INLAND EMPIRE OUTLOOK

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Municipal Bankruptcy
pg. 2-8

Sailing in the Fog:
Real GDP at the MSA Level
pg. 9-13

Inland Empire Housing Market Shows
Early Signs of Recovery
pg. 14-18

Changes in the Air at ONT
pg. 19-23

Councils of Government:
SANBAG and SCAG
pg. 24-27

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Sober News From San Bernardino

This issue of the Inland Empire Outlook is the first after the City of San Bernardino filed for bankruptcy protection on August 1, 2012. San Bernardino is the third California city to do so this year and many others share the problems that led to its fiscal insolvency. We examine some of these factors and outline the bankruptcy process for municipalities under Chapter 9 of the U.S. Code (p.2).

Following this sober account, we present a new analysis of GDP for the Inland Empire (p.9). The Inland Empire Center has constructed quarterly GDP estimates for Riverside and San Bernardino Counties, as well as three distinct geographical units within each county. Our analysis shows that the Inland Empire's GDP grew by 1.2 percent in 2011, its first positive growth since 2006. We see a similar modest growth trend in the housing market (p.14).

A robust Ontario International Airport will be an important component to the Inland Empire's recovery. In an earlier issue we took a detailed look at the airport's management structure and detailed the difficulties of LAWA ownership and management. We now have an update of recent developments suggesting some movement toward a regional approach to managing Ontario Airport (p.19).

Finally, we examine two other examples of regional cooperation: the San Bernardino Associated Governments and the Southern California Association of Governments (p.24).

On October 9, 2012, the Inland Empire Center, in partnership with the UCLA Anderson Forecast, will hold the fourth CMC-UCLA Inland Empire Forecast Conference at the Citizen's Bank Arena in Ontario. Jerry Nickelsburg of UCLA Anderson Forecast will present the state and national forecast and Professor Marc Weidenmier of CMC will present the Inland Empire forecast. The conference will feature panels on Municipal Insolvency, Ontario Airport, the future of retailing, and on election year politics and economics. Major sponsors of the conference include the Citizens Business Bank and Oremor Automotive Group.

We at the CMC Inland Empire Center hope you find this edition of Inland Empire Outlook a useful guide. Please visit our website, www.inlandempirecenter.org, for updates to these stories and other Inland Empire news. *-The Editors*

Photo Credit: KABC

Californians watched this summer as Stockton, Mammoth Lakes, and San Bernardino filed for bankruptcy in rapid succession, prompting headlines like “California is Ground Zero for Muni Bankruptcies.” Each of these cities had unique circumstances that led them to declare bankruptcy, but they also suffered from many of the same problems that are endemic among California cities and counties. Municipalities across the state are locked into staggering pension liabilities and expensive labor contracts at the same time that tax revenues have fallen due to a sluggish housing market, a weak economy, and changes in state policy. According to an August 17 report from Moody’s Investor Services, more than 10 percent of California’s 482 cities have declared fiscal crises. For cities in the worst financial situation, the bankruptcy process provides a legal framework to reorganize their debts and negotiate an orderly plan to repay creditors. Bankruptcy can also force the political will necessary for politicians, government officials, and residents to make difficult, painful decisions that address deep-rooted fiscal, political, and structural problems, and give cities an opportunity for a fresh start.

During the good times in the mid-2000s, city officials across California spent property tax and redevelopment funds freely, financing large-scale civic improvement projects and entering into generous long-term contracts with public sector unions, obligations that they could not easily undo when revenues fell. Stockton, for instance, borrowed extensively to finance projects like a new marina, high-rise hotel, and promenade in an effort to reinvent itself as a more upscale city and a popular site for conventions. Cities also signed generous contracts with public sector unions, locking in high wages and lifelong benefits, including healthcare and guaranteed

pensions. Pension costs for San Bernardino will reach $25 million this year, double the 2006 level. As tax revenues fell during the recession and cities found it increasingly difficult to continue fulfilling their promises to current and former employees, the unions largely refused to compromise and renegotiate their lucrative contracts. Moreover, public pension funds including CALPERs experienced significant investment losses, further increasing cities' unfunded pension liabilities. State law protects union contracts and makes it difficult for a city to renegotiate them. The only way to amend collective bargaining agreements is for a city either to file for bankruptcy or officially declare a fiscal emergency. During bankruptcy, the city negotiates with all of its creditors, dealing with each class "fairly and equitably." A declaration of fiscal emergency, meanwhile, permits the city to renegotiate collective bargaining agreements and amend public employee benefits when doing so will help the city fulfill its responsibility to protect the lives, health, morals, comfort, and general welfare of the public. Both alternatives create political problems, and unions are often willing to wage expensive legal battles with struggling cities rather than accepting impairment of their contracts.

Municipal finances for cities across California have also suffered in recent years when important sources of revenues fell, notably property taxes, vehicle license fees, and redevelopment funds. Property taxes are a significant source of tax revenue that account for 25 percent of total revenues raised by California cities. However, the Great Recession demonstrated that property tax revenue can also be extremely volatile. California experienced a huge housing boom between 2001 and 2007 and a corresponding growth in property tax revenues when cheap financing facilitated extensive investment and speculation in the housing market. Regions with extensive open land and few growth controls like the Inland Empire and Central Valley experienced the largest growth, and were therefore especially hard-hit when the housing market turned sour in 2008. While home prices across the country fell by 24 percent from 2005 to 2010, they fell by approximately 60 percent in Riverside, Stockton, and Modesto. During the recession, these areas also experienced a foreclosure rate that was three to four times higher than the national average, further eroding their property tax base and depressing home values. Proposition 13, meanwhile, constrained the cities from making up this lost revenue by increasing property tax rates. The 1978 constitutional amendment pegs the statewide property tax rate to 1 percent of the sale price of the property and limits annual increases to 2 percent so long as the property is not sold.

Since 1986, vehicle license fees (VLF) were a constitutionally protected source of local revenue. In 2004, however, the state of California introduced a VLF-for-property tax swap that resulted in a net loss for many smaller Inland Empire cities that heavily relied on these revenues to finance public safety functions. Over the last eight years, the small cities of Jurupa Valley, Wildomar, Eastvale, and Menifee alone lost $16 million in VLF revenue that could have gone toward law enforcement and fire services. In 2011, SB 89 further reduced the VLF revenue that newly-incorporated cities receive, costing them millions of dollars. In several cases, these lost revenues represent as much as a quarter of the city's entire general fund.

Cities also lost millions in redevelopment revenues when redevelopment areas (RDAs) were officially dissolved on February 1, 2012. (See "Redevelopment Authorities Under Fire" in the Spring 2011 *Inland Empire Outlook*.) In the short term, cities lost a revenue stream that they had come to rely on to help finance a wide variety of municipal functions, including economic development, park maintenance, planning, and even city councils – activities that were not always directly connected to redeveloping blighted areas. Long term, some fear that the loss of redevelopment areas will hurt cities by making it more difficult to remove blight, raise property values, and grow the cities' tax base. Chris McKenzie, the executive director of the League of California Cities, said, "Cities depended on redevelopment to make additional dollars in property and sales taxes down the road, and they were spending down their reserves in the

meantime." The City of San Bernardino will lose $30 million a year in RDA funds, including $6 million it was improperly using to back fill its general fund. Mayor Patrick Morris announced, "One might say it was the nail on the coffin in terms of our unbalanced budget." Along with straight forward development projects such as the city's minor league baseball stadium and renovated historic theatre, San Bernardino also used its redevelopment revenue to fund items less clearly related to development such as its public access television station. Moreover, it used redevelopment funds to pay citywide operating expenses including the salaries of the city manager, code enforcement officers, human resources staff, the city clerk, and the city attorney.

THE FOCUS OF CHAPTER 9 IS NOT NECESSARILY TO ATTEMPT TO BALANCE THE RIGHTS OF THE DEBTOR AND ITS CREDITORS, BUT TO MEET THE NEEDS OF A MUNICIPAL DEBTOR.

The cities of Stockton and San Bernardino are both struggling with enormous budget shortfalls resulting from large obligations and falling revenues. Stockton's City Council identifies "unsustainable retiree health insurance commitments" dating back to the 1990s and "unsustainable and unsupportable labor contracts" as two of the most important factors that brought the city to the verge of bankruptcy. Stockton has an annual budget of $521 million, and owes $417 million in retiree health benefits. The City Council also points out that poor fiscal management practices contributed to the city's financial problems. Stockton issued a large amount of outstanding debt in the early 2000s to finance municipal projects, assuming that hyper growth would continue indefinitely and the city would be able to repay its creditors easily. On the revenue side, Stockton's income from property taxes, vehicle license fees, and redevelopment funds fell after the recession hit. Stockton's housing market was one of the hardest-hit in the country, and the city had the highest foreclosure rate in the country in the first half of 2012. High unemployment also contributed to the erosion of the city's tax base; Stockton's unemployment rate was 15.1 percent in July 2012, almost twice the national rate of 8.6 percent. The city has tried to deal with its budget shortfall by reducing expenses. Since 2009, it has cut $90 million in spending and eliminated 25 percent of its police officers, 30 percent of its fire department, and 40 percent of other city employees. Even after imposing these cuts, Stockton defaulted on several debt payments in early 2012 and had four buildings – including its future city hall – repossessed by Wells Fargo. As of July 1, 2012 Stockton was facing a $26 million budget shortfall and had run out of programs to cut.

The facts behind the Mammoth Lakes bankruptcy filing are somewhat different. Like Stockton and San Bernardino, Mammoth Lakes is also running a budget deficit, $2.7 million in 2011-12 and $2.8 million projected for 2012-13. However, in addition to the budget shortfall, Mammoth Lakes also owes $43 million to Mammoth Lakes Land Acquisition in a breach-of-contract judgment. The award is nearly three times the size of the town's annual operating budget. The Mammoth Lakes Town Council voted on July 2, 2012 to authorize the bankruptcy filing. This followed an attempt to mediate the judgment that failed because Mammoth Lakes Land Acquisition refused to participate. Negotiations, however, continued through the summer and on September 21, 2012 the town made public the terms of a $29.5 million settlement.

San Bernardino's financial situation appears to be grim. Following its declaration of bankruptcy on August 1, 2012, the *Wall Street Journal* reported that San Bernardino was running a $45 million dollar deficit on a $130 million budget. With workers and retirees unwilling to renegotiate contracts and benefits, the city has cut its workforce by 20% in the last four years. Despite these cuts, the city projects $45 million annual deficits for the next five years. According to the city attorney, the scale of the city's financial problems were hidden by falsified budget reports for many years. Members of the city council reject that allegation. While San Bernardino's housing market shows early signs of recovery, see *The Inland Empire Housing Market On a Path of Moderate Recovery*, p.14, its 12.7 percent unemployment rate points to continued trouble for the city's economy and near-term fiscal future.

