to more diversified activities outside of real estate.

Positive year-over-year job growth in all of the major sectors at the end of 2006 presents another sign of the Bay Area's economic recovery. Similar to the state and the Sacramento Region, the Bay Area's Professional & Business Services and Leisure & Hospitality sectors supported a large share of the net job gain, but, unlike the other two benchmarks, Construction experienced positive growth and placed among the top four sectors with the greatest employment gains (along with Educational & Health Services) with a mix of residential and non-residential activities. The three top sectors supported a total gain of 27,500 jobs and accounted for approximately 53 percent of the Bay Area's

continued on next page

Employment Gains and Losses
Components of Sacramento Region and Bay Area

	December 2005–2006	
Area	***Absolute***	***Rate***
Sacramento Region	**13,300**	**1.4%**
Sacramento-Arden Arcade-Roseville MSA	14,100	1.6%
Yuba City MSA	-800	-1.9%
Bay Area	**52,200**	**1.8%**
San Francisco-San Mateo-Redwood City Div.	18,600	1.9%
Oakland-Fremont-Hayward Div.	17,600	1.7%
San Jose-Sunnyvale-Santa Clara MSA	16,000	1.8%

Sacramento Regional Research Institute, January 2007
Data Source: California Employment Development Department
Note: Gains and losses reflect Nonfarm employment.

Sector Gains and Losses *cont.*

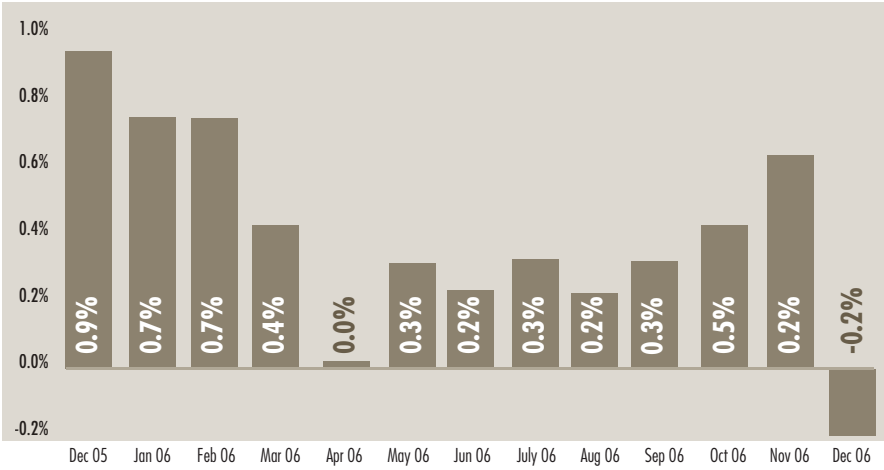
net employment increase. Professional & Business Services; Leisure & Hospitality; and Construction generated the greatest gains in the Bay Area for both the 2005 and 2006 annual averages. Four of the Bay Area's sectors showed job losses in 2005 while only one sector posted employment declines on an annual average basis in 2006.

The Sacramento-Arden Arcade-Roseville Metropolitan Statistical Area (MSA—El Dorado, Placer, Sacramento, and Yolo Counties), the Sacramento Region's largest market, posted 1.6 percent job growth in December 2006. The December 2006 rate was notably lower than job growth at the beginning of 2006. This MSA's most recent job growth was driven by Government and Professional & Business Services gains mixed with housing-related losses. The Yuba City MSA (Sutter and Yuba Counties) began 2006 with strong job growth (7.9 percent in January 2006), but experienced significant declines and ended the year with negative job growth (-1.9 percent in December 2006). Only a few of the Yuba City MSA's major sectors posted job gains in the 12 months ending December 2006 while Construction; Financial Activities; and Trade, Transportation, & Utilities saw job losses, which influenced the overall job growth picture.

