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Waiting For Recovery

This issue of *Inland Empire Outlook* again reflects the Inland Empire's ongoing struggle to emerge from the recession. In prior issues, we have examined the recession's toll on the Inland Empire, looking closely at the area's housing market and the crisis at Ontario Airport. This issue continues that important discussion.

We begin with an in-depth analysis of unemployment in cities across the Inland Empire (p. 2). The overall unemployment rate for the region is up to a sobering 14.7 percent, but our analysis reveals considerable variation among cities in both San Bernardino and Riverside counties. We also analyze Inland Empire GDP as one way to measure the fallout of the recession (p. 23). Our analysis shows that the IE's GDP shrank at a much faster rate than that of both California and the United States in 2008 and 2009. The region is still waiting for any real signs of recovery, much less a return to its full potential GDP.

We continue our analysis of the 2010 census data with a close look at the robust growth in the IE (p.10). This growth brought the Inland Empire's total population to 4.2 million, a 30 percent increase since 2000, making the IE one of the fastest growing regions in California. Following the release of the census data, California (and 42 other states) began the process of redistricting. In a departure from the past, a citizens commission directed the redistricting process in California. We review the genesis of the commission, analyze the new congressional districts, and identify likely contenders in each race (p. 14).

Finally, we examine the increasing use of contract services by cities and counties (p. 27). Local governments are under tremendous pressure to deliver services to their constituents with ever shrinking budgets. Some are turning to the private sector or to other government agencies as a cost-effective alternative.

On September 22, 2011, the Inland Empire Center, in partnership with the UCLA Anderson Forecast, will hold the second CMC-UCLA Inland Empire Forecast Conference at the Citizens Business Bank Arena in Ontario. The conference will feature panels on future trends in the regional real estate market and updates on economic development in San Bernardino and Riverside counties.

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*

Unemployment: "It's the Education, Stupid"

The Inland Empire has been among the economically hardest hit regions in the U.S. during the Great Recession, with unemployment rates hovering around 14 percent since 2010. The misery, however, is not evenly spread among the various cities within the region. An analysis of the thirty-six cities with population above 25,000 shows that there is substantial variation in terms of labor market performance. According to the most recently available monthly employment report (July 2011), the unemployment rate for the Inland Empire region as a whole rose to 14.7 percent. Yet six of the thirty-six cities (Murrietta, Upland, Rancho Cucamonga, Palm Desert, La Quinta, Chino Hills) have unemployment rates of 10 percent or less, while at the other extreme, there are four cities (Adelanto, San Jacinto, Perris, Coachella) with unemployment rates higher than 20 percent.

What causes such a disparity in labor market performance among the Inland Empire cities? More generally, what are the determinants of unemployment rates in this particular region? Finally, and perhaps most importantly, what policies can be used to lower the unemployment rates of cities within Inland Empire, and in doing so, what can we learn about lowering the unemployment rate in the region as a whole?

Does Size Matter?

Some have suggested that larger or more populous labor markets produce, on average, lower unemployment rates, since it is easier for job seekers and employers to find each other in a bigger city rather than in a relatively smaller city. The implication is that unemployment rates might benefit from economies of scale, and this theory has been proven empirically between MSAs in the United States. We investigate this possibility in the Inland Empire in Table 1, which ranks most recently available monthly unemployment rates of the major Inland Empire cities in descending order. The last column lists the corresponding population size.

To investigate the possibility of economies of scale, we highlighted in red cities with more than 90,000 inhabitants. Some of the larger cities, such as Temecula and Corona, fit the hypothesis, yet others (Moreno Valley, San Bernardino) clearly do not. Viewing the table as a whole, larger cities are not concentrated in the low unemployment rate section, and smaller cities are not predominantly in the high unemployment rate section. Smaller cities such as Adelanto are as likely to experience high unemployment rates as larger cities such as Victorville. In general, there is no apparent pattern visible for the highlighted cities, and this suggests that size does not matter as a determinant of unemployment rates. This size effect does not seem to be present within the Inland Empire, perhaps because these cities do not have exclusive labor markets. In fact, the high percentage of people commuting to or working outside of the city in which they reside suggests that the Inland Empire cities might share the same labor market. Therefore, although the size pattern may be observable between MSAs according to some studies, it is less likely to be found within an MSA, and it is certainly not present in the data displayed in Table 1.

The conclusion regarding the size effect within the Inland Empire is not dependent on any specific month during which we observe the labor market. In addition, it holds irrespectively whether we use monthly data or annual data.

TABLE 1: UNEMPLOYMENT RATES (JULY 2011) AND POPULATION SIZE (2009) ACROSS MAJOR CITIES IN THE INLAND EMPIRE

City	Abrev	UR (%)	Pop (1000s)
Coachella	Coa	23.3	40,168
Perris	Per	22.9	56,153
San Jacinto	SJa	22.3	37,915
Adelanto	Adl	21.6	28,403
San Bernardino	SBD	18.9	198,411
Hemet	Hem	18.8	71,796
Hesperia	Hes	18.2	86,194
Rialto	Rlt	18.1	98,702
Highland	Hgh	17.8	51,002
Moreno Valley	MrV	17.3	191,754
Banning	Ban	17.1	28,986
Beaumont	Bmt	17.1	33,523
Victorville	Vic	17.1	110,921
Twentynine Palms	TwP	17.0	33,634
Indio	Ind	16.3	85,062
Apple Valley	ApV	15.6	70,109
Colton	Col	15.4	50,495
Riverside	Riv	15.2	297,841
Chino Hills	ChH	7.3	73,889

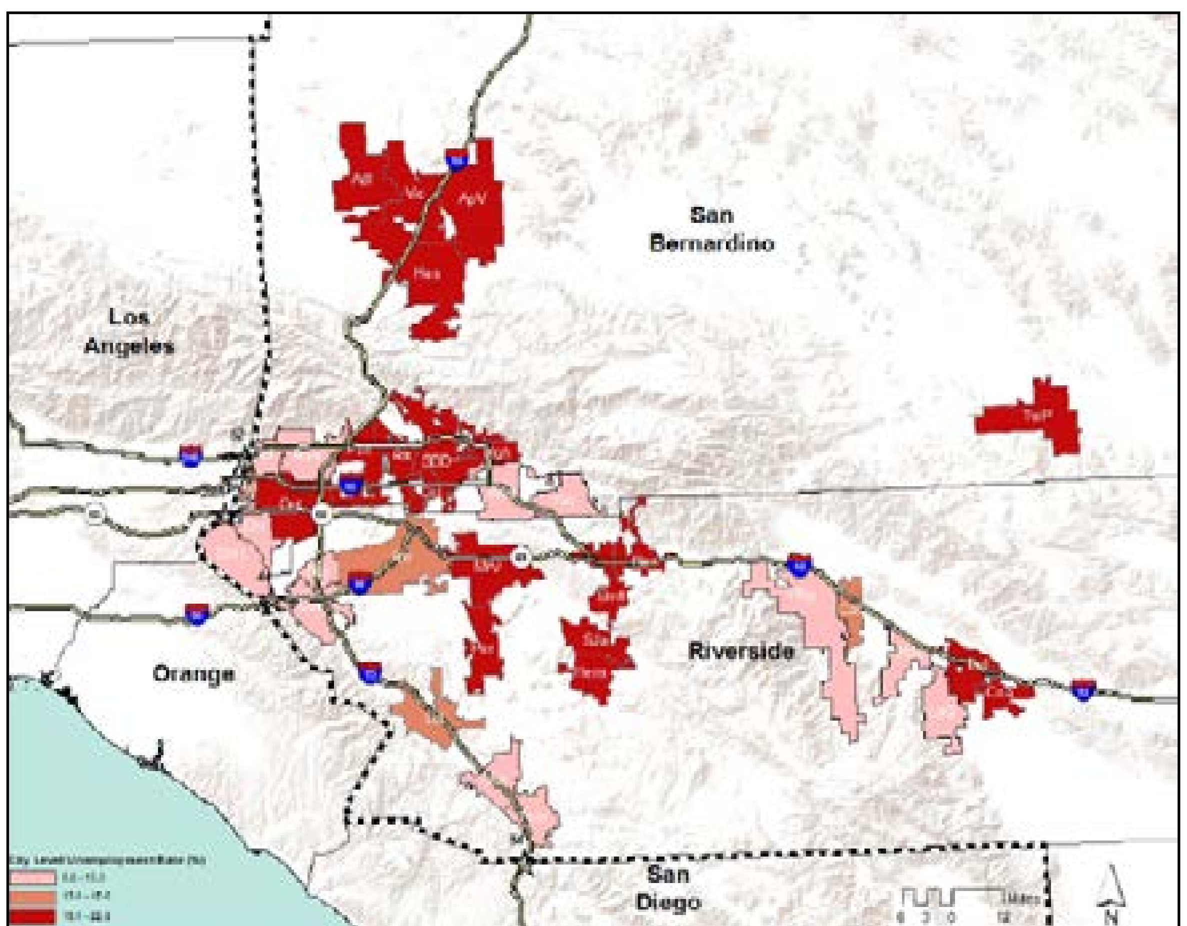
City	Abrev	UR (%)	Pop (1000s)
Ontario	Ont	15.1	171,603
Fontana	Fon	14.8	188,013
Cathedral City	Cat	14.7	52,432
Lake Elsinore	LEl	14.6	51,099
Montclair	Mcl	13.7	36,292
Chino	Chi	12.8	82,830
Hesperia	Hes	18.2	86,194
Norco	Nor	12.3	26,494
Palm Springs	PSp	11.8	48,181
Yucaipa	Yuc	11.5	50,023
Corona	Cor	11.2	151,027
Redlands	Red	10.5	69,977
Temecula	Tem	10.4	98,876
Murrieta	Mur	10.0	97,881
Upland	Upl	9.9	72,974
Rancho Cucamonga	Ran	9.4	62,937
Palm Desert	PDe	9.1	51,875
La Quinta	LaQ	8.0	44,701

Closeness Counts

Finding that size does not matter in the list of potential determinants of unemployment rate differences has not gotten us any closer to an explanation of the observed variation between cities. Perhaps a geographical map of the cities might lead to further clues. Figure 1 illustrates the same thirty-six cities, using darker areas to indicate higher unemployment rates. Setting aside the cities of the Coachella Valley, there appears to be a divide between cities that lie closer and those that lie further away in terms of driving distance to their respective closest "point of entry" into Los Angeles County, Orange County, and San Diego County. By "point of entry" we mean the highway exit on the county line one takes to enter the county of destination. Cities that are closer to these points have lower unemployment rates, on average. In other words, geography does seem to matter.

