



INLAND EMPIRE OUTLOOK

*Economic and Political Analysis
Volume I | Issue 2 | Spring 2010*

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**LOWE INSTITUTE
OF POLITICAL ECONOMY**

**ROSE INSTITUTE
OF STATE AND LOCAL GOVERNMENT**

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LOOKING TO THE LONG TERM

Our inaugural issue (Winter 2010) examined how the Inland Empire was facing one of the most severe recessions in history. This issue continues that analysis, but also notes how some sectors are looking beyond the recession and investing in the future.

To help assess the prospects for growth and investment in the Inland Empire, we have developed two new economic indices specific to the region. Our Inland Empire Coincident Economic Index (CEI) provides information about the current state of the economy, and our Inland Empire Leading Economic Index (LEI) seeks to predict future economic conditions (p. 2). There is no question that the Inland Empire will continue to struggle to recover. Commercial real estate vacancy rates have been rising (p. 12) and trade volume has been decreasing (p. 14). However, the indices we are developing will help businesses position themselves for the region's eventual recovery.

Turning to the public sector, we discuss how the City of Riverside, the Inland Empire's largest city, is seeking to maintain innovative policies during a period of reduced revenues (p. 8). Under Mayor Ronald Loveridge's leadership, Riverside has continued to make strategic investments in infrastructure, technology, the environment, and the arts. Meanwhile, some of the region's Native American tribes, including Agua Caliente,

are seeking to diversify their business enterprises to sustain future growth (p. 18), and candidates for the California state legislature in Inland Empire districts are debating how to promote economic recovery (p. 20).

The publishers of *Inland Empire Outlook* are also looking to the future. The Rose Institute of State and Local Government and the Lowe Institute of Political Economy have recently launched the Inland Empire Center for Economics and Public Policy. The new center is designed to provide the Inland Empire with expert analysis of the region's political and economic trends. In one of its first ventures, the center has formed a partnership with the UCLA Anderson Forecast, California's premier economic forecasting organization. This affiliation will combine the experience of the UCLA Anderson Forecast with the Inland Empire Center's specialized knowledge of the region. As part of this collaboration, the Inland Empire Center and UCLA Anderson Forecast plan to co-host conferences featuring topics of special concern for the Inland Empire at local venues in San Bernardino and Riverside counties. The conferences will help establish the UCLA Anderson Forecast/ Inland Empire Center partnership as the preeminent source for economic and political analysis of the region.

—The Editors



Leading and Coincident Economic Indicators in the I.E.



From December 2007 to the end of the second quarter of 2009, the United States suffered its most severe economic downturn since the Great Depression. This period is now referred to as the “Great Recession.” While much of the rest of the country appears to be emerging from this long downturn, it is less clear that the recession has run its course in California or the Inland Empire.

Despite current economic news claiming that job creation in the United States reached a three year high in March 2010, unemployment rates in California rose to an astonishing 12.5 percent in February 2010—the highest unemployment rate since the state began publishing this data in 1976. Only three other states—Michigan, Nevada, and Rhode Island—have a weaker labor market than California. Worse yet, unemployment rates in the Inland Empire increased from 14.1 percent in December 2009 to 15.0 percent in January 2010, a very large jump in a single month. According to the seasonally unadjusted February data, San Bernardino and Riverside Counties are currently facing unemployment rates of 14.4 percent and 14.9 percent respectively, which are approximately 10 percentage points higher than what they were in May 2007.

Unemployment is one measure of the health of an economy, but it can be a misleading—or at least insufficient—measure because it is frequently a lagging economic indicator. For example, the national unemployment rate reached a peak of 10.1 percent in November 2009, even though the recession supposedly ended several months earlier.

What measures should business leaders in the Inland Empire use when considering whether to hire new full time workers and make long-term investments?