As the Bay Area moved through its economic recovery throughout 2006, job growth in the Oakland-Fremont-Hayward Metropolitan Division (MD—Alameda and Contra Costa Counties) slowed down slightly and the San Francisco-San Mateo-Redwood City MD (Marin, San Mateo, and San Francisco Counties) and the San Jose-Sunnyvale-Santa Clara MSA (San Benito and Santa Clara Counties) picked up momentum. By the end of the year, all three markets were making fairly equal contributions to the overall Bay Area's economy, ranging from 31 to 36 percent of the net job gain between December 2005 and 2006. The leading market in December 2006, San Francisco-San Mateo-Redwood City MD, posted 1.9 percent job growth driven by Professional & Business Services and Leisure & Hospitality activities. The East Bay (Oakland-Fremont-Hayward MD), the leading market for most of 2006, showed 1.7 percent employment growth with Professional & Business Services; Construction; and Educational & Health Services posting the greatest job gains. The Silicon Valley (San Jose-Sunnyvale-Santa Clara MSA) showed a considerable improvement in job growth compared to the beginning of the year with a 1.8 percent growth rate led by gains in Leisure & Hospitality and Professional & Business Services. Unlike many of the state's regions, none of the three Bay Area markets experienced losses in the Construction or Financial Activities sectors.

For Most of 2006, Growth In Employment Opportunities Outpaced the Growth In Employable Residents, Demonstrating Somewhat Healthy Economic Conditions in the Sacramento Region.

Despite declining job growth in the Sacramento Region throughout 2006, another view of economic health suggests that the Region maintained fairly healthy conditions until the end of the year. Economic theory suggests that as long as the year-over-year growth rate in the number of persons employed is larger than the growth rate in the civilian labor force, a region is in good economic health. For most of 2006, this indicator remained positive, demonstrating healthy conditions with employment opportunities available to the Region's residents growing faster than the number of employable people. However, by December 2006, the measure of divergence shifted negative, demonstrating that 2007 will likely begin with weaker conditions than 2006.



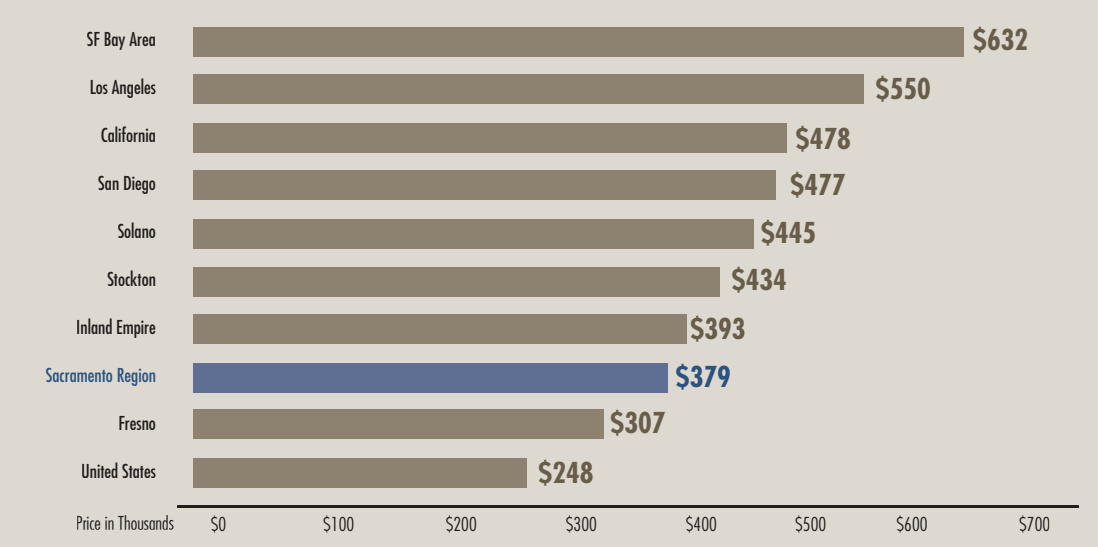
Sacramento Region Economic Health
Sacramento Regional Research Institute, January 2007
Data Source: California Employment Development Department
Note: Bars reflect the percentage point difference between the year-over-year growth rates in the employed portion of the labor force and the total labor force.