There currently is an East-West divide in California in terms of unemployment rates where coastal areas, such as Los Angeles, San Francisco, and San Diego, are less affected by the downturn and the slow recovery than the areas that lie further inland. Now assume that residents of communities that live closer to "points of entry" into the economically less depressed areas are more likely to commute from the Inland Empire into these areas, and hence are more likely to hold jobs there. Since unemployment rates are measured by residency (if you lose your job in downtown L.A. and reside in Ontario, the unemployment rate of Ontario goes up while the unemployment rate of L.A. is unaffected), then these communities will show lower unemployment rates when compared to those further away from the "points of entry."

FIGURE 1: INLAND EMPIRE CITIES AND THE GEOGRAPHICAL DISTRIBUTION OF UNEMPLOYMENT RATES



One third of those who live in the Inland Empire and hold jobs commute to Los Angeles, Orange, and San Diego counties to work. Many residents from those counties who moved to the Inland Empire were drawn by more affordable housing further inland, rather than by the lure of jobs. The combination of more affordable housing and the lack of relatively better paying local jobs in San Bernardino and Riverside counties resulted in these residents spending substantial time commuting to work in neighboring regions.

To determine whether geography matters in explaining unemployment rate differences, we display 2010 annual unemployment rate data in Table 2, with an additional column listing the distance from each city to its respective nearest "point of entry" into either Greater L.A. or San Diego County, whichever is closer. We will ignore the cities of the Coachella Valley in our analysis (marked in blue), because they are clearly too far away for regular commuting. Thus, the Coachella Valley economy must be viewed separately from the other cities when it comes to finding the determinants of unemployment rate.

After excluding cities of the Coachella Valley, we marked in red those that were within 15 miles of their "points of entry" in Table 2. As one can easily observe, the majority of the cities with shorter distance to the "points of entry" are found in the bottom part of the list. This pattern suggests a positive relationship between distances from the "points of entry" and city unemployment rates: on average, cities that are located further away will experience higher unemployment rates.

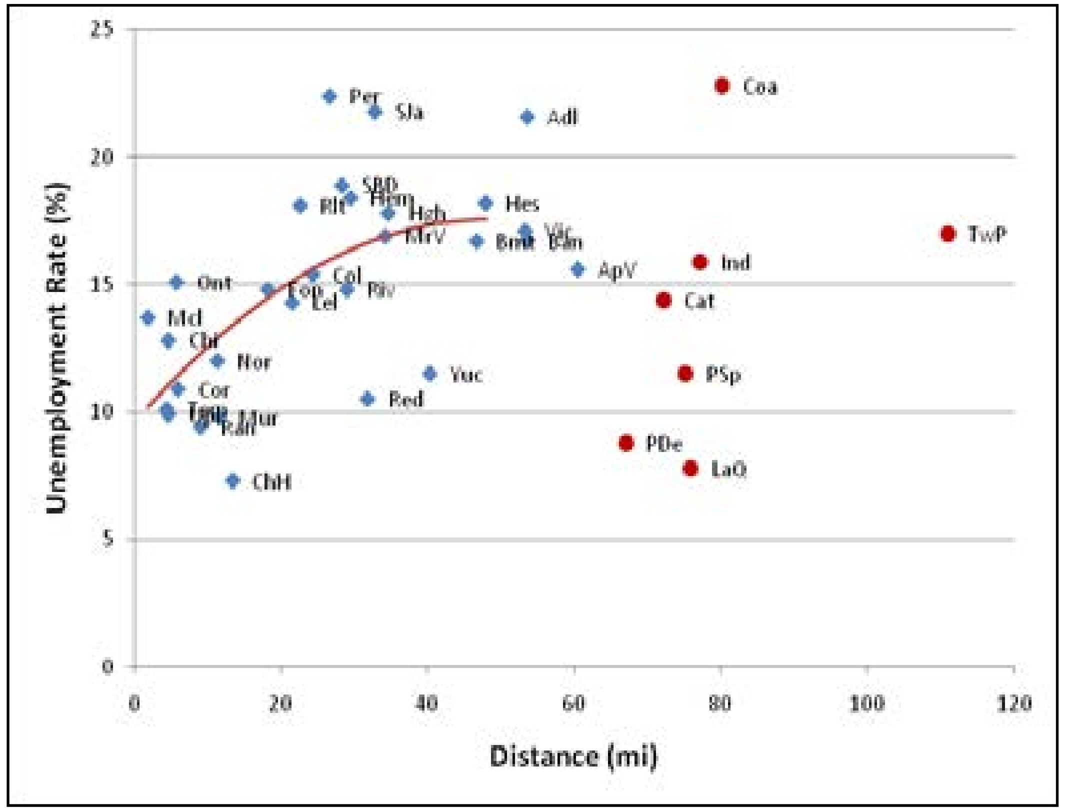
TABLE 2: ANNUAL UNEMPLOYMENT RATES ACROSS CITIES IN THE INLAND EMPIRE, 2010

City	Abrev	UR (%)	Dist (mi)
Coachella	Coa	22.8	80.2
Perris	Per	22.4	26.6
San Jacinto	SJa	21.8	32.8
Adelanto	Adl	21.6	53.6
San Bernardino	SBD	18.9	28.3
Hemet	Hem	18.4	29.5
Hesperia	Hes	18.2	47.9
Rialto	Rlt	18.1	22.6
Highland	Hgh	17.8	34.6
Moreno Valley	MrV	16.9	34.2
Banning	Ban	16.7	46.7
Beaumont	Bmt	16.7	53.6
Victorville	Vic	17.1	53.3
Twentynine Palms	TwP	17.0	111
Indio	Ind	15.9	77.2
Apple Valley	ApV	15.6	60.5
Colton	Col	15.4	24.3
Riverside	Riv	14.8	29
Chino Hills	ChH	7.3	13.4

City	Abrev	UR (%)	Dist (mi)
Ontario	Ont	15.1	5.7
Fontana	Fon	14.8	18.2
Cathedral City	Cat	14.4	72.2
Lake Elsinore	LEl	14.3	21.5
Montclair	Mcl	13.7	1.8
Chino	Chi	12.8	4.6
Hesperia	Hes	18.2	47.9
Norco	Nor	12.0	11.3
Palm Springs	PSp	11.5	75.2
Yucaipa	Yuc	11.5	40.3
Corona	Cor	10.9	5.9
Redlands	Red	10.5	31.8
Temecula	Tem	10.1	4.4
Murrieta	Mur	9.8	11.5
Upland	Upl	9.9	4.6
Rancho Cucamonga	Ran	9.4	9
Palm Desert	PDe	8.8	67.1
La Quinta	LaQ	7.8	75.9

To further investigate this observation, Figure 2 presents a cross-plot of city unemployment rates against the distance from each city center to its "point of entry." Excluding the cities of the Coachella Valley for the reasons stated above, we constructed a trend line based on data from the remaining cities.

FIGURE 2: CITY UNEMPLOYMENT RATES IN THE INLAND EMPIRE AND DISTANCE TO GREATER LOS ANGELES/SAN DIEGO COUNTY LINE, 2009



The trend line suggests that geography does matter, but the effect becomes weaker as one moves further away from the county line. In other words, unemployment rates change more drastically in the 0 to 20 mile range from the "point of entry" than in the 20 to 40 mile range. Furthermore, this effect is economically important. Moving away from the county line for the first 20 miles, the unemployment rate increases, on average, by a massive five percentage points.

However, not all of the city unemployment rate observations lie on the trend line. In fact, the considerable scatter around the trend line indicates that there must be determinants other than proximity which play a significant role. That is, closeness to employment centers in the western counties matters, but there are limits to its explanatory power. Take Ontario and Upland as an example. While both cities are roughly the same distance away from the nearest "point of entry," about 5 miles, Ontario's unemployment rate, at 15.1 percent, is more than 5 percentage points higher than Upland's 9.9 percent. Similarly, San Jacinto and Redlands are both located around 32 miles away from the county line, yet San Jacinto's unemployment rate (21.8 percent) is more than 10 percentage points higher than Redlands's (10.5 percent). What causes the variation in the unemployment rates given that they have the same proximity to more vibrant economic areas?

We considered a variety of city attributes: median household income level, number of housing permits issued, average household size, average education level, crime rates, demographics, and residential status (rent/own). After controlling for the influence of geography, three of these variables stand out: median per capita income level, percentage of residents with a high school diploma, and crime rates.

Table 3 compares the two city pairs mentioned above by listing the values for the three new variables. Recall from the previous text that Upland and Redlands have lower unemployment rates than Ontario and San Jacinto respectively, while being very similar in terms of proximity to "points of entry."

TABLE 3: CITY UNEMPLOYMENT RATES AND ATTRIBUTES: ONTARIO VS. UPLAND, SAN JACINTO VS. REDLANDS

	Ontario	Upland	San Jacinto	Redlands
Median Income	$57,307	$66,649	$45,744	$64,008
High School Degree Attainment	70.6%	87.6%	72.6%	88.8%
Crime Rate per 100,000 people	1544.8	501.9	2289.1	1624.4

Table 3 demonstrates that after controlling for geography, a higher median household income, a higher education level, and lower crime rates result in lower city unemployment rates. More complicated statistical techniques allow us to establish the separate effect of each attribute while controlling ("holding constant") the others. Performing this type of (multiple regression) analysis establishes the following: apart from geographic factors, the unemployment rate of a city is higher, on average, if

- households have lower income;
- the percentage of high school graduation is lower.

Remarkably, higher crime rates only have a positive effect on unemployment rates when not controlling for income and education level. That is, crime rates lose their significant explanatory power when taking income and education level in addition to geography into account. Hence, crime rates do not play a separate role in determining city unemployment rates above and beyond the influence established by the other factors. To emphasize the result, once geography, income, and education are allowed to cast their effect on the unemployment rate, crime rates have no additional contribution.

What are the Policy Implications?