Business Cycle Indicators

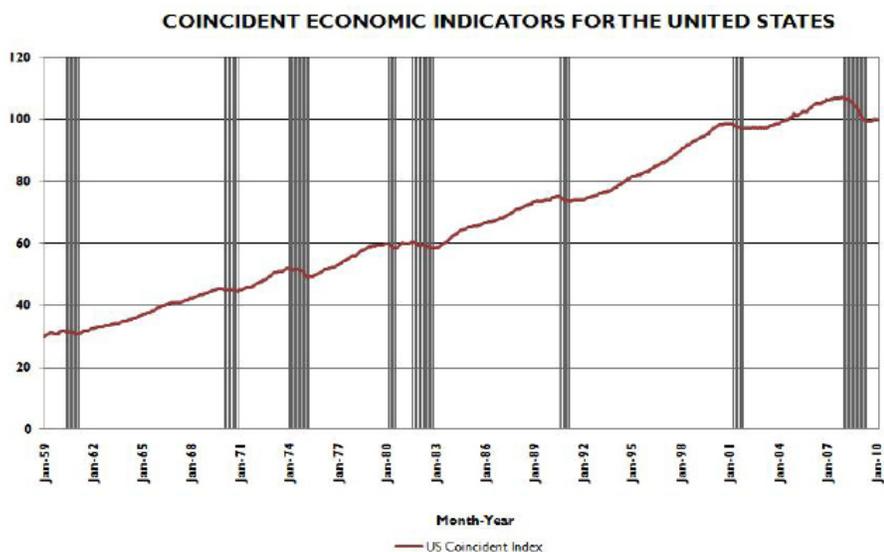
To forecast economic activity in the Inland Empire, we have created two new economic indices specifically for the region—a “Coincident Economic Index” (CEI) to gain information about the current state of the economy and a “Leading Economic Index” (LEI), which tries to predict the future state of the region’s economy.

CEIs and LEIs for the United States were originally introduced in the 1930s by the National Bureau of Economic Research (NBER), a non-profit economic think tank. The national CEI currently contains four economic series (non-farm employment, industrial production, manufacturing and trade sales, personal income less transfer payments), while the national LEI has ten series pertaining to stock price, real estate, and other measures of production.

In the graph below, shaded areas correspond to U.S. recessions, as dated by the NBER. Contrary to popular perception, the NBER does not define “recession” as two consecutive quarters of negative growth. Instead, the NBER defines a recession as a period of diminished economic activity. The NBER designated the onset of the Great Recession in December 2007, but has not determined its end date. Indeed, on April 12, the NBER announced that its Dating Committee has decided it is premature to date the recession’s conclusion. Other organizations, such as the Federal Reserve Bank of St. Louis, estimate that the Great Recession ended in July 2009, while the Lowe Institute Business Cycle Dating Committee favors June 2009 as the end date.

Column 1 of Table 1 (on the following page) lists the beginning and end of the seven most recent U.S. recessions as dated by the NBER. The interested reader can find U.S. recessions and expansions dating back to 1854 at the NBER website.

Ideally, the LEI should forecast economic conditions at least three months into the future to help businesses and the government make budget and inventory decisions. In a few instances (as in 2001) the LEI provided less than a three month warning about an approaching recession. ↳



Other times (as in 1995) the LEI indicated that, despite signs of a downturn, a recession never occurred. The LEI is less successful in forecasting recoveries than the onset of recessions. Sometimes (as in 1975, 1980, and 1991) the LEI indicated a recovery only two months before the end of a recession. While these indices may not be perfect, they do a reasonably good job analyzing current and future economic business conditions, which explains their popularity with the business community.

California

While the NBER is widely recognized as the unofficial arbiter of dating businesses cycles in the United States, there is no reason to believe that business cycles are identical for all regions across the country.

Dating recessions for smaller geographic areas is controversial. For example, Ed Leamer of UCLA Anderson Forecast has argued that a recession resembles a national disease, where infections do not occur at the same time in all parts. One can think of the flu season as an analogy. This argument might suggest that we should only choose national dates for the recession.

We believe, however, that when a geographical area, such as California, is large enough and a recession shows distinct regional variations, separate dating is justified. California differs from other geographic areas in the United States in both population size and in State Gross Domestic Product. With approximately 38 million residents, California is more populated than Canada and approximately the same size as Australia or the Netherlands. The bottom line is that, by virtue of its population size and total output, California deserves individual consideration.