The Sacramento Region Had One of the Lowest Home Sales Prices and Best Measures of Affordability Among Major and Neighboring California Regions for the Third Quarter of 2006

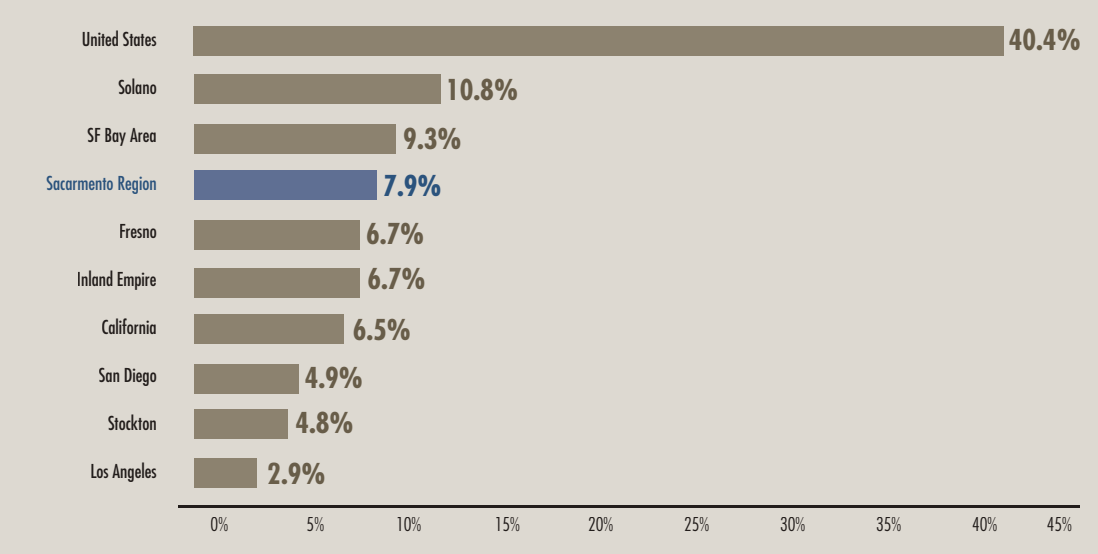
Compared to neighboring and major regions in the state, the Sacramento Region's home sale price was among the lowest for the third quarter of 2006. With a price of $379,000, the Region fell below the statewide average, slightly below the Inland Empire, and notably above Fresno. The Bay Area and Los Angeles posted home sale prices well above the statewide average of $478,000 while all other regions fell below the statewide average, but above the national average of $248,000. Overall, the state's inland areas still maintain the lowest prices. Every region, with the exception of the Inland Empire, experienced price declines since the second quarter of 2006 with the Sacramento Region posting the greatest decline of 3.0 percent. Compared to the third quarter of 2005, only three regions (the Sacramento Region, Solano, and San Diego) and the nation saw home sale price decreases—again, the Sacramento Region experienced the largest decline with a loss of 7 percent.

Just fewer than 8 percent of the homes sold in the Sacramento Region during the third quarter of 2006 were affordable to families earning a median income. Although this is a low proportion, relative to neighboring and major regions in the state, the Region is among the most affordable—only Solano and the Bay Area were more affordable. Three regions posted a Housing Opportunity Index measure below the statewide average of 6.5 percent including San Diego, Stockton, and Los Angeles, while all selected regions were significantly below the national average of 40.4 percent. The Sacramento Region, along with Los Angeles and San Diego experienced small improvements in housing affordability since the second quarter of 2006. Between the third quarters of 2005 and 2006, Sacramento was the only region to post an increase in the Housing Opportunity Index (0.5 percentage points). Overall, the Sacramento Region is unique in California in that its prices have fallen and it has become more affordable in the past 12 months.

Home Sale Price
Selected Regions, Third Quarter 2006
Sacramento Regional Research Institute, January 2007
Data Source: National Association of Home Builders-Wells Fargo Housing Opportunity Index



Housing Opportunity Index
Selected Regions, Third Quarter 2006
Sacramento Regional Research Institute, January 2007
Data Source: National Association of Home Builders-Wells Fargo Housing Opportunity Index
Note: Housing Opportunity Index reflects share of homes sold that would have been affordable to a family earning the median income.