Given our results regarding the determinants of city unemployment rate variation, what can policy makers do to improve city and county unemployment rates? Clearly cities cannot be relocated easily, so the "closeness" geographical effect must be taken as given. This statement is less obvious than it appears at first. Greater Los Angeles, for instance, has expanded outwards dramatically over time. In other words, whereas the county line always remains at the same geographical location, the employment centers can move closer to their employees over the years.

This fact leaves the other two alternatives as sole factors that can be influenced to have an impact on unemployment: household income and high school attainment levels. Government officials have the ability to raise average household incomes by attracting higher paying jobs into their area, thereby generating higher paying employment opportunities. This can be done through enterprise zones and other subsidies and tax breaks which are under governments' control, directly or indirectly, in policy circles at the state and local level. However, there are other obstacles to overcome before higher value-adding firms move into an area. These firms are particularly interested in hiring skilled workers, which may be problematic in certain areas of the Inland Empire, given their low education level. Take Adelanto for example. Only 63 percent of its population had a high school degree in 2009, strikingly low when compared to a national average of 85 percent and the average for California, 77 percent. Moreover, the housing boom in the Inland Empire in the late 1990s was created by households with lower income immigrating, instead of by better educated, higher income-earning families, as many lower-income households were attracted to the area by affordable housing.

Hence, it is the third factor, high school attainment levels and education in general, that plays a central role in tackling the labor market problems. Clearly, higher education levels have an effect on median household incomes, but there also seems to be an additional contribution from education beyond its impact on income. Our analysis places education in the center of policy options to reduce unemployment in the Inland Empire. One possibility that has been tried in the past, and claimed by many to be unsuccessful, is to throw money at the problem. That is, to improve education outcomes by increasing expenditures per student and/or by reducing class sizes. However, setting aside the effectiveness of these programs, such a policy is clearly not an option in the current stagnant economy. Moreover, we foresee further school budget cuts in the future.

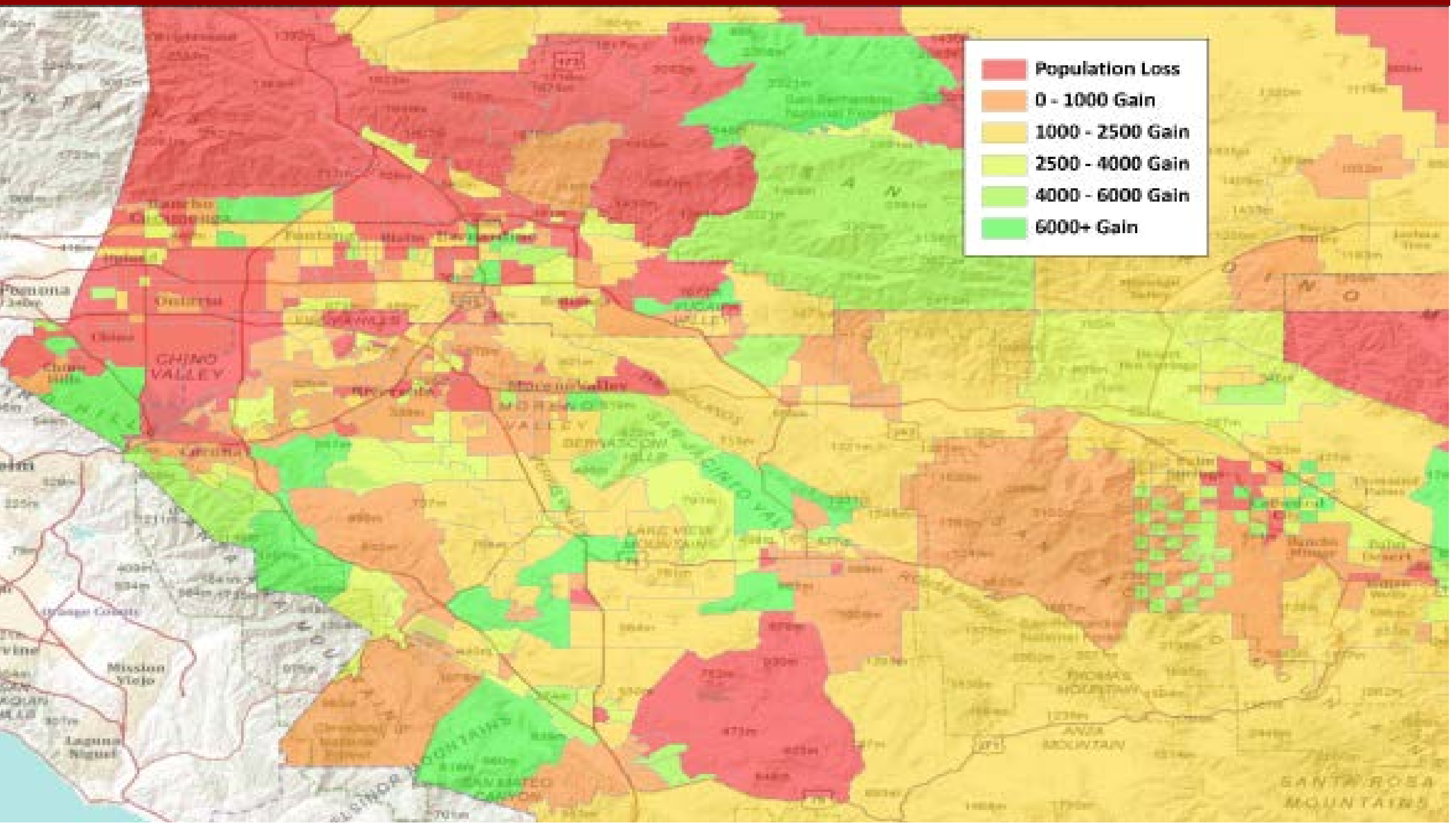
> "SCHOOL OFFICIALS SHOULD VIEW THE CURRENT ECONOMIC CLIMATE AS AN **OPPORTUNE TIME TO IMPLEMENT DRAMATIC CHANGES IN SCHOOL POLICIES**.

Fortunately, there are ways to raise high school attainment rates without raising expenditures, such as promoting high performance teachers through merit raises rather than determining salaries by seniority. Unfortunately, as the resistance in the LAUSD and elsewhere indicates, current government educational policies are not implemented along such lines on a large scale. In reality, cuts in educational budgets are most often executed by forcing out more recently hired, younger, more passionate, and thus potentially better performing teachers – the usual LIFO policy. Similar to firms, which acquire some less productive workers during long-lasting expansions and are unwilling to get rid of them during prosperous times in absence of much need for fiscal discipline, schools are often unwilling to deal with less productive teachers. Laying off teachers is costly or even impossible for administrators both in terms of existing tenure rules (note that, as a general principle, tenure does not prevent districts from cutting salaries), the unpleasantness of the process for school administrators, and its negative effects on the morale of the remaining teaching staff. However, school officials should view the current economic climate as an opportune time to implement dramatic changes in school policies.

The Inland Empire saw an economic expansion of over ten years before the bursting of the housing bubble. Facing some of the most powerful unions in the United States, making educated decisions such as changing employment contracts is not only painful, but unlikely to occur during times when the need for such changes are less pressing or obvious. Now that the years of plenty have been followed by the years of famine, school districts should seriously consider how to put policies into motion that will lead to increased educational levels in the local community, not only now but also when the economy bounces back in the future.

These insights into the determinants of city unemployment rates are neither surprising nor are we the first to observe them. However, we are the first to establish these empirically for the cities within the Inland Empire. The results show that these socio-economic, geographic, and demographic factors play a significant role and have a consistent impact on city level unemployment rates within the Inland Empire. High school education, in particular, commands the most attention. Current cuts in the public sector force the government to come up with more efficient ways to operate schools. This encourages us to rethink the convention and status quo in the education system. Rewarding teachers by merit rather than by seniority can allow us to retain or even improve education quality, with the limited budget we have. The time to do it is now---- if cuts are inevitable, at least we can influence the form those cuts take.

2010 Census Shows Large Increase for Inland Empire



The twenty-third decennial United States Census, conducted in 2010 and released this past spring, provided up-to-date demographic data for the nation in categories including population, race, age, and sex. This data is used to determine the number of seats each state has in the United States House of Representatives and drives the allocation of much federal funding.

Census numbers revealed disappointingly low population growth for the state of California over the course of the past decade. With a population increase of 10.0 percent (4.5 million residents) since 2000, California barely managed to beat the national average of 9.7 percent. This marks the first time California did not gain a seat in the U.S. House of Representatives. The growth that occurred reflects a shift strongly inland from the coast, threatening to pull political power away from the traditional strongholds of San Francisco and Los Angeles.

California's slow growth stands in sharp contrast to the Inland Empire's robust expansion. Made up of San Bernardino and Riverside counties, the Inland Empire has seen considerable growth over the past decade. According to the 2010 Census, Riverside County's population grew by an impressive 42 percent while San Bernardino County grew by nearly 20 percent. This growth brought the Empire's total population to 4.2 million, a 30 percent increase over 2000. Even with Riverside County's explosive gain of 42 percent, it failed to place near the top of the nation's rankings for the fastest growing regions. The nation's fastest growing counties were strongly concentrated in the southern United States and frequently reported population increases higher than 50 percent. Kendall County, Illinois, was the fastest growing county in the country and is the exception that proves the rule. It is located in northeastern Illinois (in the Chicago region) and saw its population increase by 110.4 percent in the last decade. Riverside County just makes the top 70 on the list of the decade's fastest growing counties, placing 69th.