Bankruptcy offers individuals, businesses, and local governments that can no longer pay their creditors an opportunity to resolve or renegotiate their debt and thereby obtain a fresh financial start. The U.S. Bankruptcy Code provides for six different types of bankruptcy. Municipalities, which include cities, towns, counties, taxing districts, municipal utilities, and school districts file under Chapter 9 (Adjustment of Debts of a Municipality). According to the Congressional Research Service, "The focus of Chapter 9 is not necessarily to attempt to balance the rights of the debtor and its creditors but to meet the needs of a municipal debtor." The U.S. Bankruptcy Code respects municipalities' sovereignty by granting them several rights and privileges as they work to resolve their financial difficulties. While creditors may force individuals and businesses into bankruptcy, they cannot compel municipalities to file under Chapter 9 or propose alternative reorganization plans. The municipality itself must weigh its options and decide whether bankruptcy provides the most viable pathway toward resolution of its financial difficulties. The court cannot force municipalities to sell their assets or increase tax rates in order

Pat Morris, Mayor of San Bernardino

Photo Credit: *Los Angeles Daily News,* **Rick Sforza**

ALTHOUGH BANKRUPTCY CAN OFFER MUNICIPALITIES A WAY OUT OF DIRE FINANCIAL STRAITS, IT IS A LONG AND EXPENSIVE PROCESS WITH LASTING ECONOMIC, POLITICAL, FISCAL, AND PUBLIC RELATIONS CONSEQUENCES.

to raise revenues, and municipalities may continue to borrow money throughout the bankruptcy process. Finally, the court cannot require municipalities to dissolve or reorganize their governance structure. Throughout the process municipalities are responsible for providing a variety of essential services to their constituents. The court cannot interfere with a municipality's basic governmental functions and cannot usurp officials' power to make internal political and fiscal decisions. Finally, filing for bankruptcy does not relieve a municipality of its governmental responsibilities under state and federal law. Phil Batchelor, the former interim city manager of Vallejo, explained, "When you declare bankruptcy, you don't suddenly get a free pass that allows you to abdicate responsibilities for providing municipal services."

Chapter 9 offers municipalities protection from their creditors while they develop recovery plans to achieve financial stability. According to the Congressional Research Service, "The paramount feature of a municipal reorganization is the requirement that the municipal debtor and a majority of its creditors reach an agreement on a plan to readjust the municipality's debts." Many municipalities going through bankruptcy will restructure their debts by renegotiating contracts (especially those with public employee unions), extending debt maturities, reducing the amount of principal or interest, and/or refinancing the debt. Under Chapter 9, municipalities have considerable latitude in developing a reorganization plan that accommodates their unique economic and political conditions; however, the municipalities' creditors must approve the plan before it can go into effect. The court can also "cram down" a plan over the objection of some impaired creditors, as long as one class of impaired creditors approves the plan and the court finds that it "does not discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted the plan" (11 U.S.C. § 1129(b)(1)). Municipalities have no guarantee, though, that their reorganization plan will be approved or that they will successfully emerge from bankruptcy. The Congressional Research Service warns, "The outcome of any reorganization cannot be predicted with certainty."

Although bankruptcy can offer municipalities a way out of dire financial straits, it is a long and expensive process with lasting economic, political, fiscal, and public relations consequences. Andrew Morris, of Best Best & Krieger, has had firsthand experience with Chapter 9 as Mammoth Lakes' town attorney, and cautions, "Bankruptcy is not a silver bullet, it's not a panacea." Frank Adams, also at Best Best & Krieger and specializing in bankruptcy, elaborates, "Typically, if I sit down with a debtor to interview them for some type of bankruptcy proceeding, I want to make sure that they understand that it's a last resort. Once they've been to bankruptcy court, there's really nowhere else to go." Already broke cities can expect to spend millions of dollars over the course of their bankruptcy on legal fees and financial

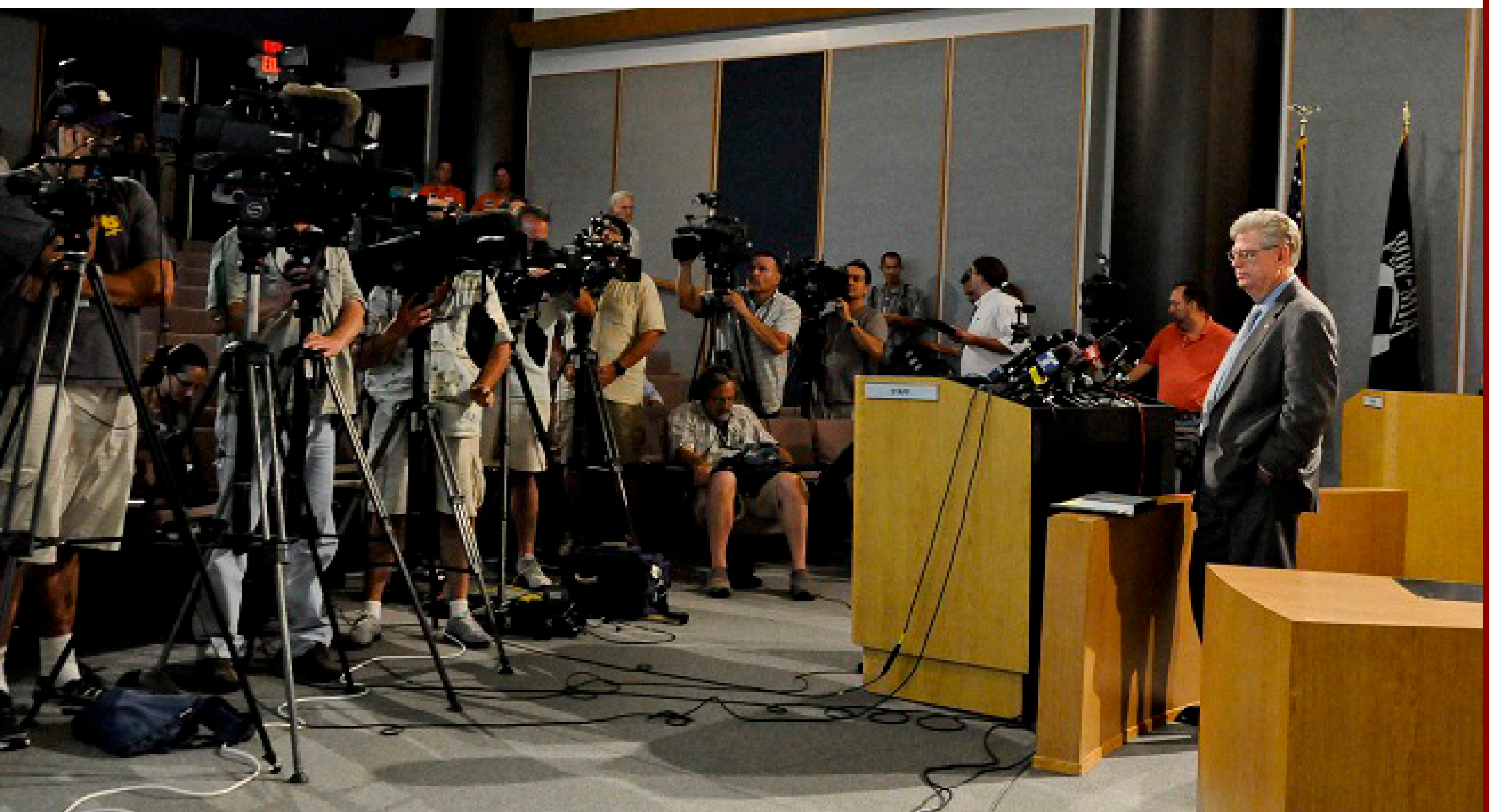
experts. The City of Vallejo spent approximately $11 million in attorneys' fees alone. Even after municipalities emerge from Chapter 9, they pay an ongoing cost in the form of significantly higher interest rates. Cities going through bankruptcy, including Vallejo and Mammoth Lakes, have had their municipal bond ratings downgraded to junk or near-junk status, making it extremely difficult for them to borrow funds to finance government activities or invest in the community. Having exhausted other options, even after emerging from bankruptcy in November 2011, the still-struggling city of Vallejo had to raise its sales tax from 7.3 percent to 8.3 percent.

Bankruptcy is a disruptive process and can taint the public's perception of the community, causing further economic hardship. The process creates uncertainty, making the community less attractive to businesses. In August, Starbucks' Evolution Fresh announced that it was relocating its 120-employee manufacturing facility from bankrupt San Bernardino to nearby Rancho Cucamonga. The company turned down offers from city officials to help them find an appropriate new building within San Bernardino. Andrew Morris observed, "People don't understand what bankruptcy means." When a municipality declares bankruptcy, residents do not know what to expect. Many wonder whether the local government will continue to maintain parks, sweep the streets, or effectively deal with crime. In the case of Mammoth Lakes, bankruptcy has really hurt the town's tourism industry. Morris said, "Mammoth is a resort town, and the hoteliers and the people doing tourism promotion have actually gotten a lot of questions from people: 'Are the mountains still in existence? Is the resort still going to be there? Can we still come?'" According to *Bloomberg*, 61 percent of Mammoth Lakes' general fund revenue comes from hotel taxes; a weaker tourist season will make it even more difficult for the town to improve its financial situation and repay its creditors.

Most municipalities will try to avoid bankruptcy by taking steps such as negotiating with

San Bernadino City Attorney, James Penman

Photo Credit: *The San Bernadino Sun*, **Rachel Luna**

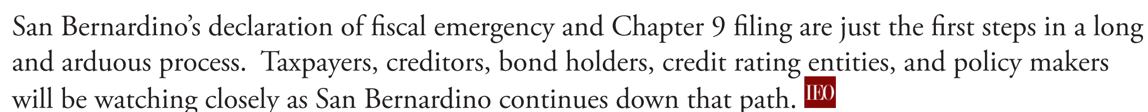


creditors, seeking concessions from employee groups, and restructuring municipal government. Some smaller struggling cities, such as Jurupa Valley, have floated the idea of disincorporation as a possible alternative to filing for Chapter 9. When a city disincorporates, the municipal government's responsibilities such as public safety are assumed by the county. In practice, disincorporation is rarely a realistic alternative for municipalities. It is a long and difficult process, further complicated by the old laws' failure to take into account many realities of contemporary California government such as Proposition 13. Twenty-five percent of residents must sign a petition to commence the disincorporation process, and the county must agree to accept the city government's duties. Residents in Jurupa Hills, Eastvale, Menifee, and Wildomar fought hard to incorporate their cities within the last five years, and there is unlikely to be widespread support for disincorporating in the face of financial challenges. Residents, businesses, and government officials like to see their tax dollars remain within the community, and incorporated cities are the best way to ensure local control over spending decisions, public safety, schools, and other community activities.