Prosperity Index: Measuring the Sacramento Region's Competitive Position

Business Component Update

The Sacramento Regional Research Institute (SRRI) developed the Prosperity Index to provide business and community leaders in the Sacramento Region a valuable tool to measure economic prosperity and track its performance against competitor regions in order to evaluate the competition, identify opportunities for improvement and ultimately impact change in the Region. Along with the national average, ten competitor regions were chosen as benchmarks for this analysis based on feedback from regional economic development organizations regarding metropolitan areas that often compete with the Region for business location and expansion projects. SRRI will update the overall Prosperity Index annually—which measures indicators in the three areas of **BUSINESS**, **PEOPLE** *and* **PLACE**. *The* **BUSINESS** *component will be updated quarterly in order to allow for more frequent evaluations of the local business climate. For more information and to view the 2006 report, please visit www.srri.net.*

SPONSORS

LOS RIOS COMMUNITY COLLEGE DISTRICT

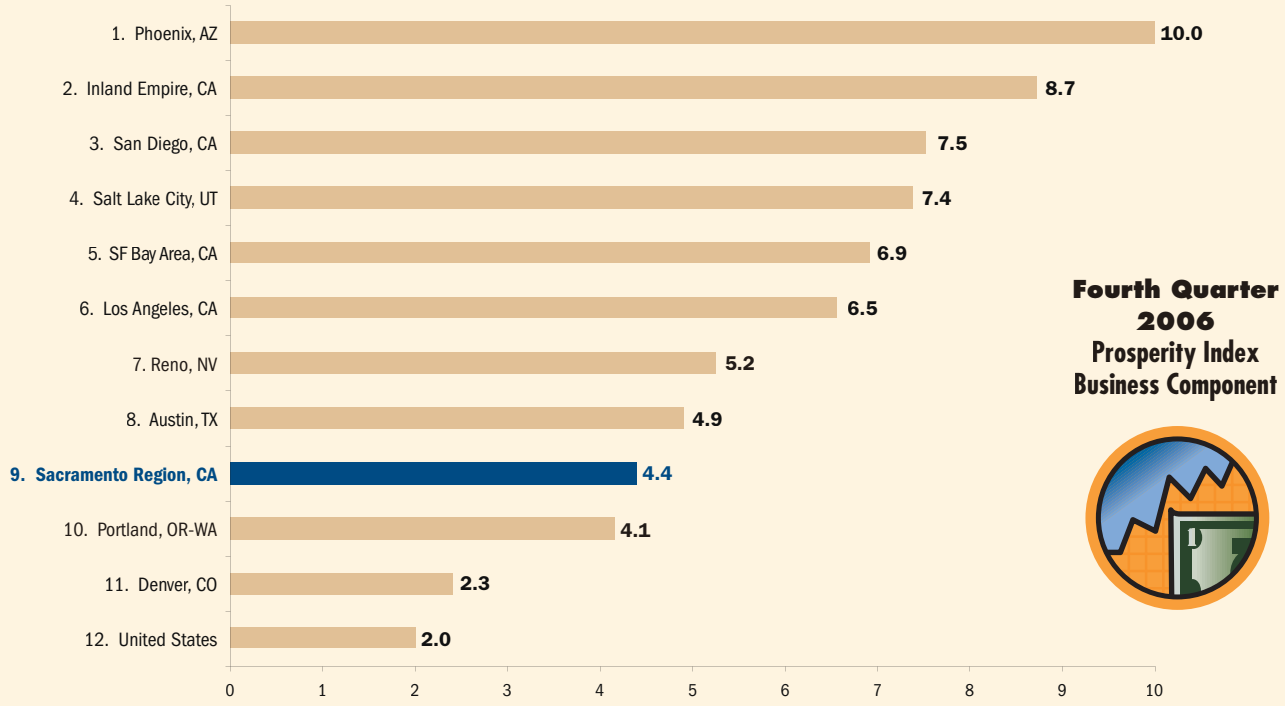
MHA McDonough Holland & Allen PC Attorneys at Law

SACRAMENTO WORKS Your Workforce Resource

WELLS FARGO

The Sacramento Region Moved Up to Ninth Place on Fourth Quarter 2006 Prosperity Index Business Component

The Sacramento Region moved up to ninth place among its main competitors on the **BUSINESS** component of the **PROSPERITY INDEX** for the fourth quarter of 2006. The Region hovered in tenth place for the first three quarters of 2006, but increased to ninth in the last quarter even with a small decrease in the score from the third quarter — 4.4 out of a possible ten versus 4.6. Although the Region placed above the national average, it remained below all the California regions and all but two of the other competitive regions (Portland and Denver). Phoenix continued to place at the top of the list, receiving all 10 points, for every quarter of 2006 and Denver ranked near the bottom of the list throughout 2006. Sacramento received a moderate score on the Establishment Growth indicator and fairly low scores for the remaining five indicators, ultimately driving the decline in score. Three of the six indicators showed an improvement from the third quarter of 2006 including Establishment Growth, Job Growth, and Venture Capital Investment. Overall, relative to its main competitors, the Sacramento Region presented a fairly low competitive position in terms of business climate for all four quarters in 2006.