TABLE 1: POPULATION CHANGES IN RIVERSIDE COUNTY

Riverside County			
City	**Population 2000**	**Population 2010**	**Change**
Banning	23,562	29,603	25.6%
Beaumont	11,384	36,877	223.9%
Blythe	20,463	20,817	1.7%
Calimesa	7,139	7,879	10.4%
Canyon Lake	9,952	10,561	6.1%
Cathedral City	42,647	51,200	20.1%
Coachella	22,724	40,704	79.1%
Corona	124,966	152,374	21.9%
Desert Hot Springs	16,582	25, 938	56.4%
Hemet	58,812	78,657	33.7%
Indian Wells	3,816	4,958	29.9%
Indio	49,116	76,036	54.8%
Lake Elsinore	28,928	51,821	79.1%
La Quinta	23,694	37,467	58.1%
Menifee	0	77,519	-
Moreno Valley	142,381	193,365	35.8%
Murrieta	44,282	103,466	133.7%
Norco	24,157	17,063	12.0%
Palm Desert	41,155	48,445	17.7%
Palm Springs	42,807	44,552	4.1%
Perris	36,189	68,386	89.0%
Rancho Mirage	13,249	17,218	30.0%
Riverside	255,166	303,871	19.1%
San Jacinto	23,779	44,199	85.9%
Temecula	57,716	100,097	73.4%
Wildomar	0	32,176	-
Remainder of County	420,721	504,392	19.9%
Riverside County Total	**1,545,387**	**2,189,641**	**41.7%**

The population of Riverside County grew from 1,545,387 in 2000 to 2,189,641 in 2010, with most of the rapidly expanding cities along freeway corridors. On the 10 Freeway, Beaumont led with a 223.9 percent increase, with San Jacinto (85 percent) and Coachella (79.1 percent) also showing large gains. Murrieta (133.7 percent) and Perris (89 percent), on the 215 Freeway corridor, also had big population increases. Lake Elsinore (79.1 percent), and Temecula (73 percent) led the growth along the 15 Freeway.

TABLE 2: POPULATION CHANGES IN SAN BERNARDINO COUNTY

San Bernardino County			
City	**Population 2000**	**Population 2010**	**Change**
Adelanto	18,130	31,765	75.2%
Apple Valley	54,239	69,135	27.5%
Barstow	21,119	22,639	7.2%
Big Bear Lake	5,438	5,019	-7.7%
Chino	67,168	77,983	16.1%
Chino Hills	66,787	74,799	12.0%
Colton	47,662	52,154	9.4%
Fontana	128,929	196,069	52.1%
Grand Terrace	11,626	12,040	3.6%
Hesperia	62,582	90,173	44.1%
Highland	44,605	53,104	19.1%
Loma Linda	18,681	23,261	24.5%
Montclair	33,049	36,664	10.9%
Needles	4,830	4,844	0.3%
Ontario	158,007	163,924	3.7%
Rancho Cucamonga	127,743	165,269	29.4%
Redlands	63,591	68,747	8.1%
Rialto	91,873	99,171	7.9%
San Bernardino	185,401	209,924	13.2%
Twentynine Palms	14,764	25,048	69.7%
Upland	68,393	73,732	7.8%
Victorville	64,029	115,903	81.0%
Yucaipa	41,207	51,367	24.7%
Yucca Valley	16,865	20,700	22.7%
Remainder of County	292,716	291,776	-0.3%
San Bernardino County Total	**1,709,434**	**2,035,210**	**19.1%**

In San Bernardino County the Victorville area was the center of significant growth. Victorville's population increased by 81 percent, Adelanto's by 75.2 percent, and Hesperia's by 44.1 percent. Twentynine Palms grew by 69.7 percent, driven by increased military activity. Closer to Los Angeles, Fontana (52.1 percent) and Rancho Cucamonga (29 percent) both grew substantially.

As expected, the Hispanic population throughout the Inland Empire grew substantially while Caucasian numbers remained fairly steady, thus decreasing in the percentages. Hispanics now make up 49 percent of San Bernardino County and 46 percent of Riverside County, much higher than California's statewide total of 38 percent, and the national average of 16.3 percent. African Americans now make up 7.6 percent of the Inland Empire while Asians make up 6.2 percent.

With substantial population growth came new and more inclusive district boundaries for the Inland Empire. These lines, drawn by the California Redistricting Commission (CRC), are a considerably shift from those of 2001. In 2001 the region's Congressional representation was split, with western portions San Bernardino County placed in districts with Los Angeles County, and western Riverside County sharing districts with Orange and San Diego Counties. The CRC has adopted districts that stay almost entirely in the Inland Empire plus Pomona (Pomona-Ontario-Fontana, Redlands-San Bernardino-Rancho Cucamonga, Riverside-Moreno Valley-Perris, and so on). See *New Maps, Big Changes for the Inland Empire* in this issue for a detailed analysis of California's new congressional districts.

> CALIFORNIA'S SLOW GROWTH STANDS IN SHARP CONTRAST TO THE INLAND EMPIRE'S ROBUST EXPANSION. MADE UP OF SAN BERNARDINO AND RIVERSIDE COUNTIES, **THE INLAND EMPIRE HAS SEEN CONSIDERABLE GROWTH OVER THE PAST DECADE.**

State Senate and Assembly lines have also undergone changes, although not to the same degree. Key shifts in the state Senate include placing eastern areas of the City of San Bernardino in a Rancho Cucamonga-Lake Arrowhead-Highland-Redlands-Hemet-Menifee district, and the placement of Riverside-Corona-Moreno Valley into a single "Northwest Riverside County" district. The assembly lines maintain the Pomona-Ontario and Fontana-west San Bernardino districts. The 2001 Yucaipa - Apple Valley - Claremont - Glendale 59th District has been replaced with a district that appears only slightly less geographically creative as it climbs Mount San Antonio to link Rancho Cucamonga with east San Bernardino and Redlands. The Coachella Valley is divided between Assembly Districts, placing Indio/Coachella and Desert Hot Springs with Imperial County and the rest with San Jacinto, Banning and Twentynine Palms. The San Jacinto/Hemet area is split three ways: San Jacinto with most of the Coachella Valley; East Hemet with Wildomar and Murietta, and Valley Vista with eastern San Diego County. The CRC's maps are finished but face legal and referendum challenges.

New Maps, Big Changes for the Inland Empire

Rep. David Drier (R-San Dimas), Chairman of the House Rules Committee cruised to a double-digit victory in California's 26th Congressional District last November, trouncing his opponents with relative ease. Rep. Jerry Lewis, (R-Redlands) crushed his challenger by nearly 30 points last fall. Yet, come November 2012, both Congressmen may very well be out of a job. How could two popular and powerful Congressmen with more than 70 years of Congressional experience between them be in such political danger? It's not a shocking scandal, a shortage of campaign cash, or any drastic ideological shift. The answer is redistricting, an esoteric yet tremendously important political procedure that shakes each and every level of the American political system every ten years. And this time around, the Inland Empire sits squarely at the epicenter of a political earthquake.

Background

Strictly speaking, redistricting is the constitutionally mandated procedure in which district boundaries are redrawn to accommodate changes in population. The United States Constitution requires that Americans are represented equally, and thus it is necessary to redraw political boundaries to balance population numbers in political districts. The redrawing of Congressional lines occurs every 10 years, following the tabulation of the U.S. Census and the process of reapportionment (the reallocation of representatives among states based on population shifts).

For California, 2011 redistricting marks a number of firsts. For the first time since California earned its statehood in 1850 (except 1920, in which reapportionment did not occur), the Golden State will not see an increase in its Congressional delegation following the Census. While states like Texas, Colorado, and Georgia will each gain a few more seats in the House of Representatives, a slowing of population growth in California means that the status quo of 53 representatives will remain in place for the next ten years. Perhaps even more historic, 2011 marks the first redistricting cycle in which the power of redistricting has been granted to a brand new, voter-approved organization: the California Citizens Redistricting Commission (CRC).

The California Citizens Redistricting Commission

The California Citizens Redistricting Commission, created with the passage of Proposition 11 in 2008, was initially given the task of handling redistricting exclusively for state legislative districts (and the Board of Equalization). However, its role expanded to include congressional redistricting with the passage of Proposition 20 in 2010. Both propositions had to overcome significant opposition to their passage. The commission, comprised of five Democrats, five Republicans, and four commissioners unaffiliated with either major party, was supported heavily by Governor Schwarzenegger and state Republicans. They believed maps produced by a bipartisan redistricting process would be more favorable to the GOP than ones authored by the legislature, with its majority of Democrats in both chambers. Conversely, Democrats and many incumbents feared the fallout of a group of citizens by drawing lines from scratch. Following the narrow passage of Proposition 11 and the easy approval of Proposition 20, the battle shifted to the CRC.

The process of picking commission members began in Decemeber 2009. Through a complex selection process meant to eliminate candidates with any direct ties to state politicians or parties, the state auditor's office narrowed the applicants from more than 25,000 to 60 candidates. By November of 2010, the first 8 commissioners (randomly selected from the final pool) had been chosen. These 8 commissioners selected 6 more, finalizing the 14 member commission by the end of the year. In 2011, the commission began its work in earnest. Over the course of the next 8 months, it would criss-cross California, take public input from thousands of people, hire numerous staffers (to some controversy), and gradually formulate operational procedure for the first itineration of the most powerful redistricting commission in the nation.

> FOR THE FIRST TIME SINCE CALIFORNIA EARNED ITS STATEHOOD IN 1850, **THE GOLDEN STATE WILL NOT SEE AN INCREASE** IN ITS CONGRESSIONAL DELEGATION FOLLOWING THE CENSUS.

The first signs of forthcoming political upheaval became clear when the CRC announced it would prioritize geographic and cultural factors such as compactness, and city, county, and community boundaries over political considerations in designing the maps. Existing districts and the locations of incumbents' homes would not play a role in the CRC's work. The commissioners would instead start from scratch in drawing 53 districts for Congress, 80 for the State Assembly, 40 for the State Senate, and four for the Board of Equalization.

It took little time for the CRC to run into controversy, however, as Republicans criticized the commission for hiring legal and technical consultants with perceived Democratic Party ties. (The Rose Institute submitted an unsuccessful bid for the technical consulting services). Nevertheless, the CRC marched onward with public comment and released the first of two planned draft maps on June 10. The map was met with mixed reviews. Supporters praised improved compactness and a noticeable reduction in community splits while expressing concern over an overall lack of competitive seats. State Republicans attacked the commission for crafting a map that would likely produce several Democratic gains in Congress and the State Senate. Latino advocacy groups such as the Mexican American Legal Defense and Education Fund (MALDEF) voiced outrage that the CRC draft map created few Latino majority seats.

Additional concerns emerged as it became increasingly clear that with just a few weeks left before their August deadline, the CRC continued to consider wholesale changes to the first draft maps. In a controversial vote on July 12, the commission moved to skip the creation of a second full draft map in order to proceed straight to a final map. While CRC opponents such as the California Friends of the African American Caucus criticized the move as an affront to transparency, describing the vote as just the "latest shenanigans" of the CRC, commissioners defended their decision. Commissioner Jeanne Raya claimed the vote would give the CRC "more time to deliberate thoughtfully" and "more opportunity for the public to interact with us in live drawing sessions."