The United States Bankruptcy Code sets four eligibility requirements for Chapter 9. The first is that the "municipality must be specifically authorized to be a debtor by state law." This provision allows states to set additional conditions that municipalities must meet to be eligible for bankruptcy. Until last year California did not impose any. However, in October 2011, California passed AB 506 to "prohibit a local public entity from filing under federal bankruptcy laws unless the local public entity has participated in a neutral evaluation process with interested parties." Democratic Assembly Member Bob Wieckowski introduced this bill with the full support of the California Labor Federation and other union groups wary of being forced to accept contract changes through the bankruptcy process. The new law requires municipalities on the verge of bankruptcy to participate in a 60-day mediation process with their creditors, giving unions a stronger voice in the bankruptcy process. Andrew Morris, Mammoth Lakes' town attorney, said, "If you do it right, [these negotiations] can be an opportunity rather than a challenge." The city of Stockton became the first municipality to go through this state-mandated mediation earlier this year. After 90 days of tedious negotiations, dubbed "Death by a Thousand Meetings," Stockton failed to reach an agreement with its 18 creditors. AB 506 adds another hurdle to the already complicated bankruptcy process, but the mediation process could benefit Stockton long-term by making the actual bankruptcy proceedings more efficient and helping the city avoid the string of lawsuits from creditors that Vallejo had to deal with during its own bankruptcy. As Jon Holtzman, one of Stockton's lead attorneys, said to the *Los Angeles Times*, "It was a very expensive process, but I'm really of the view that it was somewhat successful. It got everyone on the same page and there was a clear detailed view of the city's finance. Most of the unions got it."

AB 506 also includes a provision allowing insolvent municipalities to bypass the state-mandated mediation period by declaring a fiscal emergency. On July 18, San Bernardino became the first city to take advantage of this provision, stating that without bankruptcy protection, the city will be unable to meet its financial obligations within 60 days. *Bloomberg* reported the following day that San Bernardino had depleted its general-fund reserves, lost access to capital markets, and had its Walls Fargo credit lines frozen. San Bernardino's declaration of fiscal emergency led observers to conclude that its financial situation was even worse than Stockton's.

San Bernardino's declaration of fiscal emergency and Chapter 9 filing are just the first steps in a long and arduous process. Taxpayers, creditors, bond holders, credit rating entities, and policy makers will be watching closely as San Bernardino continues down that path.



Sailing in the Fog: Real GDP at the MSA Level

Photo Credit: Tom Wahlin

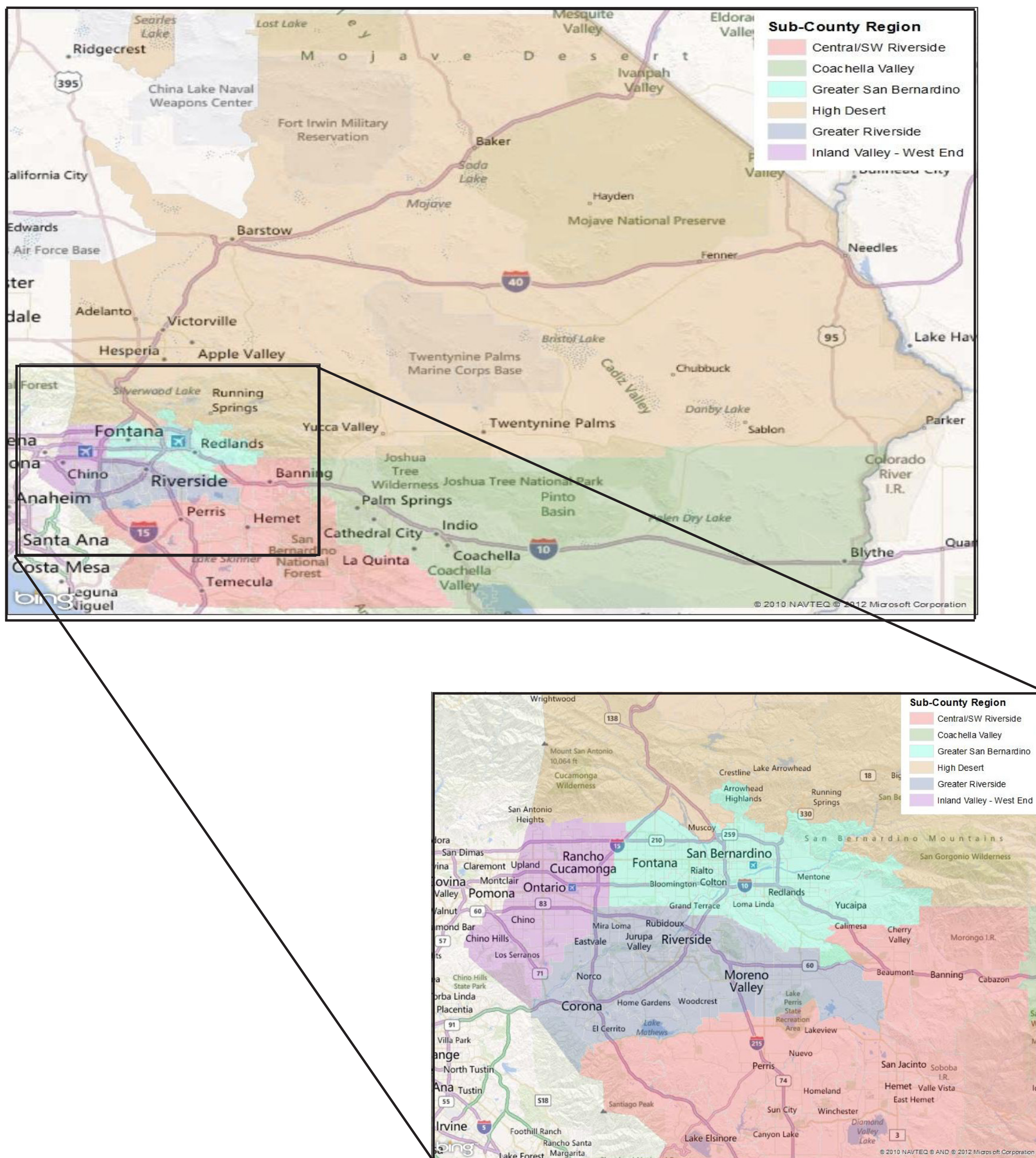
Think of the role of a policy maker as that of the captain of a large oil tanker. The captain is trying to achieve certain targets such as reaching a particular port. The captain has instruments available to move the ship in a certain direction and at a desirable speed. Real GDP growth is one such target for the policy maker and his instruments are fiscal and monetary policy. Of course the captain would prefer to see the iceberg ahead of time, perhaps using radar, since it takes quite some time to turn an oil tanker. The same holds true for the U.S. economy due to time lags between changing the policy instruments and the effects they have on the economy. The equivalent of the radar is economic forecasting.

Real Gross Domestic Product (GDP) is available quarterly at the national level. As a result, we receive a fairly comprehensive picture of the state of the economy, albeit with a short lag of about a month. That data is subsequently revised and changes can sometime be surprisingly large. Still, this economic statistic is central to businesses and policy makers: it provides the best measure of the overall current state of the economy. However, real GDP rates for U.S. states and their Metropolitan Statistical Areas (MSAs) are not available quarterly and suffer from far longer lags than the national figures. In some cases, the lag is over a year. How are policy makers supposed to judge the state of the economy without these figures?

The latest real GDP growth data available for the U.S. is for the second quarter of 2012. Real GDP increased at a rate of 1.7%, which is better than no growth at all but below the historical average GDP growth of roughly 3%. While we are no longer in a recession (the Great Recession officially ended in June 2009), annual growth of below 3% is not sufficient to lower the unemployment rate due to a growing labor force and improvements in productivity. Hence with a paltry growth rate of 1.7%, we seem to have been stuck at an unemployment rate of slightly above 8% nationwide for quite some time now.

There are other economic statistics that are available more frequently. Unemployment rates, for example, are published once a month and with only a very short delay at least at the national level. They are available at the end of the first week of the subsequent month. Rates for smaller political jurisdictions take a little longer, the August Inland Empire rate was published on September 22nd. Then why are we so concerned with real GDP? The answer is that GDP contains better information about the state of the economy than unemployment and employment. Consider a construction worker and a worker employed in manufacturing. Assume that both workers lose their jobs due to a downturn in economic activity but find new jobs immediately in the retail sector at lower pay. The employment and the unemployment rate will not change, but real GDP will fall since the retail sector is not as productive. That is, it does not add as much value to overall economic activity as construction and manufacturing.

Figure 1: Geographical Areas Corresponding to Selected Economic Activity Calculations



GDP CONTAINS BETTER INFORMATION ABOUT THE STATE OF THE ECONOMY THAN UNEMPLOYMENT AND EMPLOYMENT DATA.

Now think about a smaller ship and a smaller economy. For example, the state of California or an MSA such as the Greater Los Angeles area or the Inland Empire. Perhaps these are not the equivalent of oil tankers, but they are still very large container ships. According to the World Bank, California, for example, would be the 11th largest economy in the world (measured at current exchange rates) if she were a country. Our state would be only slightly smaller than Italy in terms of the size of its economy. California's economy is larger than Mexico, South Korea, Spain, and Canada. The MSA of Los Angeles-Long Beach-Santa Ana, the second largest by population in the U.S., is only slightly smaller in terms of real GDP than The Netherlands, and is larger than Turkey. In other words, California and the Greater Los Angeles area are larger vessels than one might initially think.

But here is the dilemma for the captains of these ships: while some (Italy, Netherlands, and Turkey) have aggregate data such as real GDP available to them quarterly and with little publication delay, others (U.S. states, MSAs) only receive real GDP data annually and with a long delay. California's real GDP is now available for 2011, but we have no information about real GDP for the first half of 2012. Moreover, real GDP for the Greater Los Angeles area is still not yet available for 2011, and will not be published until February 2013.

The smaller Inland Empire MSA area faces the same situation. Among the over 350 MSAs in the United States, Riverside-San Bernardino-Ontario (RISBON) is the 12th largest MSA by population, only slightly smaller than the Greater San Francisco area (11th largest) and larger than San Diego County (17th largest) according to the 2011 U.S. Census estimates. Decision makers within the Inland Empire, such as elected officials in San Bernardino County and Riverside County, would be interested in receiving a clearer picture about the state of their respective economies and geographical areas within the counties. For example, the economy of the Inland Empire showed economic decline as early as 2007. However, this early warning signal from the periphery of Southern California's economy was not available to policy makers until the Lehman Brothers' bankruptcy of 2008. Had businesses and policy makers been aware of the early peripheral signs of the bust, then perhaps they could have taken some corrective actions before the crash. Businesses could have adjusted their inventories and stopped new building while county governments could have cut back on expenditures given the looming fall in tax revenue.