Prosperity Index: Measuring the Sacramento Region's Competitive Position

Fourth Quarter 2006 Prosperity Index: Business Component Indicator Scores

Region	Establishment Growth	Job Growth	Office Vacancy Rate	Payroll Growth	Unemployment Rate	Venture Capital Investment
Austin, TX	1.4	5.3	0.0	3.5	7.2	4.3
SF Bay Area, CA	3.7	0.4	5.4	6.1	4.9	10.0
Denver, CO	0.0	0.0	0.2	3.8	4.0	2.3
Inland Empire, CA	10.0	9.1	9.4	6.4	3.7	0.0
Los Angeles, CA	7.6	2.5	10.0	3.7	4.2	0.8
Phoenix, AZ	7.9	10.0	5.8	10.0	9.4	1.2
Portland, OR–WA	6.5	3.4	4.8	2.7	0.0	0.7
Reno, NV	2.7	6.7	5.1	0.0	8.8	0.0
Sacramento Region, CA	***6.3 (+)***	***3.9(+)***	***3.2(-)***	***2.7(-)***	***3.1(-)***	***0.3(+)***
Salt Lake City, UT	6.7	6.0	3.2	5.9	10.0	0.8
San Diego, CA	7.5	0.9	7.8	5.6	8.0	3.3
United States	0.9	0.2	1.9	1.8	3.1	0.7

Sacramento Regional Research Institute, January 2007
Note: + refers to improvement in score over Q3 2006 and – represents decrease in score from Q3 2006.

Benchmark Regions

Sacramento Region, CA—El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties

Austin, TX—Bastrop, Caldwell, Hays, Travis, and Williamson Counties

SF Bay Area, CA—Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara Counties

Denver, CO—Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, Park, and Boulder Counties

Inland Empire, CA—Riverside and San Bernardino Counties

Los Angeles, CA—Orange, Los Angeles, and Ventura Counties

Phoenix, AZ—Maricopa and Pinal Counties

Portland, OR-WA—Clackamas, Columbia, Multnomah, Washington, Yamhill Counties in Oregon and Clark and Skamania Counties in Washington

Reno, NV—Storey and Washoe Counties

Salt Lake City, UT—Salt Lake, Summit, Tooele, Davis, Morgan, and Weber Counties

San Diego, CA—San Diego County

United States—national average

Prosperity Index Business Component Indicators

Job Growth accounts for the year-over-year percentage increase in average first quarter employment from 2005 to 2006. This measure is often viewed as an indicator of overall economic performance since employment is the primary source of income for residents and changes in the level of jobs reflect local business patterns. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Establishment Growth measures the percentage increase in firms from the first quarter of 2005 to the same quarter of 2006. As an indicator of the overall business climate, this measure shows net changes in the number of businesses and captures firm births and deaths. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Office Vacancy Rate calculates the percentage of the total net rentable area of office property that was unoccupied in the third quarter of 2006. High vacancies indicate a lack of demand and/or overdevelopment and can also be interpreted as signs of economic slowdown. Regions with high vacancy rates receive low scores on this indicator. The sources for this data are the CB Richard Ellis Office Vacancy Index and Market View reports and Colliers International Market Reports.

Payroll Growth measures the percentage increase in aggregate compensation over a one-year period (in this case, from the first quarter of 2005 to the first quarter of 2006). This data provides insight into changes in total industry payrolls, pointing to general business performance and the level of available consumption and savings activity. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Unemployment Rate calculates a 12-month moving average (ending in September 2006) percentage of the labor force that was unemployed. Higher unemployment rates indicate signs of economic slowdowns, increased competition for jobs, and decreased ability to generate income while lower rates tend to signify growth and expansion. Regions with low unemployment rates receive higher scores on this indicator. The source for this data is the Bureau of Labor Statistics' Local Area Unemployment Statistics.