On August 15, the CRC formally approved finalized legislative redistricting plans in a 13-1 vote and the Congressional plan 12-2. While most commissioners who voted in favor of the plan spoke highly of the plan, the sole dissenter on the legislative plans, Commissioner Michael Ward, alleged that "the commission broke the law," and "simply traded the partisan, backroom gerrymandering by the Legislature for partisan, backroom gerrymandering by average citizens." In an LA Times Op-Ed, Commissioner Cynthia Dai responded to CRC detractors, declaring that the CRC's "commitment to a fair process trumped partisan allegiances," and boasting that "we were able to eliminate partisan gerrymandering and draw 177 districts for the state Assembly and Senate, Board of Equalization and Congress on time and under budget."

PHOTO: DAVID DREIER
REPRESENTATIVE -SAN DIMAS

Redistricting Analysis

A district-by-district analysis of the California Redistricting Commission's maps illustrates the far reaching nature of the CRC's work. The new maps drastically reshape congressional and state legislative representation in the Inland Empire. As a result of efforts by the commission to create reasonably compact districts and preserve communities of interest, the new maps offer districts that are, for the most part, much more compact than their predecessors.

By ignoring existing districts and focusing on compactness and communities, the CRC has produced a Congressional map that will result in significant political turnover in the Inland Empire. Longstanding Republican incumbents David Dreier (San Dimas) and Jerry Lewis (Redlands) no longer reside in safe Republican districts. The options available to two of California's most notable Congressmen are few: retire, move, or wage tough battles to hold onto their seats. In addition, a handful of open seats have emerged in the area, offering up-and-coming politicians a rare opportunity to run for Congress without facing competition from powerful incumbents. All in all, it appears the commission's work has created three competitive seats and two or three open seats in the Inland Empire's Congressional delegation. For a regional delegation that has seen little to no turnover in the past twenty years, this is nothing short of a political earthquake.

San Bernardino County Congressional Districts

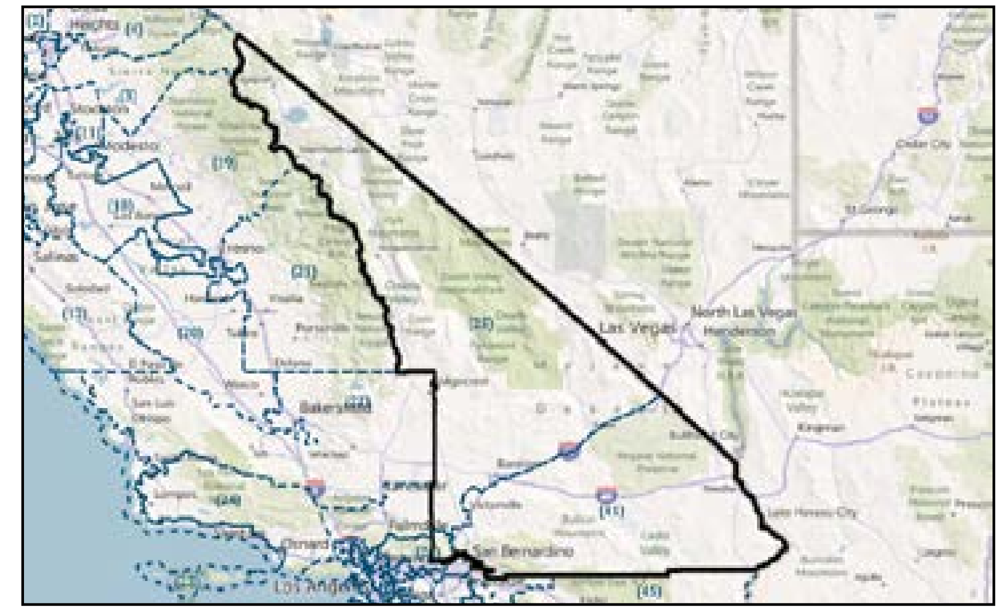


FIGURE 1: 8TH CONGRESSIONAL DISTRICT

The 8th District, geographically massive, is primarily a combination of the rural 31st and 25th Districts. It stretches from Bridgeport (near Yosemite) hundreds of miles south to Yucca Valley, and encompasses the cities of Victorville, Ridgecrest, Barstow, Baker, Mammoth Lakes, Death Valley, Highland, East Highland, and Yucaipa.

A hotbed of the California Tea Party, the 8th leans heavily Republican, but neither incumbent Jerry Lewis (R-Redlands) nor Buck McKeon (R-Santa Clarita) reside in the new district. While Rep. McKeon will almost certainly run in the 25th (a safe Republican seat much closer to home), Rep. Lewis is in a bit of a jam. He could run in the 31st District (where he now lives), but he would likely face a very competitive race in somewhat unfamiliar Democratic-leaning territory. Legally, he can still run in the 8th even though he does not actually live in the district, but even this could be a danger given the area's history of voting out incumbents. If Rep. Lewis does retire, San Bernardino County Supervisor Brad Mitzelfelt (R) has promised to enter the race, and would be a heavy favorite. In any case, this is an open seat, but almost certain to remain in Republican hands given the GOP's ten point edge in registered voters.

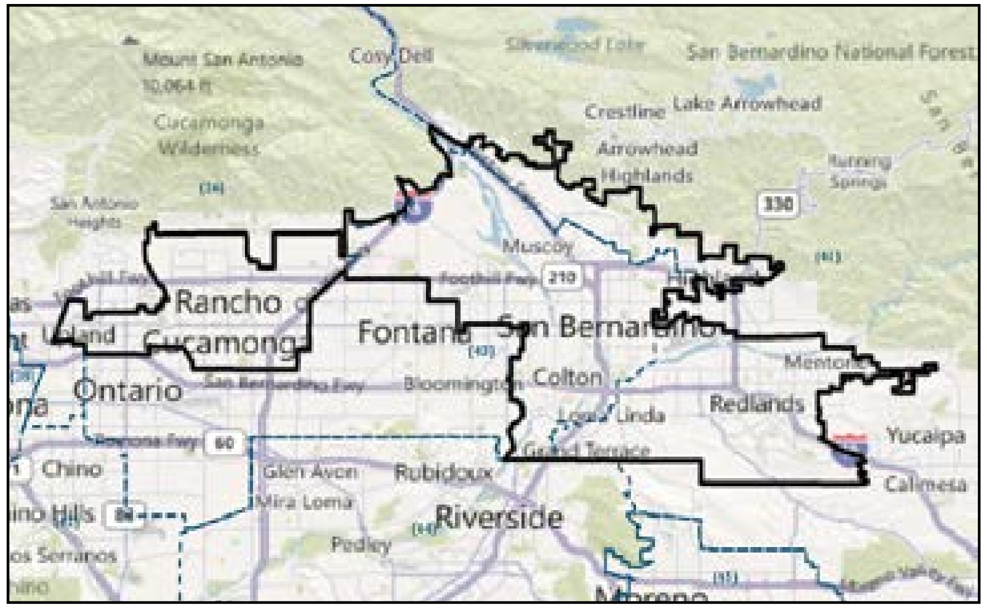


FIGURE 2: 31ST CONGRESSIONAL DISTRICT

The new 31st District attempts to unify the city of San Bernardino, previously split between the 41st (Rep. Jerry Lewis, R-Redlands) and 43rd (Rep. Joe Baca, D-Rialto) Districts. It includes San Bernardino, Rancho Cucamonga, Upland, Colton, Verdemont, Muscoy, Grand Terrace, Loma Linda, Redlands, Crown Jewel, Meritone, and West Highlands.

Democrats hold a small registration advantage over Republicans in this district (41 percent to 37.5 percent), which does not bode well for Rep. Jerry Lewis, should he decide to run in his new home district. Rep. Joe Baca could run here as well, in which case he would be a slight favorite, but he may instead opt to run in the 35th District, where he would be a strong favorite against any Republican. Rep. Baca and Rep. Lewis each appear to be waiting to see if the other will move to another district, despite pressure from Democratic and Republican party officials to stay and win in what is seen as a winnable race for either incumbent. If both incumbents run in this district, the 31st could be one of the marquee races of 2012.

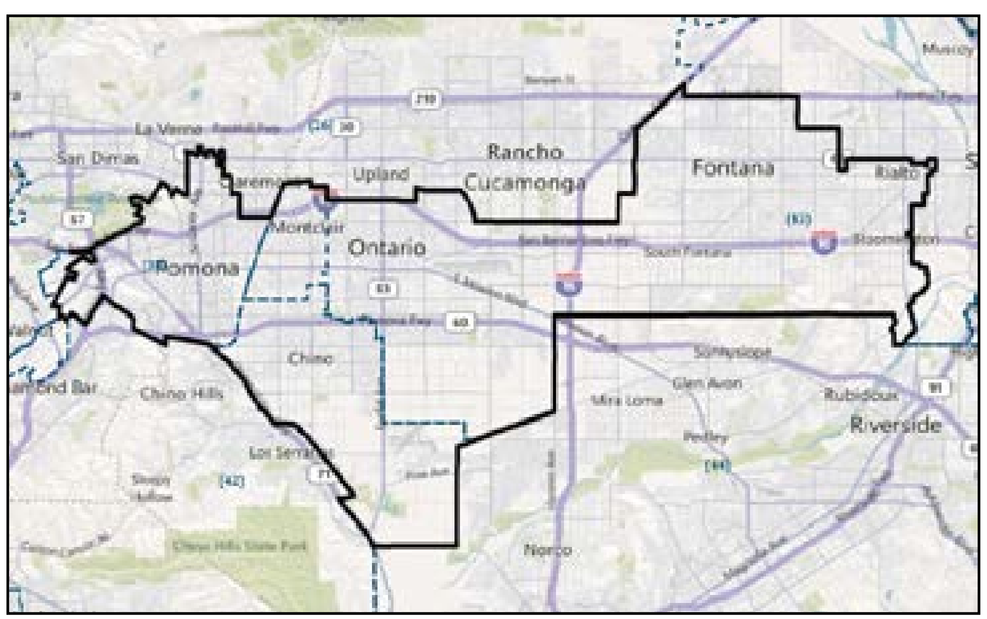


FIGURE 3: 35TH CONGRESSIONAL DISTRICT

The 35th District includes much of the remainder of San Bernardino County: Fontana, Ontario, Montclair, Chino, Montclair, Rialto, and Bloomington. This area was previously split into four separate districts. The 35th also includes Pomona from Los Angeles County.