To navigate through the fog, the Inland Empire Center has constructed quarterly GDP estimates for the Inland Empire from 2001 to 2011, for the two counties of San Bernardino and Riverside, which make up the RISBON MSA. We have also constructed estimates of real GDP for three distinct geographical units within each county: Greater Riverside, Central and Southwest Riverside County, and Coachella Valley for Riverside County, and Inland Valley-West End, Greater San Bernardino, and Victor Valley High Desert for San Bernardino County. In addition,

we will produce forecasts for 2012 and 2013 at the CMC-UCLA Anderson School Inland Empire Forecast conference event on October 9, 2012 in Ontario.

Table 1: Real (in billions 2005 dollars) GDP for the Inland Empire, San Bernardino County, Riverside County, and Six Selected Sub-County Regions

City	2001	2006	2011
Pomona Valley	19.5	24.7	22.3
Greater San Bernadino	18.6	22.3	20.0
High Desert	8.2	10.1	9.3
San Bernardino County Total	**46.2**	**57.1**	**51.6**

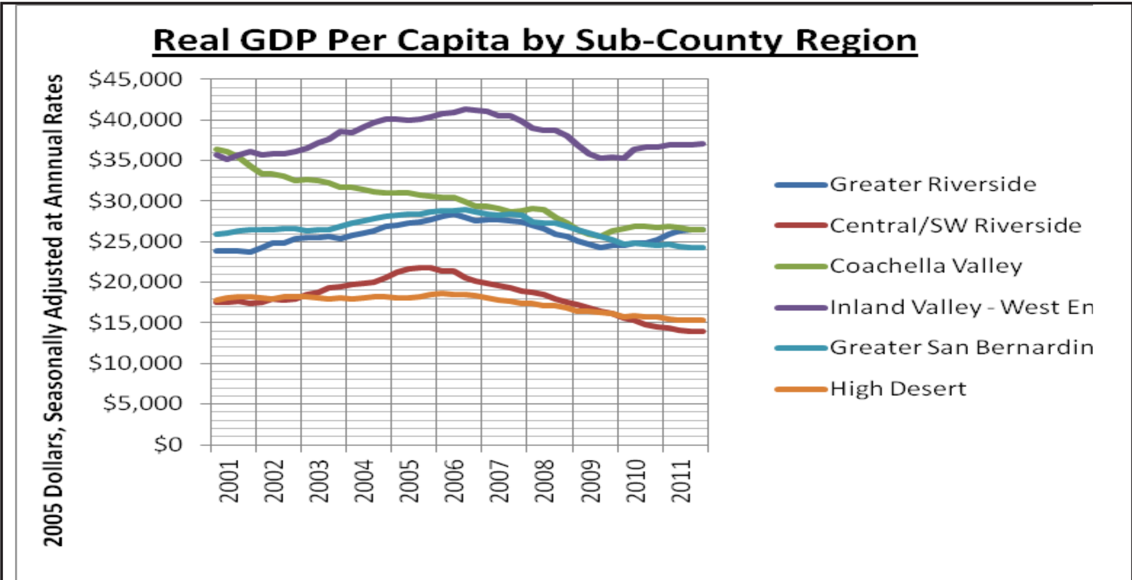
City	2001	2006	2011
NW Riverside County	16.8	22.9	21.6
Central/SW Riverside	10.0	15.6	13.6
Coachella Valley	12.4	13.0	11.9
Riverside County Total	**39.2**	**51.4**	**47.2**

Table 1 shows a snapshot of GDP at the beginning, mid-point, and end of our analysis period. Figures for 2011 are not yet available from official sources and are therefore our estimates. Note that San Bernardino County is the slightly larger of the two economies even though Riverside County is slightly larger in terms of population. The GDP gap has been closing steadily and Riverside County now accounts for 48% of total GDP in the Inland Empire. The table also shows the performance of sub-regions within each county. Most notably, the Coachella Valley's real GDP has been shrinking over the 2001 to 2011 period while all others have experienced positive growth growth with some variation.

Figure 2 shows a more detailed picture of the economic development over time and within the Inland Empire. Per capita income was highest amongst these regions in the Coachella Valley in 2001, with Inland Valley-West End a close second. While the Inland Valley-West End experienced a remarkable increase of roughly 17% from 2001 to 2006, and a subsequent decline of the same magnitude during the Great Recession, the decline in per capita income for the Coachella Valley has been steady throughout the period, with the exception of a small recovery starting in late 2009. The decline from 2001 to 2008 is approximately 25%, a spectacular number. Still, the Coachella Valley has the second highest per capita GDP at the end of the period. It is worth noting that the per capita GDP decline in the Coachella Valley is driven to a large extent by increases in its population over the last 10 years, while GDP was not much different in 2011 than at the beginning of the millennium. As our Coachella Valley Economic Outlook 2012 pointed out, there has also been hardly any increase in real income per worker for the area over the same time period.

Most of the regions suggest a small uptick in economic activity following the Great Recession. Our calculations suggest that the Inland Empire as a whole grew by 1.2% in 2011, representing the first positive growth in real GDP since 2006. (Different from the U.S. and California, the Inland Empire saw negative real GDP growth rates by 2007 and experienced negative growth in 2010 when California and the U.S. experienced positive growth.)

Figure 2: Per Capita Quarterly Real GDP by Sub-County Region, Seasonally Adjusted, 2001-2011

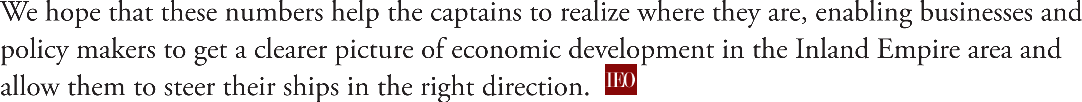


The Victor Valley High Desert area of San Bernardino County held steady at a low level until 2006 before declining. However, per capita GDP is higher in 2011 than that of Central Southwest Riverside, which experienced a boom-bust cycle similar to Greater Riverside, Inland Valley-West End, and Greater San Bernardino.

As the Inland Empire finally emerges from the depth of the its more drastic version of the Great Recession, the six geographical units settle into three clusters for per capita GDP. The Inland Valley-West End has a per capita real GDP of roughly $37,000. The three regions of the Coachella Valley, Greater Riverside, and the Greater San Bernardino come in at a substantially lower level of $25,000, and the two lowest per capita GDP numbers are around $15,000 for the Victor Valley High Desert and Central Southwest Riverside areas.

The per capita real GDP numbers are in line with the officially available real per capita personal income data, which shows a per capita real GDP of approximately $25,000 for the Inland Empire as a whole. This number is almost 30% below the national level, and is more than 35% below the level in California and the Greater Los Angeles area.

We hope that these numbers help the captains to realize where they are, enabling businesses and policy makers to get a clearer picture of economic development in the Inland Empire area and allow them to steer their ships in the right direction.

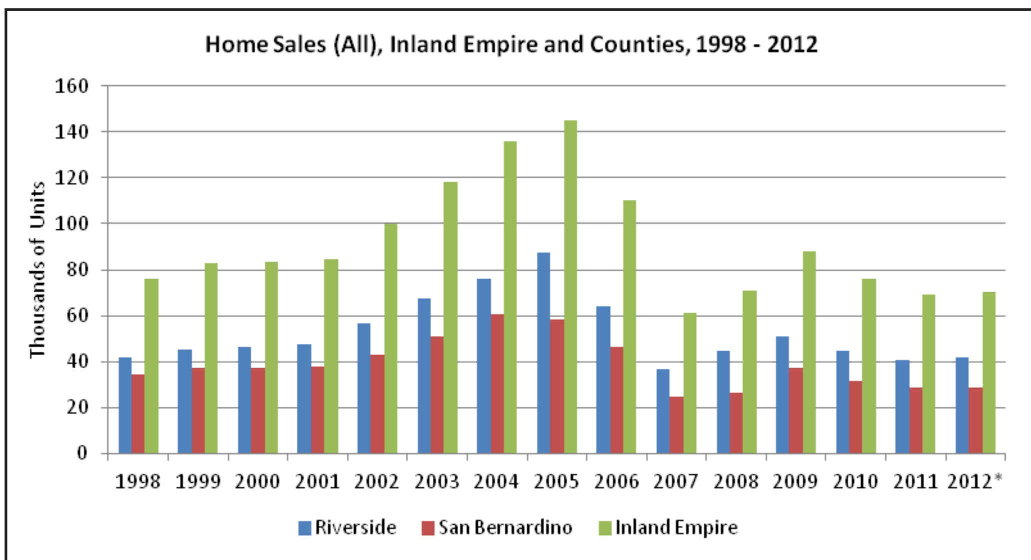


Inland Empire Housing Market Shows Early Signs of Recovery

Photo Credit: Jason Roberts

A decade ago many American families invested hundreds of thousands of dollars in exurb communities to buy expensive, custom-built houses, with large pools, spacious backyards, fancy terraces, and vast swathes of lawn. They chased the American dream even though it often meant a two-to-four hour daily commute. This expansion was fueled by generous bank loans and record low interest rates. From 2000 until 2005, home sales increased from 83,462 to 145,267, a 11.7 percent compound annual increase (see Figure 1).

Figure 1. Home Sales (All), Inland Empire and Counties, 1998-2012



By the fourth quarter of 2006, the median price for a home (across all existing and new homes) to $400,000 in the Inland Empire rose, to $423,000 in Riverside County, and to $369,000 in San Bernardino County (see Figure 2).

In 2005, the Inland Empire boomed with 52 percent of Southern California's new home development. The number of new homes sold rose from 16,123 in 2000 to 39,663 in 2005, a 19.7 percent compound annual increase, which also led to considerable growth in population (see Figure 3).

Between 2000 and 2005, 306,046 new residential single-family homes were purchased in the Inland Empire, 83,294 in Riverside County, and 222,752 in San Bernardino County. By the fourth quarter of 2006, the median price for a new home in the Inland Empire reached $430,000 compared to $447,500 in Riverside County and $391,000 in San Bernardino County.