Venture Capital Investment accounts for total venture capital funds invested in local companies per employee in the third quarter of 2006. This indicator not only points to perceptions in the investment community about a region's innovation capacity and investment risk, but also has future implications since firms receiving venture capital use the funds in an attempt to innovate, develop products and services, and become more productive in the future. The sources for this data are Venture Economics' Quarterly Statistics and the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

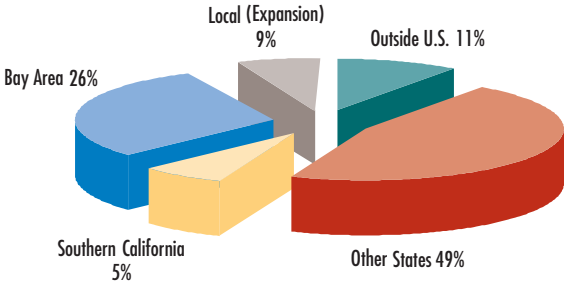
SACTO Prospect Activity Update

SACTO's proactive recruitment efforts aimed at the clean energy/green technology sector have yielded significant results. SACTO recently added two new headquarter companies in this sector. Pacific Ethanol, Inc., a publicly traded ethanol production, sales, and marketing company selected downtown Sacramento for its headquarters, and Ecostream, a Dutch-based sustainable energy systems company, recently chose West Sacramento for its U.S. headquarters. With the addition of these two national headquarters, the region is now home to a growing number of national headquarters and regional locations for clean energy-related companies — further solidifying the region's emerging prominence as a center for this growing industry cluster. Many of SACTO's manufacturing and distribution prospects are clean energy-related companies, and we expect to see continued growth in this area.

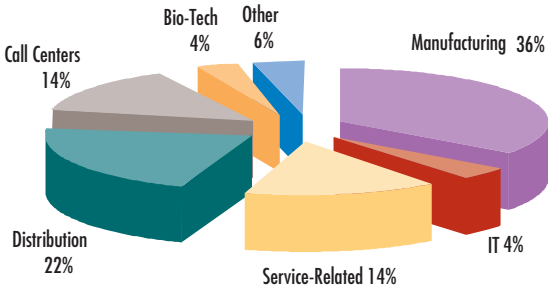
The Sacramento region continues to attract significant interest from private educational institutions from a broad spectrum of disciplines. Within the past two years, SACTO assisted five major private educational institutions, including Kitchen Academy, Unitek Education, DeVry University, International Academy of Design and Technology and Universal Technical Institute. These postsecondary schools have a substantial impact on our local economy by attracting students from outside of the region who help fuel our economy, diversify our workforce and give emerging students alternatives to typical postsecondary education. Our strong population and job growth have helped fuel this sector, and we have several other prospects looking to establish a presence in our market.

SACTO also continues to see a strong interest in the Sacramento region from the life sciences sector. Our proximity to the Bay Area, our educated workforce and our world class educational and research institutions are important factors for companies considering locating to the region. Prospects range from medical treatment facilities to research and development operations.

Prospect Origin Breakdown



Facility Type Breakdown



Quarterly

ECONOMIC REPORT

A PUBLICATION BROUGHT TO YOU BY SACTO AND THE SACRAMENTO REGIONAL RESEARCH INSTITUTE

SACTO The Inside Track

ABOUT SACTO

SACTO is the region's leading facilitator of economic development bringing together the organizations, information and resources in the pursuit of jobs, talent and investment needed to ensure regional prosperity and global competitiveness.

Sacramento Area Commerce and Trade Organization
400 Capitol Mall, Suite 2500
Sacramento, CA 95814-4436
PHONE: (916) 441-2144
1-800-SACTO-12
FAX: (916) 441-2312
www.sactoedc.org

SRRI

ABOUT SRRI

SRRI provides a full range of objective economic and demographic research services to government entities, businesses and non-profit organizations.

Sacramento Regional Research Institute
A Joint Venture of SACTO and California State University, Sacramento
400 Capitol Mall, Suite 2500
Sacramento, CA 95814-4436
PHONE: (916) 491-0444
FAX: (916) 441-2312
srri@srri.net
www.srri.net