This seat will likely be a safe Democratic seat, given the sizable registration advantage the Democrats hold (48.6 percent to 29 percent), and the large number of Latinos in the area. President Obama won more than 66 percent of the vote here in 2008, making it an appetizing prospect for district resident Joe Baca (D-Rialto) to run here rather than risking an expensive contest with Rep. Jerry Lewis in the 31st. Somewhat complicating things for Rep. Baca, however, State Senator Gloria Negrete McLeod (D-Chino) has all but claimed this district as her own. The 35th District closely resembles Senator McLeod's current district, giving the Senator somewhat of an incumbency advantage. Senator McLeod and Rep. Baca are no strangers to conflict either. In 2006 Congressman Baca's son, Joe Baca Jr., was beaten in the Democratic State Senate primary by Senator McLeod. Further complicating the picture, Democratic Assemblywoman and former Pomona mayor Norma Torres has also declared for the 35th district. With the "top two" primary system set to kick in next fall and a vast swath of Democratic voters in the district, it could come down to two popular Democrats battling it out in the general.

FIGURE 4: 27TH CONGRESSIONAL DISTRICT

The 27th District is comprised of most of Pasadena and odd pieces of the north San Gabriel Valley. It includes Glendora, San Gabriel, Rosemead, Altadena, Arcadia, Temple City, Alhambra, and South San Gabriel. Once prominent members of Inland Empire districts, Claremont and parts of Upland have now been demoted to mere appendages of this Pasadena-dominated district.

Rep. Judy Chu (D-Monterey Park) has announced she will be running in the 27th District, and would be a heavy favorite to win, given the double digit Democratic edge (42 percent to 30 percent).

Riverside County Congressional Districts

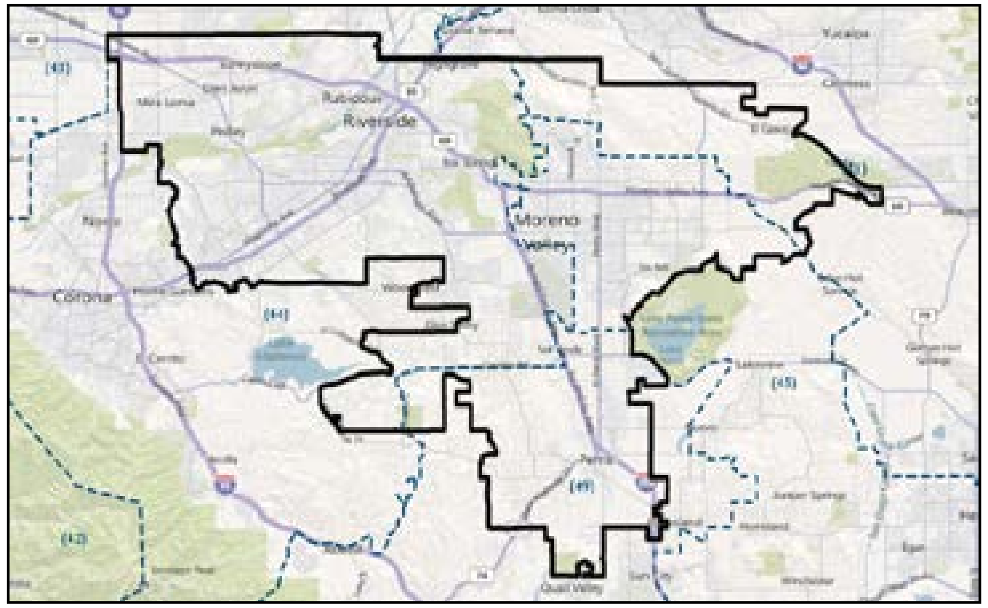


FIGURE 5: 41ST CONGRESSIONAL DISTRICT

The 41st District includes the cities of Riverside, Moreno Valley, Glen Avon, Mira Loma, Rubidoux, Pedley, Sunnyslope, and Perris.

A major change is in store for residents of Riverside and the Moreno Valley area. Once split between Rep. Mary Bono Mack's (R-Palm Springs) 45th District, Rep. Darrell Issa's (R-Vista) 49th District, Rep. Ken Calvert's (R-Corona) 44th District, and Jerry Lewis's (R-Redlands) 41st District, the Riverside/Moreno Valley population now has a district of its own. The 41st offers Democrats an open seat with a moderate registration advantage (42 percent to 36 percent). Nevertheless, popular Republican Riverside County Supervisor John Tavaglione is favored for this seat over the only declared Democratic candidate, Mark Takano. There still remains a significant chance that other Democrats may jump into the race, and in all likelihood the 41st will be another close race to watch next election night.

FIGURE 6: 36TH CONGRESSIONAL DISTRICT

The 36th District remains remarkably similar to its predecessor, the 45th District, trading Moreno Valley and Murrieta for San Jacinto, Banning, and Desert Hot Springs. Palm Springs, Cathedral City, La Quinta, Coachella, Indio, Hemet, Blythe, and the Riverside County portion of Joshua Tree remain in the district.

Mary Bono Mack (R-Palm Springs) remains a favorite, as the narrow partisan advantage she has traditionally held in her district remains effectively unchanged (42 percent to 39 percent). Rep Mack stands as one of the few Republican beneficiaries of the redistricting process, as her district remains largely intact and efforts to add Democratic-leaning Imperial County to the district were rejected by the Commission. Although the Democrats will likely again make a serious attempt to unseat Rep. Mack, the redistricting process does not appear to have affected Rep. Mack's chances in the race.

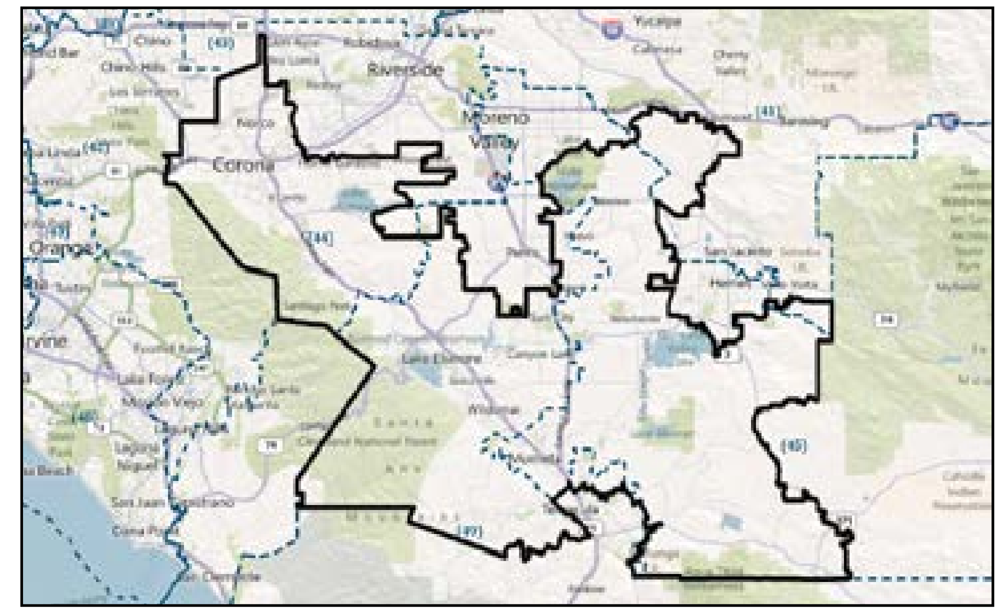


FIGURE 7: 42ND CONGRESSIONAL DISTRICT

The 42nd District also remains somewhat similar to its predecessor, the 44th District. The core of the district, including Corona and Norco is unchanged, but the district now moves south and east to include much of what used to be in Darrell Issa's (R-Vista) 49th District. Key cities include Corona, Norco, Murrieta, Sun City, Canyon Lake, Wildomar, Lake Elsinore, Lakeview, and Nuevo. The Orange County portion of the old 44th is no longer included in the new 42nd, which is located entirely in Riverside County.

Much like the 36th District, the 42nd District is unlikely to undergo any significant political turnover. Rep. Ken Calvert (R-Corona) resides in the district, and Republicans enjoy a ten point registration advantage. Rep. Calvert, probably the biggest winner in this redistricting effort after facing significant reelection challenges in 2008 and 2010, will likely have a much safer seat than in years past.

What's Next?

With the CRC's plan formally adopted on August 15, California is now moving toward using the new lines for the 2012 election. To the dismay of Commission supporters, however, there remains a distinct possibility that the Commission's work could yet unravel.

The biggest danger to the CRC's congressional plan is a Republican referendum. Several state Republican officials have expressed concern that the new maps will unfairly benefit the Democrats, who are poised to make several gains thanks to the new maps. If the Republicans are able to gather at least 505,000 signatures on a congressional referendum by November, then the CRC's congressional plan will be suspended for 2012 and replaced with a court-drawn plan. Should the referendum pass and reject the CRC lines, the court-drawn plan will remain in place for the rest of the decade. Should the referendum fail, the court plan would only be used in 2012 and the CRC map will be used from 2014-2020.