Figure 2. Median Selling Price for All Homes, Inland Empire and Counties, 1998 Q1 – 2012 Q2

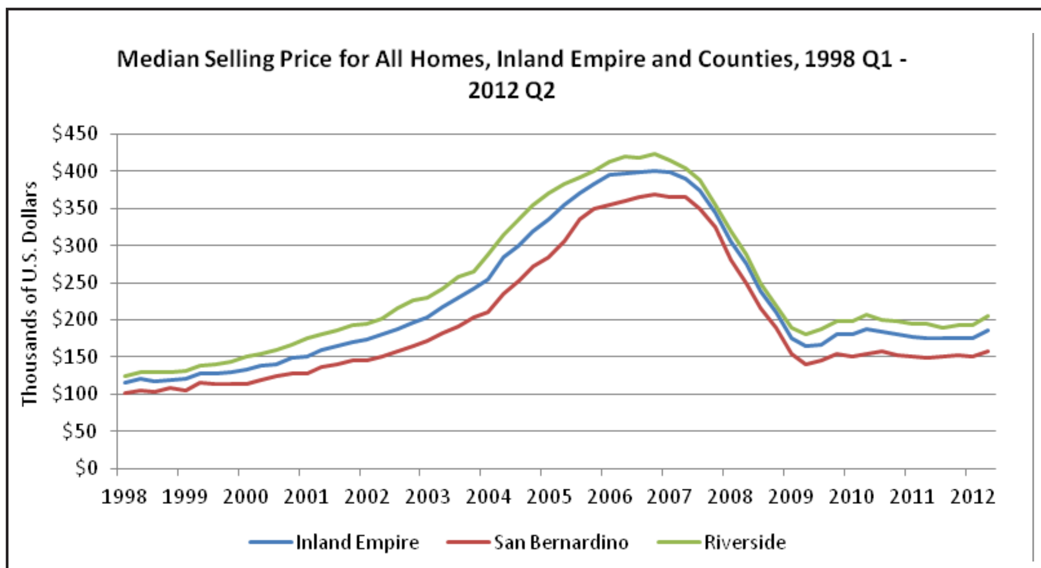
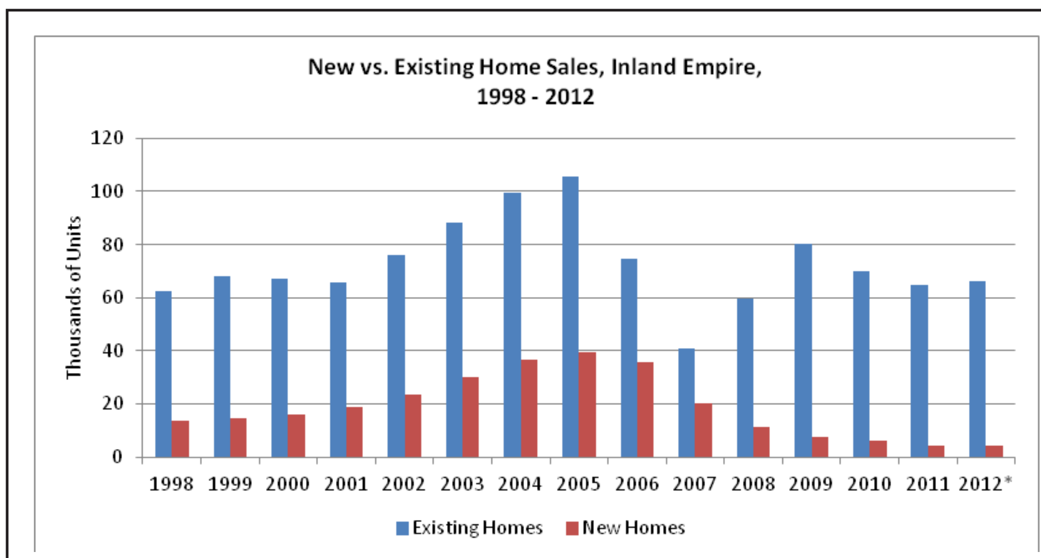


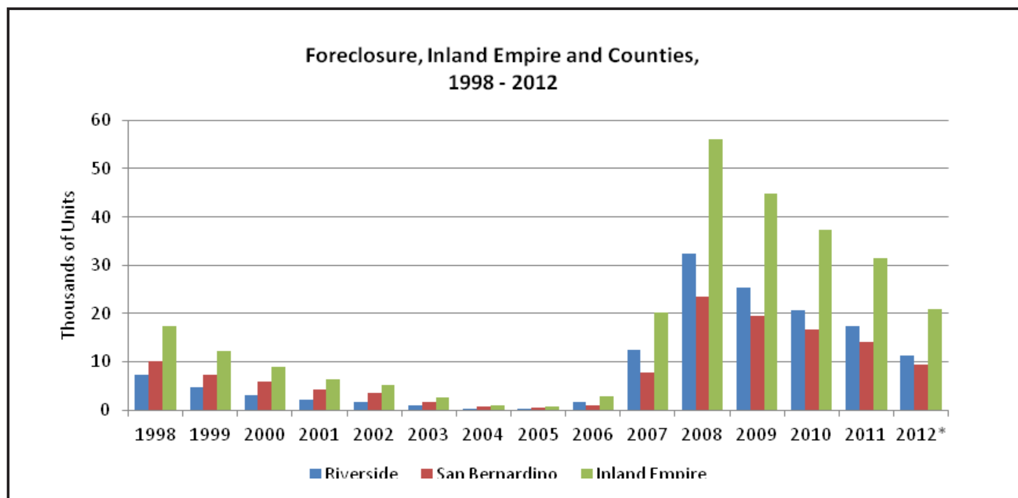
Figure 3. New vs. Existing Home Sales, Inland Empire, 1998-2012



Housing prices peaked in early 2006. But in late 2006-2007 the real estate market reversed course. After several years of prosperous growth and a major housing boom, home prices started to decline, foreclosure rates began to increase among U.S. homeowners, which led to a crisis in August 2008, considered by many economists the worst financial crisis since the Great Depression of the 1930s. The expansion in risky mortgages to under-qualified borrowers, credit that fueled these risky mortgages through the misguided monetary policy of the Federal Reserve Bank and unwise housing regulations pushed normally robust financial institutions into unsustainable positions. The housing market collapsed, setting in motion a cascade of evictions, foreclosures, and prolonged unemployment.

Rapidly falling property values and rising gas prices saw the once-booming Inland Empire landscape riddled with empty homes and vacant land. In some communities residential streets were lined with foreclosure notices and yard signs designating bank-ownership. By the end of 2008 foreclosure activity peaked at 56,044, a 329.8 percent compound annual increase, from 706 foreclosures in 2005. In 2008 Riverside County recorded 32,443 foreclosures, and San Bernardino County 23,601 (see Figure 4).

Figure 4. Foreclosures, Inland Empire and Counties, 1998 - 2012

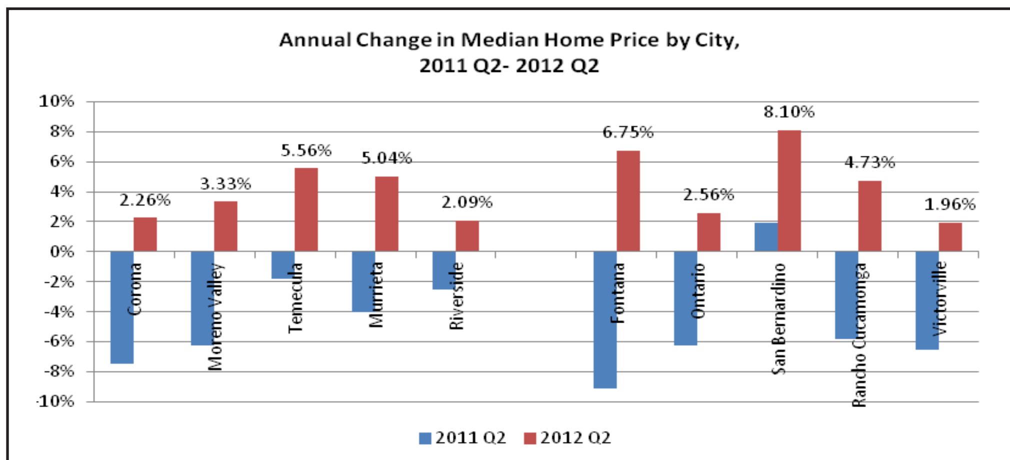


The last four years have been tough for many American families. The unemployment rate has risen and the income of the typical U.S. family has fallen to levels last seen in 1995. In September 2012, the Census Bureau released their "Income, Poverty, and Health Insurance Coverage in the United States" report for 2011. The report revealed that median annual household income fell in 2011 to an inflation-adjusted $50,054. Real median annual household income now stands 8.9 percent below its all-time peak of $54,932 in 1999. As incomes have dropped, a number of people have lost ground during the recession and have been pushed into poverty. Many families have trouble paying for food, making loan payments, and meeting other basic obligations. "You know something is wrong when the lawns are brown, and the pools are green," became a common refrain.

The 2012 results show only early signs of the recovery. At the end of the second quarter of 2012 there were 4,407 foreclosures in the Inland Empire, a 10.2 percent compound annual decrease from 18,935 in the third quarter of 2008.

Home prices in the Inland Empire rose by 5.1 percent in the second quarter of 2012 compared to the previous year. The real price appreciation was largely propelled by low inventories of properties for sale, a shortage of homes for sale, and high levels of demand for bargain-priced foreclosures. Inventories are low because investors who are scooping up homes have been converting them to rentals rather than flipping them, keeping the properties off the market. Supply of houses is low because only a few people are willing to sell their homes. Given the fact that many traditional homeowners owe more on their mortgages than their properties are worth, they are likely to sell only if they have to move. Others who have equity could be waiting for higher prices down the road. The median home price for all homes sold in Riverside County hit $205,000 and $157,250 in San Bernardino County in the second quarter of 2012. Corona ($317,000), Rancho Cucamonga ($304,750), and Temecula ($285,000) are the cities with the highest median home selling price This is an increase of 5.0 percent in Temecula, 6.8 percent in Fontana , and 8.1 percent in San

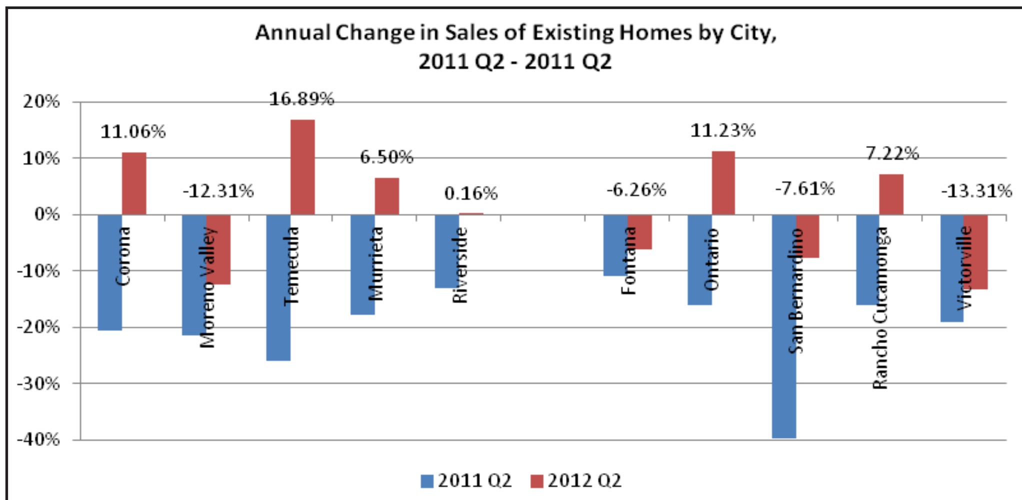
Figure 5. Annual Change in Median Home Price by City, 2011 Q2 – 2012 Q2



The number of U.S. homebuyers who signed contracts to purchase previously owned homes in the Inland Empire rose to the highest level since the third quarter of 2010. The sales of existing homes increased 16.7 percent in the second quarter of 2012 from the first quarter to 17,806. Corona, Temecula, Murrieta, Riverside, Ontario, Rancho Cucamonga all experienced a positive year-to-year growth in home sales (see Figure 6).