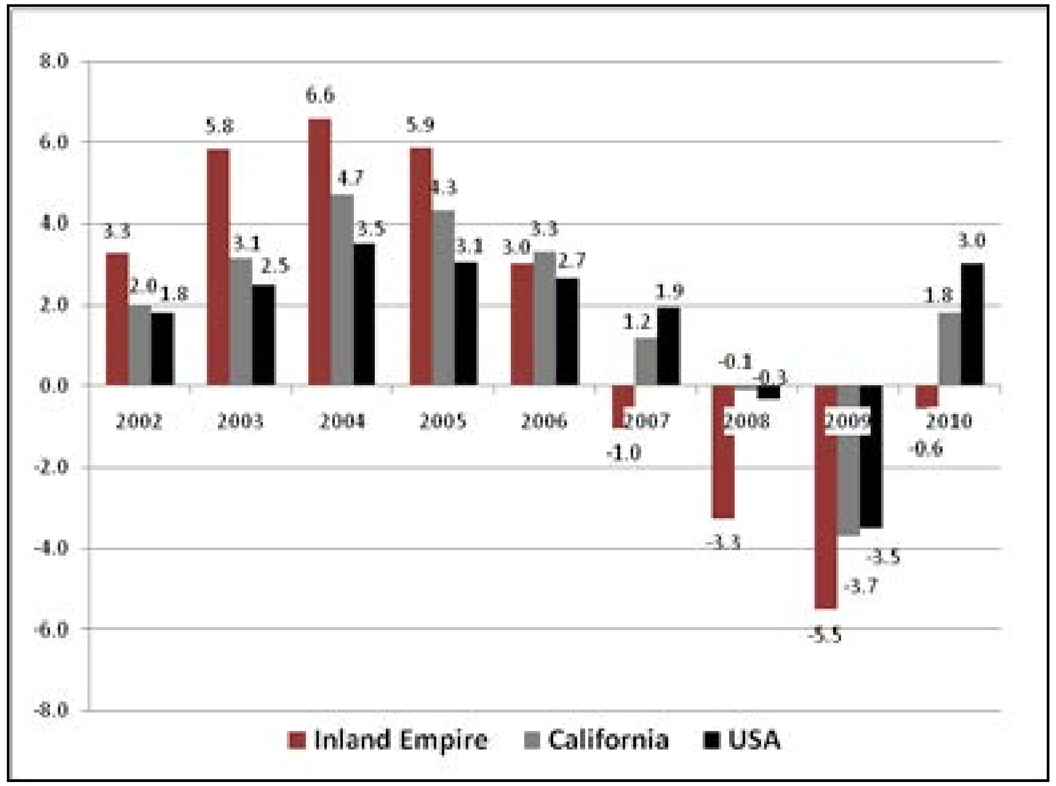
Will such a referendum make it to the ballot? The answer is currently unclear. According to redistricting expert and Rose Institute fellow Douglas Johnson, getting the 505,000 signatures it takes to reach the ballot "is a matter of money." If Reps. Dreier and Lewis decide to run for reelection, and dislike their election chances, they could throw their considerable financial strength behind the referendum. "[Dreier and Lewis] have the ability to essentially fund the referendum on their own," says Johnson. Reps. Ed Royce, Gary Miller, and other GOP Congressmen displeased with the new lines could support the referendum as well.

So if the courts do end up drawing lines, what would they look like? Insiders speculate that the courts could produce districts similar to those drafted in 1991, the last time the courts drew the lines. The 1991 lines were "community oriented, with limited splits of cities and counties, and very competitive districts," says Johnson. But where court-drawn lines will actually end up is anyone's guess. While much of the rest of the state might closely resemble the 1991 plan, in the Inland Empire, Johnson says "there's been so much growth in this area that anything that actually resembles the 1991 lines is not a possibility." Whether the public pushes for a plan from the courts, or sticks with the California Citizens Redistricting Commission, one thing is certain: California's congressional delegation will likely be facing a major shakeup come 2012.

PHOTO: MARIA BLANCO OF LOS ANGELES, LEFT, JODIE FILKINS WEBBER OF NORCO, MIDDLE, AND LIBERT ONTAI OF SAN DIEGO

The Great Recession and the Not So Great Recovery

FIGURE 1: REAL GDP GROWTH RATES IN THE U.S., CALIFORNIA, AND THE INLAND EMPIRE, ANNUAL DATA, 2002-2010



While the "Great Recession" was felt throughout the country, it hit California with particular ferocity. Within California few places suffered more than the Inland Empire. The annual growth rate of real GDP is one way to measure the fallout of the recession.

Figure 1 compares the annual growth rate of real GDP in the Inland Empire to growth rates for the U.S. and California. The first thing to note is the apparent strength of the Inland Empire's economy from 2002-2005. For most of that time, GDP grew at a rate approximately double that of the U.S. and higher even than that of California as a whole. But in 2006, the Inland Empire's fast growth slowed precipitously. Neither California nor the United States experienced a large slowdown in GDP growth until 2007, when the Inland Empire's GDP was actually already contracting. In 2008 and 2009, the Inland Empire's GDP shrank at a much faster rate than that of both California and the United States. The preliminary estimate for the Inland Empire for 2010 shows a continued contraction, albeit much less severe than the previous years. The new data shows that real GDP currently is lower than it was in 2004: we are eight years into a lost decade in terms of lost output.

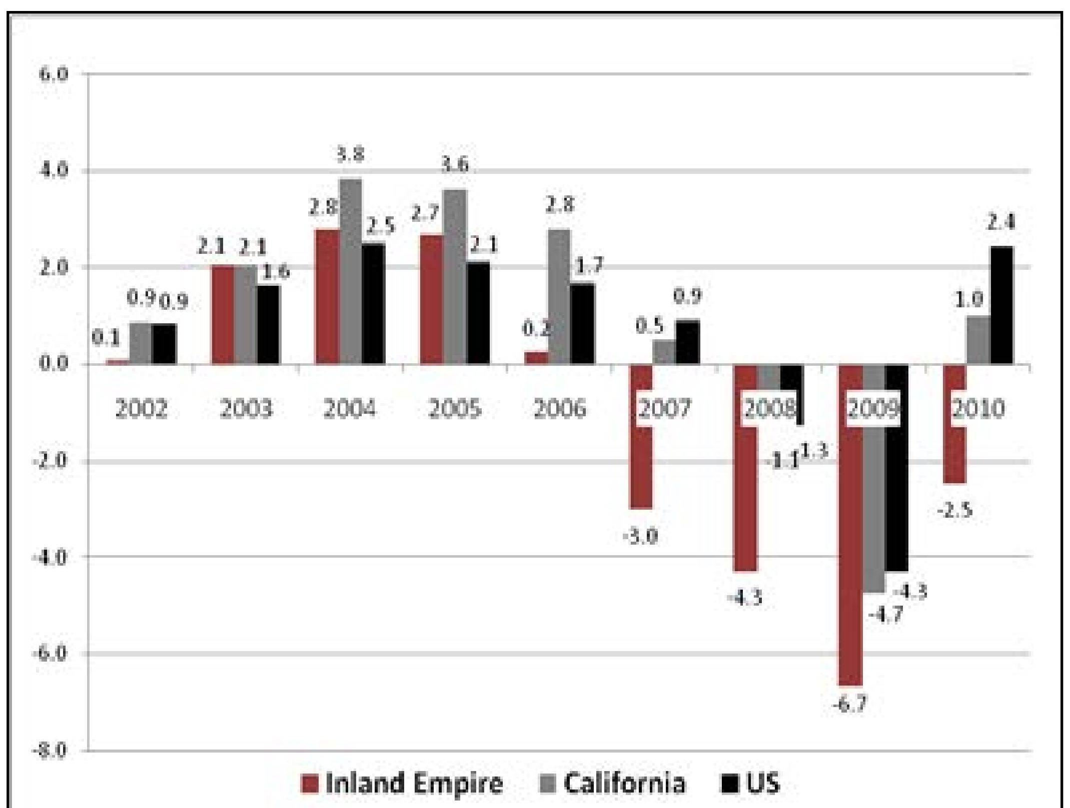
Based on real GDP growth rates, the "Great Recession" hit the Inland Empire both harder and earlier than either the U.S or California. Even the U.S. has yet to return to pre-recession output levels. The real sign of full recovery would be reaching full potential output, which takes into account the growth of the population and productivity. However, that would require growth rates above the normal, while below average growth rates seem to be on the immediate horizon for the Inland Empire.

Output per Person

Real GDP growth rates paint an interesting picture of the severity of the recession in the Inland Empire, but the numbers are skewed by population increases during the year. Most people are far more concerned with per capita real GDP than with the total, since this income per person is more relevant to them. For example, although China is now the second largest economy in the world in terms of output produced, it is not close to Japan when standard of living is measured on a per person income basis.

Figure 2 shows the per capita real GDP growth rate of the Inland Empire again compared to the United States and California. All three experienced population increases every year from 2002-2010. Nonetheless, the pace of the Inland Empire's population growth far exceeded those of both California and the United States. (See *2010 Census Shows Large Increase for Inland Empire* in this issue for a detailed analysis of the IE's population growth.)

FIGURE 2: PER CAPITA GDP GROWTH RATES FOR THE U.S., CALIFORNIA, AND THE INLAND EMPIRE



Removing the effects of population growth on GDP changes the story dramatically. The Inland Empire's impressive growth rates from 2002-2004 disappear, leaving behind growth rates comparable to those of the United States as a whole and below California's. The Inland Empire's 2006 economic slowdown seems much more dramatic when we look at per capita GDP, which shows virtually no growth for that year. The drop in per capita GDP from 2007-2009 is much more severe than the corresponding decline in real GDP. Not only does this drop indicate a more severe recession, it also shows that the Inland Empire's population continued to grow in spite of the very troubling economic situation. The preliminary numbers have the Inland Empire's per capita GDP following another 2.5 percent in 2010. We expect 2011 numbers to show that real per capita GDP is now lower than it was in 2001, when data was first collected. In terms of this measure, there has already been a lost decade.

> **THE INLAND EMPIRE IS STILL WAITING FOR ANY REAL SIGNS OF RECOVERY,** MUCH LESS A RETURN TO ITS FULL POTENTIAL GDP.

A word of caution is warranted here. Perhaps we have painted too bleak a picture for the Inland Empire in terms of per capita output. The fact is that a substantial number of workers commute from the Inland Empire either into the Greater Los Angeles area or into San Diego County. As a result, these workers augment the GDP of those areas, but are not counted as residents there. In the presence of large commuting flows in one direction, per capita GDP will be overstated in the receiving geographical areas (Greater Los Angeles and San Diego County) and understated in the area from which these workers originate (San Bernardino County and Riverside County).

Despite this subtlety, both figures paint a dismal picture of the effects of the recession on the Inland Empire's economy. The Inland Empire was particularly vulnerable to the effects of a recession triggered by the collapse of the housing sector, given the importance of construction in the region's economy. While the "Great Recession" officially ended over two years ago for the United States, the Inland Empire is still waiting for any real signs of recovery, much less a return to its full potential GDP. Weakness in the U.S. and California economies bodes poorly for the chances of recovery in the Inland Empire in the near future. Furthermore, without significant increases in GDP growth, the very high unemployment rates experienced here will continue to persist.

Comparison to other California MSA Regions

The relative severity of the recession in the Inland Empire can further be seen through a comparison with California's other Metropolitan Statistical Areas (MSA). Figure 3 shows the decline in real GDP from peak to trough for each MSA. Real GDP of some MSAs, including

FIGURE 3: PERCENT DECLINE IN REAL GDP, PEAK TO TROUGH, CALIFORNIA MSAS, 2006 – 2009

the Inland Empire's, continued to shrink in 2009, meaning that until the 2010 numbers are released, we will not know if they have reached the true bottom. Other California MSAs did not escaped the recession entirely, but experienced a less severe decline in real GDP, if any at all.

As Figure 3 shows, the Inland Empire saw one of the largest drops in GDP of any California MSA. Only two MSAs, Merced and Redding, experienced more severe declines, and another two MSAs, Santa Rosa-Petaluma and Modesto had declines roughly equivalent to those experienced by the Inland Empire. While there seem to be no distinguishable patterns between the north and south of California in this figure, the brunt of the recession appears to have hit the inland portions of the state, with the coastal areas hit less severely ("East-West Divide"). The Inland Empire's position among the hardest hit of California's MSAs is particularly sobering, given that California is one of the states most adversely affected by the "Great Recession."

Contract Cities: An Alternative Model

Local governments are under tremendous pressure to deliver services to their constituents with ever shrinking budgets. Many have responded by asking, "Are there other ways to provide public services?" Some are turning to other government agencies and the private sector as cost-effective alternatives. These contracting partnerships take many forms, and while many cities are still "Full Service Cities" (cities that do not contract for most of their services), others have been contracting out for more than fifty years.

The first city in the nation to experiment with contracting was Lakewood, California in 1954. Lakewood, unincorporated at the time, faced aggressive, and unwelcome, annexation attempts from the neighboring city of Long Beach. John S. Todd, the former city attorney of Lakewood and father of what came to be known as the "Lakewood Plan," describes the genesis of the modern contract city in his memoir: "I suggested…that Lakewood incorporate and contract with [Los Angeles] County for the performance of municipal services so as to avoid costly capital investment in buildings and other facilities…. This was the first time it had occurred to me that there was a method of incorporating and thereby preserving Lakewood's identity, continuing county-type services, which the community had been receiving, and avoiding annexation to Long Beach." This, then, was the beginning of The Lakewood Plan." After Lakewood's successful incorporation, many other cities began adopting variations on the Lakewood model.

In the Inland Empire today, many cities and local governments employ some variation of the original Lakewood Plan. Contract emergency services – police and fire protection – are the most obvious examples of services for which cities have recently received media attention, but everything from tree-trimming to traffic signal repair, to legal services can be outsourced. Some cities and counties are even outsourcing library services to private, for-profit companies.

Not only are the types of contract services varied, the partnerships themselves also take a number of forms. Cities can contract with other governmental entities such as counties or neighboring cities, special districts, and, of course, private sector companies. If a Care ambulance drives by, a Burrtec truck picks up trash weekly, or the county sheriff's office responds to a 9-1-1 call, those entities are providing services under contract with the local government. In Lakewood, for example, the city hired Los Angeles County to provide a variety of municipal services. Riverside County similarly provides police services to seventeen incorporated cities and one tribal area. Nineteen cities contract with Riverside County Fire for emergency services.

PHOTO: SAM OLIVITO
EXECUTIVE DIRECTOR OF THE CALIFORNIA
CONTRACT CITIES ASSOCIATION

"You contract for services because of economies of scale," says Palm Desert City Manager John Wohlmuth. "You get all these ancillary services that, if you did not contract, you would have to supply as a city and use them very rarely." Because it chooses to contract for services, Palm Desert, a medium sized city of approximately 50,000 people, has access to a SWAT team, DUI enforcement, hazardous material clean up crews, helicopters, and other specialty equipment that would not be cost-effective to provide in-house. Even more basic facilities such as public service yards and stations can be provided more efficiently when the cost is spread across different jurisdictions. As Wohlmuth says, "you don't necessarily pay 100% for [these services], but when you need them, they're there."

There are examples of cities forced to take the contract model to an extreme. The city of Maywood laid off almost all its public employees in 2010. It kept only the city manager, city attorney, and the city council. It contracted with Los Angeles County to provide police protection and with its neighbor, Bell, for all other services. The city council took this action because Maywood had a budget deficit and found itself in the position of not being able to secure insurance due to a history of lawsuits, mostly against its police department.

Many cities fear a loss of identity if they no longer provide certain services. What is a city, some may ask, if it does not have its own police department, fire department, public works department, or finance department? The residents of Maywood, however, are not bothered by this. Following the wholesale change last summer, the New York Times reports that residents noticed an improvement in the delivery of services, felt safer, and were generally more satisfied with the way their community was governed.

It is hard to argue with the trend. "Residents and council people who have the responsibility for providing the best possible services they can and keeping their costs low, have looked at contracting because it is flexible and more economical," states Sam Olivito, Executive Director of the California Contract Cities Association.

Cities and counties contract for a wide range of services. For example, Riverside County employs Library Systems Services, LLC (LSSI), a Maryland-based for-profit company to run its library system. LSSI replaced the City of Riverside, which had managed the County's libraries for eighty-five years. It beat out competing bids from the Riverside County Office of Education and the San Bernardino County Library. Within the first year of the partnership the library system saw its operating costs decrease by $900,000 while its materials budget doubled. In a report released last year - thirteen years after Riverside County hired LSSI - the County cites many achievements including twenty completed construction projects, the implementation of six joint-use library facilities shared with local school districts, the creation of more than 100 new jobs, an increase in the book budget from $180,000 in 1997 to $2.6 million in 2010, and a 63 percent increase in the number of visitors each year.

An interesting aspect of the Riverside County/LSSI partnership is that LSSI offered employment to all existing library staff when it took over in 1997. The new LSSI employees received the same rate of base pay and accumulated vacation time as they previously held. They were given the option of participating in LSSI's 401-K plan and other LSSI employee benefits. This removed some expensive aspects of their employment from Riverside County's budget and gave LSSI more staffing flexibility than the County ever had. Many of the incumbent employees are still working for the library system, with more than fifty marking ten years of service with LSSI in 2008.

Sam Olivito insists that competitive bidding for government contracts drives down prices and that shifting potential liability to private sector firms can save cities in unforeseen future costs as well. He adds, "The beauty of contracting is its flexibility." Cities are not responsible

for additional future costs such as pensions and workers' compensation for contract employees. And in tough economic times, it is easier for cities to scale back on the amount of services they provide. Wohlmuth agrees, "I can adjust contracts far easier than I can layoff employees and reorganize a city." An additional benefit is that smaller full-time staffs reduce the bureaucracy within city governments.

> BECAUSE IT CHOOSES TO CONTRACT FOR SERVICES, PALM DESERT...HAS ACCESS TO A SWAT TEAM, DUI ENFORCEMENT, HAZARDOUS MATERIAL CLEAN UP CREWS, HELICOPTERS AND OTHER SPECIALTY EQUIPMENT THAT **WOULD NOT BE COST-EFFECTIVE TO PROVIDE IN-HOUSE.**

There are, of course, disadvantages to the contract city model. Once a city decides to outsource a service, it must go through the difficult process of re-assigning or dismissing city employees. Also, contract workers may have responsibilities to clients in multiple jurisdictions, which can result in slower response times. For example, Palm Desert used to contract for traffic signal repair services, but, according to Mr. Wohlmuth, it took repair crews two hours to travel to the desert before they could start fixing a broken signal – a delay that was unacceptable to the city. Palm Desert recently chose to bring that service in-house in an effort to reduce response times.

Cronyism and corruption are also concerns, as these lucrative government contracts can lead to outsized profits for private sector companies (although these concerns are certainly not limited to public/private contracts). Olivito insists that this is not a problem so long as appropriate controls are implemented. Making the process open and transparent, he argues, is the way contracting should be done. But ensuring that the bidding process is always fair, balanced, and non-biased, is hard to guarantee. Moreover, successful contracting requires ample supervision and oversight on the part of the city.

One counter-intuitive result of contracting for services, however, is that cities who do so may wind up with little or no direct control over contract workers' benefits. If the service provider decides to increase workers' retirement plan, the contract city and the taxpayers have little control. In Palm Desert, "we don't have a lot of say in what we think about those extra expenses or those contracts. So, the price has been creeping up because those benefits have been creeping up," says Wohlmuth. One response to this is that the city could find another contract provider. "It's a competitive world," points out Sam Olivito.

Increased attention to public employee pensions and benefits is also driving interest in privatization. A steady stream of stories about bloated pensions from California cities such as Bell, Vernon, and others has resulted in intense scrutiny to benefit costs for all public employees. It is not then surprising that cities facing such pressures would seek to contract with private companies that may not be burdened by rich benefit programs. It is also not surprising that organized labor opposes this development.

Public employee unions are fighting against the wave of privatization. Camarillo, Santa Clarita, and Ventura are each contracting for, or considering outsourcing, library services to LSSI. According to privatizationbeast.org, a blog written by the Service Employees International Union, "Privatizing public libraries means libraries will be de-professionalized and residents will pay more and receive less, while LSSI makes a profit for its investors and shareholders." The public employees are fighting back in the state legislature. On June 3, 2011 the California Assembly passed AB 438, a bill proposed by Das Williams (D-38), which would strip cities of the authority to outsource library services. "Elected officials and lobbyists in support of privatization tried to kill the bill but thousands of California residents made calls in support of AB 438 and it passed 41 to 28," according to a blog written by the Southern California Public Service Workers. Having passed the Assembly, the bill has been introduced in the California Senate and referred to committee. The California League of Cities strongly opposes the bill on the grounds that it will tie the hands of local governments at a time when they need more flexibility, not less.

As with most debates, there are reasonable arguments to be made on both sides and the decision to contract ultimately rests with the community. Local governments that are focused on efficiency may prefer to contract for services. Others that value workforce stability, or have a strong union presence or history, may prefer the traditional in-house model. A multitude of exogenous factors might ultimately influence a city's decision.

The Rose Institute of State and Local Government has begun work on a long-term, comprehensive study of contract services in California. Look for updated information on our web site, Rosereport.org.

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The Inland Empire Center

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