Sales of newly-built homes rose briskly in the second quarter of 2012. The rise in new-home sales partly reflects low stocks of existing, or previously-owned homes. Potential buyers are frustrated with the existing-home market as the houses available for sale are not very nice. With so little available in the existing-home market, a growing number of buyers are choosing new homes.

Figure 6. Annual Change in Sales of Existing Homes by City, 2011 Q2 – 2012 Q2



Unlike existing homes, builders are holding the line on prices of new homes. The data show that in the second quarter of 2012 the median price for a new home sold in the Inland Empire was down 2.8 percent from the last quarter, in Riverside down 5.97 percent, and only San Bernardino saw a slight increase of 3.3 percent (see Figure 7). On September 13, 2012, the Federal Reserve launched a new stimulus program aimed at spurring refinancing activity and home sales. Buying mortgage-backed securities instead of Treasury bonds was the focus of the Fed's second round of quantitative easing. The Fed hopes that a new round of buying essentially bonds that are made up of bundled home loans will push already historically low mortgage rates down further for a longer period. It is hard to say how big an impact this policy will have. Many economists, including Fed Chairman Ben S. Bernanke, repeatedly caution people against expecting too much. The housing market may be showing signs of improvement, but a strong recovery is probably unlikely. IEO

Figure 7. Median Selling Price for New Homes, Inland Empire and Counties, 1998 Q1 – 2012 Q2

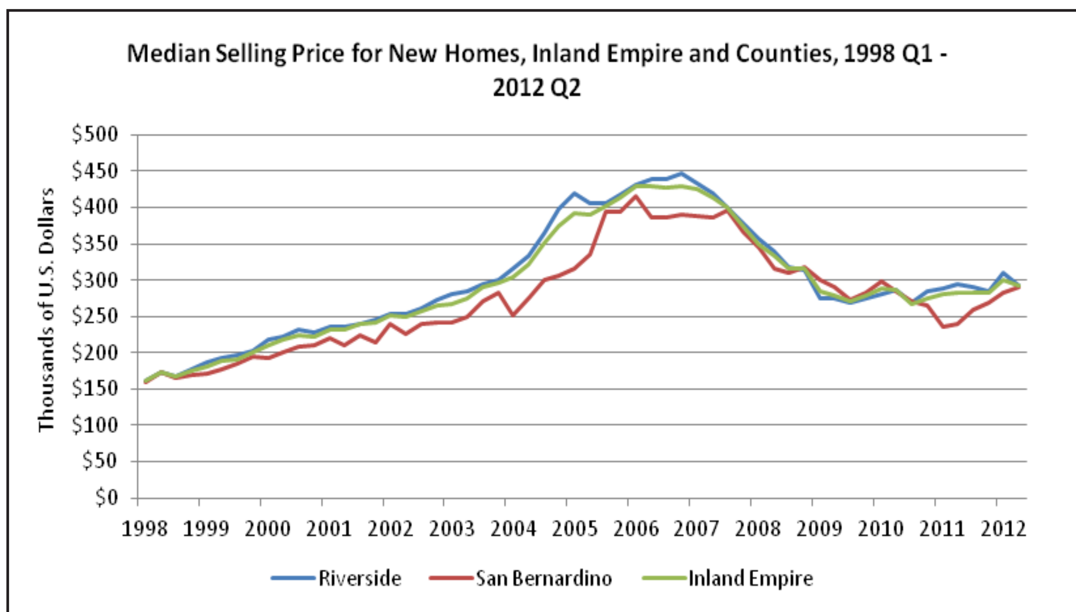


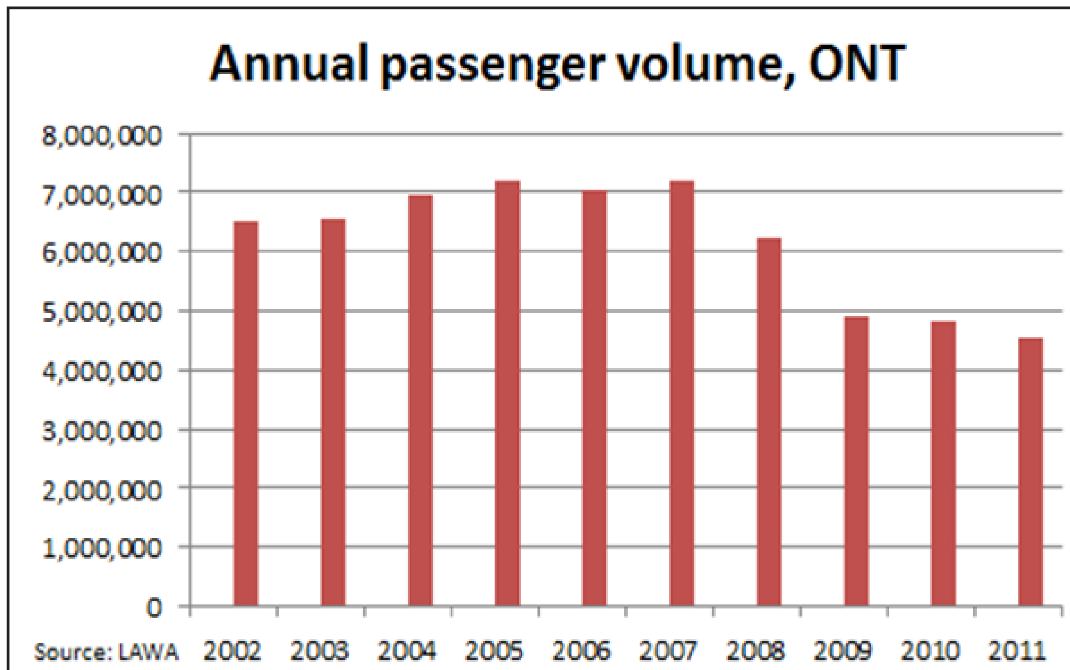
Photo Credit: SKA Design

Conveniently located in close proximity to Orange, San Bernardino, Riverside, and Los Angeles counties, Ontario International Airport (ONT) provides a fantastic convenience to fliers in the Southern California area: the airport is small and easy to navigate, lines are short or non-existent, and in general, the flights run on time. Throughout the 1980s and 1990s, Ontario Airport experienced increasing passenger volume and airline support. Currently, though, the airport's future is in jeopardy as its particular operational structure has rendered its costs much higher than comparable airports.

Ontario International Airport is owned by Los Angeles World Airports (LAWA), a department of Los Angeles city government, which also owns and operates Los Angeles International Airport (LAX) and Van Nuys Airport. While Ontario Airport has done well in the past, its performance in recent years has concerned airport officials. Since 2005, Ontario Airport's annual passenger volume has fallen 36 percent to just four and a half million. Airlines like JetBlue have abandoned the airport while domestic flights continue to be cut. Indeed, Ontario Airport's continuing stagnation remains in contrast to LAX, which has emerged from the recession on a path toward progress. (see Graph 1).

One notable problem with the airport's operation is overstaffing. Although Ontario Airport currently budgets for 250 employees—down from over 300 in 2011—according to Ontario City Manager Chris Hughes this number still represents unreasonable overstaffing. He says that the airport should be employing around 100 fewer workers. Even if further cuts are to be made, Hughes also notes Ontario's problem of staff inefficiencies and cutting necessary employees while retaining redundant positions, citing the lack of airport employees at terminals and the resulting clog of illegally parked vehicles as an example of the effects of wrongful staff reductions.

Graph 1: Annual Passenger Volume for ONT



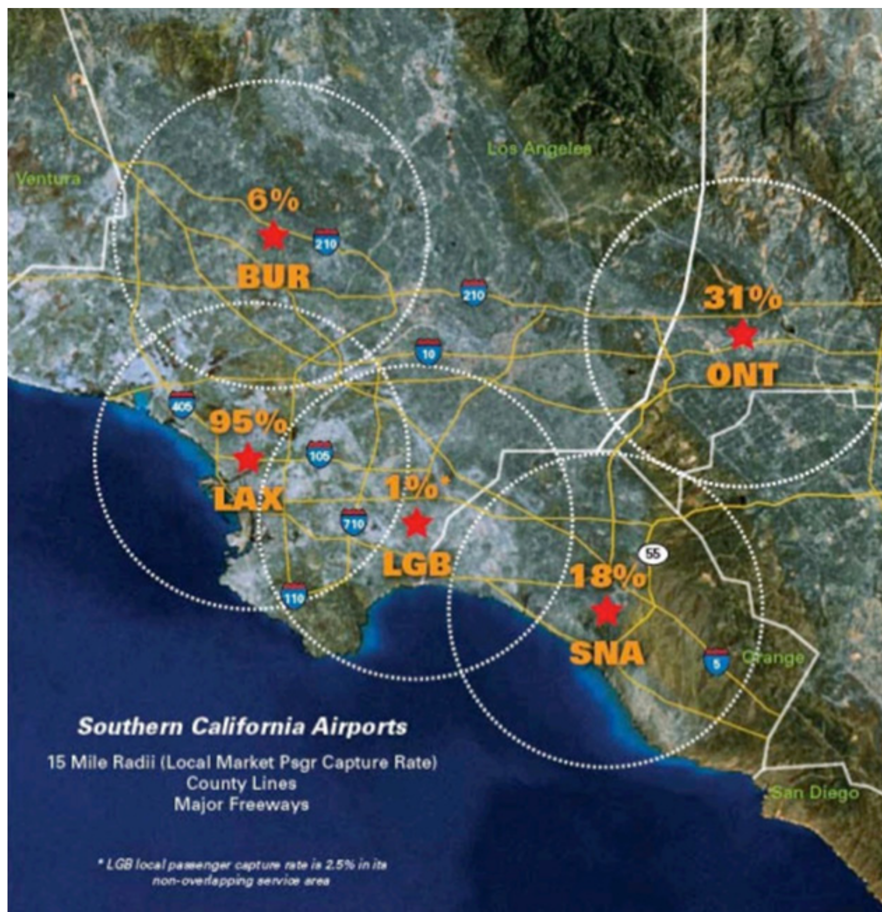
The most revealing indicator of Ontario Airport's recent decline can be found in its high Cost per Enplaned Passenger (CPE), an industry metric used to assess the differences in costs between airports. Hughes estimates that Ontario Airport's CPE for 2011 was somewhere between $13.50 and $14.00, considerably higher than the United States median of $6.75. The 2011 CPE is lower than Ontario's 2010 CPE of $14.50, but still higher than that of LAX, $11, even though LAX is a much larger and more complicated airport to manage

Regions in the United States are often served by multiple airports. Primary ones, like LAX, handle most of the traffic of a region while the secondary airports provide an alternative, whether to manage traffic, for geographic convenience, or for other demographic or economic reasons. As Figure 1 shows, Ontario Airport and its recorded fifteen-mile sphere of influence captures 31% of its local market's passengers, in contrast to John Wayne Airport (SNA), which only captures only 18% of its local market. The difference is that John Wayne Airport has seen its passenger numbers rise: As the OC Metro reports, passenger volume in July at John Wayne Airport increased by four percent in 2012, in comparison to July traffic of 2011. This contrast highlights the missed potential of Ontario Airport: How can an airport such as Ontario, which captures a higher rate of passengers in an area already gifted with enormous economic potential, face such problems, while a neighboring airport, whose biggest problem is handling its successful expansion, attracts even less of its local market than Ontario? According to Hughes, Ontario Airport should not be even using the fifteen-mile radius figure, asserting that it makes more sense to use a 20- or 25-mile radius, given geographic economy of the region. Hughes also states that with the exception of Ontario Airport, no other secondary airport in the United States is more expensive than the primary regional airport. And this higher cost for both airlines and passengers is at the heart of Ontario Airport's problems -- airlines continue to take their business elsewhere because it is cheaper to do so. Put simply, as the most expensive airport in Southern California, Ontario Airport is just not competitive.

Which is not to say that the demand for regional airport travel is minor: according to Cynthia Kurtz, president and CEO of the San Gabriel Valley Economic Partnership, Ontario Airport remains hugely important to the eastern San Gabriel Valley. Asserting that Ontario Airport has "always identified with the Inland Empire," Kurtz cites a survey of businesses in the San Gabriel Valley which resulted in local business owners emphasizing ease of regional airport travel as a top priority for business support. And as the San Gabriel Valley is located between two airports (Bob Hope Airport in Burbank on the west, Ontario Airport on the east), regional businesses depend on their transportation services for both freight and executive travel. Tom Freeman, Commissioner of the Office of Foreign Trade of Riverside County, feels similarly about Ontario Airport's importance to his region, calling the airport "absolutely critical" for business attraction, activity, and retention in Riverside County. Also citing the county's "robust, multi-billion dollar" tourism industry as key to the regional economy, Freeman asserts that Ontario Airport needs to provide sufficient carriers and flights to attract tourists from major hubs. Freeman sees Ontario Airport as a playing a key role in supporting growing industries like logistics on an international scale. Because the airport has been losing flights under current leadership, Freeman identifies a need to reach out to and work with the aviation community, and, if necessary, subsidize flights to mitigate the airport's high costs.

To offset these increasingly high costs, Ontario Airport has employed some temporary measures to avoid complete disaster. It has used both parking revenue and reserve funds to equalize operational costs. As Hughes explains, this dip into other funds represents an artificial mechanism to deflate

Figure 1: Passenger Capture Rates of Southern California Airports



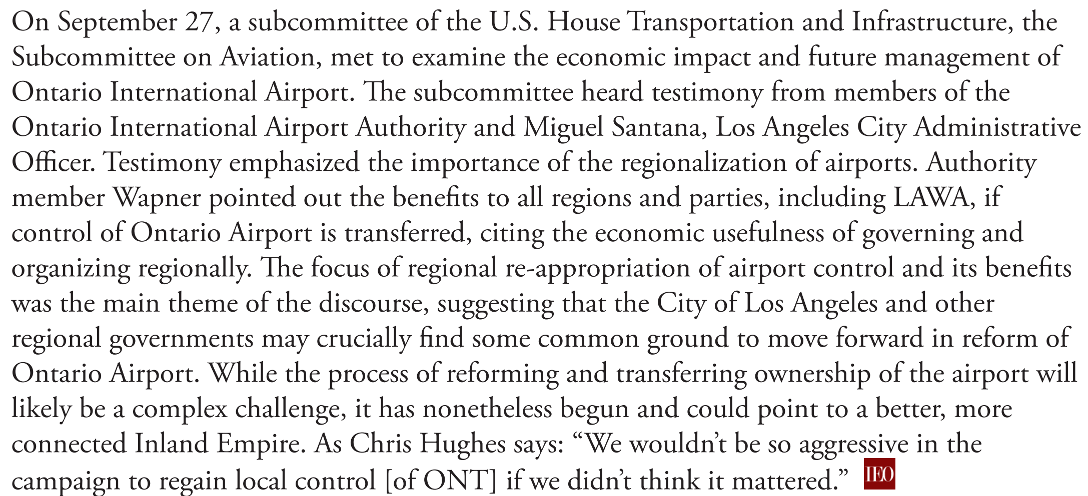
costs and will likely secure only two years of operational sustainability. In addition, Ontario Airport has dabbled in offering incentives to airlines to operate at the airport, proposing waiving certain terminal rents and promising increased efforts in marketing. However, airlines remain reluctant—Hughes explains that airport incentives do little to affect sustained increased traffic.

As for marketing, the issue remains complicated. On one hand, an overhaul and re-budgeting of the airport's marketing initiatives is essential, as it would serve to expand the airport's sphere of influence and thus pitch to potential leisure and business travelers, the latter category being underrepresented. According to Hughes, despite the fact that over 8,000 businesses in Ontario use the airport, the airport fails to recognize these travelers as a primary demographic worth monetizing. And the marketing budget has been slashed significantly over the years: at its peak in the early 2000s, it totaled to over $1 million. Now, it is around $200,000. On the other hand, a marketing budget alone cannot fix the airport's problems, so some airlines worry that these increased marketing costs will simply make the airport more expensive at a time when airlines are not even sure if they will stay at Ontario Airport.

The common theme throughout the assessment of the airport's problems is that of staying power: How can the airport bring down costs to not only attract airlines but make them stay? Hughes proposes a few potential paths, but he emphasizes that any solution will involve a "multipronged" approach. One idea of long-term cost reduction involves privatizing the airport. According to Hughes, while this may be an efficient option, the length of time that this process would take, with Federal Aviation Administration regulations and airlines disagreeing over lease agreements, makes the idea less appealing.

Rather, Hughes sees Ontario Airport's most promising path as one involving a regional joint powers authority, between the City of the Ontario and San Bernardino County, to receive the airport in a transfer from LAWA. While Los Angeles, as Hughes asserts, could still be involved in Ontario Airport's future, the airport is a regional airport and should thus be supported by a regional authority. Hughes sees the current time as ripe: While LAWA has deflected criticism of its operations management at Ontario Airport by citing the effects of the late-2000s recession, the airport's current total passenger volume has dropped to 1983 levels while the region has added two million people and over 600,000 jobs since then. To Hughes, this growth provides the proof that there is indeed a market for Ontario Airport to exploit should its costs decrease.

So while Ontario Airport's future remains uncertain, the picture is not all bleak. As Hughes believes, the newly-formed Ontario International Airport Authority's work on setting up a sub-committee to aid in economic development surrounding the airport is important. The Ontario International Airport Authority was formed through a Joint Powers Agreement between the City of Ontario and the County of San Bernardino. The Ontario City Council first appointed two of its own members, Alan Wapner and Jim Bowman, to the authority, later approving San Bernardino County Supervisor Gary Ovitt; Lucy Dunn, president and CEO of the Orange County Business Council; and Ronald O. Loveridge, Mayor of Riverside. The authority, according to the *San Bernardino Sun*, was established with the intent of creating a viable business plan for Ontario Airport, writing bylaws, and following the communication between airport management, local officials, and the City of Los Angeles on the subject of the airport's potential transfer of control. Assuming the Authority drafts a multifaceted business



plan, development at the airport could be utilized to its full potential. Hughes believes that the Authority's changes could render, through ancillary revenues and contracting, the airport a zero-cost operation for airlines, a notion which recognizes a crucial fact: the airport needs to serve both passengers and airlines in order to lower costs and attract business.

On September 27, a subcommittee of the U.S. House Transportation and Infrastructure, the Subcommittee on Aviation, met to examine the economic impact and future management of Ontario International Airport. The subcommittee heard testimony from members of the Ontario International Airport Authority and Miguel Santana, Los Angeles City Administrative Officer. Testimony emphasized the importance of the regionalization of airports. Authority member Wapner pointed out the benefits to all regions and parties, including LAWA, if control of Ontario Airport is transferred, citing the economic usefulness of governing and organizing regionally. The focus of regional re-appropriation of airport control and its benefits was the main theme of the discourse, suggesting that the City of Los Angeles and other regional governments may crucially find some common ground to move forward in reform of Ontario Airport. While the process of reforming and transferring ownership of the airport will likely be a complex challenge, it has nonetheless begun and could point to a better, more connected Inland Empire. As Chris Hughes says: "We wouldn't be so aggressive in the campaign to regain local control [of ONT] if we didn't think it mattered." IEO

Photo Credit: Frederick Dennstedt

Councils of Government: SCAG and SANBAG

SANBAG officials at a 2008 Demolition Site.

Photo Credit: Westbound Communications

In recent years, the prized example of economic innovation, California, has fallen by the wayside, burdened by onerous regulation and partisan government. California, which rose so brilliantly in the 1950s and 60s, has run billion-dollar deficits for over ten years in a seemingly permanent fiscal crisis. While the state continues to rank among the largest economies in the world, its problems are enormous. In January 2012, Governor Jerry Brown predicted the Golden State's budget deficit to be $9.2 billion; four months later, that number swelled to $16 billion. While some of the largest budget cuts, like education and employee benefits, were directed at the state level, much of the pain was felt by cities, some of which are struggling just to stay solvent. Stockton, San Bernardino, and Mammoth Lakes have already filed for bankruptcy, and the credit rating agency Moody's predicts more to follow. At the same time, rapid population growth has forced many city governments to expand their services just to accommodate more residents. In short, fiscal problems at the national and state level have fallen to local and regional governments, who are now forced to cut budgets while struggling to retain essential services.

In light of these significant problems, it seems counterintuitive to think that California's chronic financial concerns can be mitigated by more, rather than less, government. After all, overzealous government has been responsible for many of the state's problems. Yet, as city finances become pressed, larger responsibility has been delegated to regional coalitions. One type of organization is called a Council of Government, or COG, which is a joint powers agreement between cities and/or counties. There are nearly 700 councils of government in the United States, of which California has 35. While the structural hierarchy of each COG is different, they are oftentimes composed of both elected and appointed officials. City governments are called to serve their COGs on a rotating basis alongside salaried employees, a method intended to ensure that regional interests are appropriately balanced with local concerns. Ideally, a COG will save time and money by combining the nimbleness of local government with the resources of a larger body.

To many California residents fearful of bureaucratic excess, Councils of Governments are entities to be feared. COGs do not have a universal purpose, and are often tasked with activities pertaining specifically to their respective localities, activities best coordinated from a regional basis. Depending on need, these services range from metropolitan planning, air quality management, financial services, transportation, to many more. Because of this, many of their core functions overlap with other government agencies. Even if a COG is not formally charged with a task, it often becomes involved at an unofficial level, goaded into action by new state requirements, city requests, or collective interest. Additionally, the size, scale, and function of each council can differ greatly. Some, like the Lake County City Area Planning Council, which oversees only 64,000 residents, are small. Others, however, carry large populations and, along with them, large responsibilities. The Southern California Association of Governance (SCAG) and the San Bernardino Associated Governments (SANBAG) are two large COGS in southern California.

Established in the 1960s, the Southern California Association of Governments is the nation's largest COG, both in territory and population. SCAG represents 191 cities, six counties and eighteen million residents, a population which rivals Florida. Yet SCAG is unique for reasons other than its size. Unlike most COGs, which are usually limited to the county level, SCAG spans several counties: Imperial, Los Angeles, Orange, Riverside, San Bernardino, and Ventura. Originally, SCAG was created to oversee transportation needs, but the Council has gradually taken on more responsibility. Prompted by sizable demographic and economic shifts, SCAG now provides a wide array of services including growth management, air quality, and economic development. Given the variety and vastness of SCAG's responsibility, it sometimes overlaps with regional governments. Yet, as SCAG's Chairman Glen Becerra notes, its close proximity to their representatives allows for not only greater accountability, but also large efficiencies, particularly in transportation, which are enabled by the COG model.

Becerra notes that unlike the federal and state governments, SCAG is "fairly nimble" because of "its refined process." This advantage is particularly evident in the COG's core competency, transportation. Since residents frequently leave their cities and counties, plans developed within local governments must seamlessly integrate with larger networks, a perspective only larger agencies, like SCAG, can provide. Despite spanning six counties, SCAG has proved remarkably responsive, constructing, revising, and implementing a comprehensive Regional Transportation Plan (RTP) in a "highly compressed time frame." SCAG's unique size, coupled with Southern California's heavy reliance on highways, makes its RTP among the most detailed in the nation. The plan, which must balance economic and environmental considerations, outlines all redevelopment effort until 2035. Given the long time frame, one would expect these initial predictions to differ greatly from the final product, especially considering the changes to the region. Area overseen by SCAG is expected to add four million residents by 2035, burdening a system which already wastes an estimated three million hours each year in congestion. Yet Becerra finds that even though infrastructure projects are "never easy, and always long term," the RTP has, "for the most part, stayed pretty consistent."

This is not to say that SCAG has refused to face new issues. In 2008, the California Senate passed SB375, which required California's Metropolitan Planning Organizations (which also includes SCAG), to create regional plans to reduce vehicle emissions. Such regulations greatly affected SCAG's traffic-congested region, but SCAG nevertheless adapted to the requirements by creating a Sustainable Community Strategy and developing fact sheets to assist local governments. Redevelopment efforts within the region now have a greater focus on environmental concerns. Every four years, the RTP is revised using the latest economic and growth forecasts. SCAG was able to meet these state requirements in a manner which uniquely suited its region. The COG noticed that between 2000 and 2009, active transportation options like biking and walking increased by 75 percent. Because of this, the most recent iteration of the RTP has led to considerable funding increases for transportation options like walking and biking; a plan which simultaneously balances the new state requirements and local modes of transportation. In the next thirty years, the COG plans to increase funding for these programs threefold from $1.8 billion to $6 billion. Much of this funding will be dedicated to

ambitious projects, such as a plan to link all cities in the SCAG region via bikeway. However, the COG continues to support multiple types of transportation options be they highways, metro lines, bike lanes, or walkways. Numerous projects, like expanding the I-405 Highway, Metro Gold Line, and I-10, are already underway. Southern California residents will benefit from these projects as early as 2013.

While Becerra finds that "SCAG is pretty much where it wants to be," the COG is still continuing to provide new services, particularly in the economy. After all, if the Southern California "economy is not healthy and robust… all plans are wasted paper." With the recent recession, SCAG has begun to implement a regional economic plan which suggests changes for sub-regional COGS to implement. One idea is to increase coordination with the private sector, a move exemplified by partnering with the $30 billion Los Angeles film industry. Alongside the California Film Commission, SCAG outlined a number of "best practices" which were then sent to its 191 cities. The recommendations are by no means mandatory, and simply serve to inform cities about ordinances which concern the private sector. While Becerra is concerned with the health of the Southern California economy, he is hopeful that such partnerships will prove fruitful: "I haven't met a business yet that hasn't been willing to work with whatever rules that are put on them, as long as those rules are predictable." Both governments and businesses who decry bureaucratic red tape, can find value in SCAG. As Becerra points out, the greatest advantage of SCAG is to "to help governments stay independent, but connect where they need to."

The San Bernardino Associated Governments (SANBAG), deals with similar issues at a more local level. While SANBAG technically falls under the purview of SCAG, it still carries important responsibilities, especially because San Bernardino County is geographically the largest county in the United States. With over 1.9 million residents and 24 cities, SANBAG is considered one of the larger COGs in California. Established in 1973, SANBAG was originally charged with basic governance, but quickly evolved into a major transportation and regional planning entity. In the past, SANBAG had an almost singular focus on transportation, mostly because it administered Measure I, a half-cent sales tax solely intended to fund transportation projects. Implemented in 2005, Measure I has been a key, predictable source of funding SANBAG, accounting for $1.2 billion in 18 years. It has also served to define its responsibilities since, as President Janice Rutherford notes, "function follows money." Most of these funds are used to create efficient freeway systems and roads. Yet, the recent recession has made construction difficult. While "projects are costing less, revenues have decreased more," imperiling SANBAG's core function.

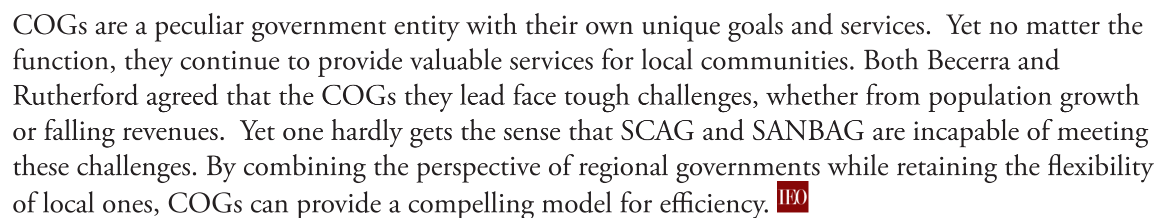
Nevertheless, SANBAG has continued construction on a diverse array of projects. One of its largest endeavors is the widening of Interstate 215, a major highway within Southern California connecting Victor Valley, Riverside County, Orange County, and Los Angeles County. Construction began in 2007, and will eventually add multiple carpool lanes and onramps over 7.5 miles by 2013 in an effort to reduce congestion and improve traffic flow. The scale of the project makes it impossible for any single city to tackle alone. SANBAG must work in conjunction with Caltrans, the Federal Highway Administration, and the City of San Bernardino to administer appropriately the $723 million budget quickly and efficiently.

While SANBAG President Janice Rutherford recognizes that transportation issues continue to be a large issue for the county, she finds that "demands the state is now placing on regional governments" have required SANBAG to expand its services. Because of this, SANBAG, which had long focused on transportation programs, has been forced to change. New responsibilities are colored more strongly by environmental concerns, and now include water policy and sustainable economic development. SANBAG does not intend to tackle these projects alone; Supervisor Rutherford seeks to work with other organizations on a case-by case basis. She views one of SANBAG's most important roles to "be the convener of the discussion," which allows organizations to join together

and contribute to solutions without complete reliance on a COG. To aid this effort, SANBAG is seeking to create a database of government organizations and services, encouraging greater cooperation. Measures like these are more easily tackled by COGs like SANBAG, who have the unique ability to look at problems from a broad prospective and scale their services. Even so, because so much of SANBAG's funding is tied directly to transportation, its present role in this new area is limited. As the years unfold and SANBAG's preliminary discussions become projects, the COG will have to expand and diversify revenue sources in new and creative ways.

One of SANBAG's larger, but perhaps less glamorous responsibilities is holding workshops for the San Bernardino public. In hopes of hearing voices from local populations, SANBAG has held a number of free, accessible workshops pertaining to its services. Some merely serve to inform the public about routine meetings; others discuss more pressing issues, like fare changes to public transportation. This is consistent with SANBAG's growing function as a forum for new ideas-- ideas which not only come from the government, but also from the public. Such steps are essential to keep the COG accountable and responsive to an increasingly diverse populace.

SANBAG is still evolving, much like the region it represents. The COG continues to improve itself by discussing new ideas, projects, and responsibilities. Perhaps that is SANBAG's greatest strength. Even without the funding to cover fully its new interests, President Rutherford finds value in the COG as a forum to connect local communities. She hopes that together with its cities, the COG can "find and see issues of regional importance, and bring people together to discuss and solve those problems instead of staying within artificial political boundaries."



COGs are a peculiar government entity with their own unique goals and services. Yet no matter the function, they continue to provide valuable services for local communities. Both Becerra and Rutherford agreed that the COGs they lead face tough challenges, whether from population growth or falling revenues. Yet one hardly gets the sense that SCAG and SANBAG are incapable of meeting these challenges. By combining the perspective of regional governments while retaining the flexibility of local ones, COGs can provide a compelling model for efficiency. IEO

Metro Gold Line Expansion

Photo Credit: Guy Prentice

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The Inland Empire Center

The Inland Empire Center for Economics and Public Policy is based at Claremont McKenna College.++ It was founded as a joint venture between the Rose Institute of State and Local Government and the Lowe Institute of Political Economy to provide business and government leaders with timely and sophisticated analysis of political and economic developments in the Inland Empire.

The IEC brings together experts from both founding institutes. Marc Weidenmier, Ph.D., director of the Lowe Institute, is a Research Associate of the National Bureau of Economic Research and a member of the Editorial Board of the Journal of Economic History. Andrew Busch, Ph.D., director of the Rose Institute, has authored or co-authored eleven books on American politics and currently teaches courses on American government and politics. Manfred Keil, Ph.D., an expert in comparative economics, has extensive knowledge of economic conditions in the Inland Empire. Kenneth P. Miller, J.D., Ph.D., is an expert in California politics and policy who studies political developments in the Inland Empire. Bipasa Nadon, J.D., has worked in municipal government and specializes in local government policy. David Huntoon, MBA, specializes in economic development, survey research, and tribal governments issues.

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