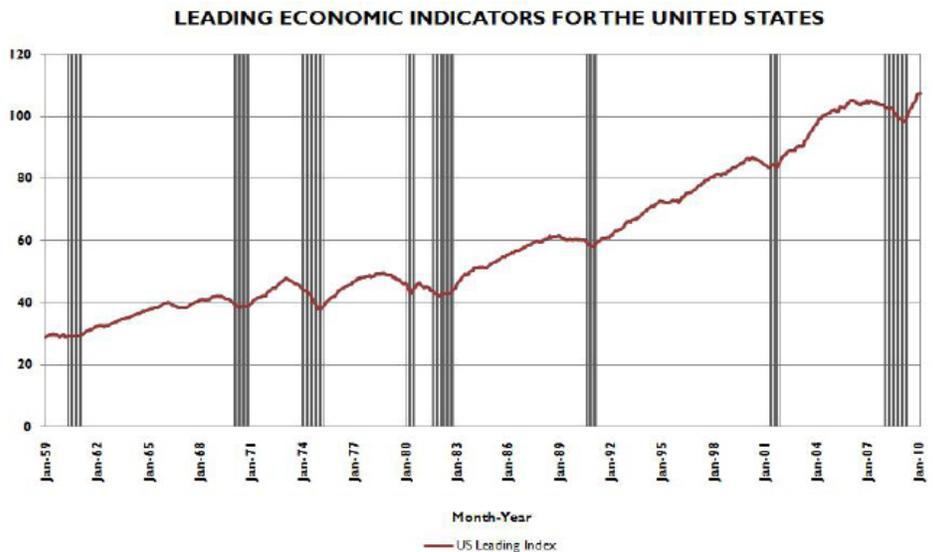


TABLE 1: RECENT U.S. RECESSIONS

UNITED STATES	CALIFORNIA	INLAND EMPIRE
Dec. 1969 - Nov. 1970	--	--
Nov. 1973 - Mar. 1975	--	--
Jan. 1980 - July 1980	--	--
July 1981 - Nov. 1982	Aug. 1981- Oct. 1993	--
July 1990 - Mar. 1991	June 1990 - Oct. 1993	Jan. 1991 - Apr. 1993
Mar. 2001- Nov. 2001	Jan 2001 - Dec. 2001	--
Dec. 2007- ?	July 2007- ?	Mar. 2007 - ?

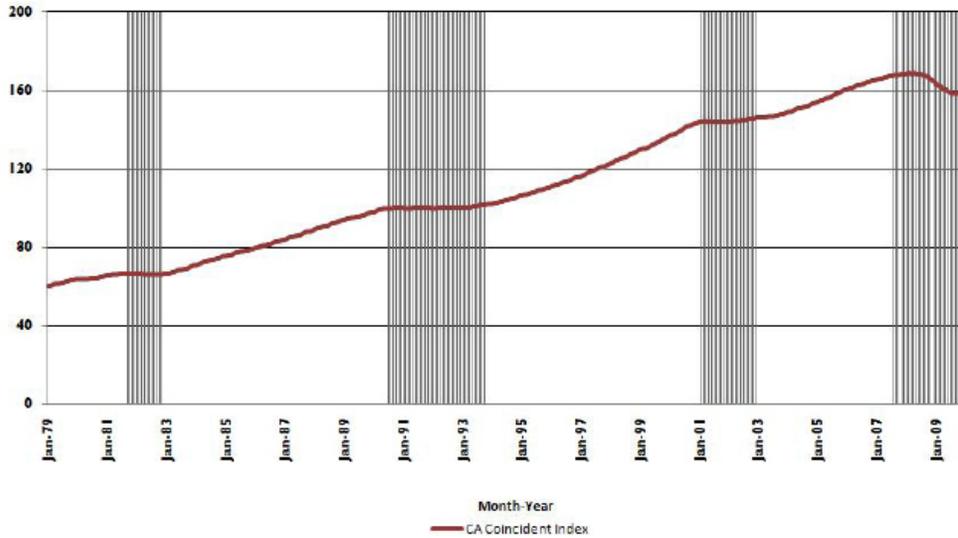
Moreover, the flu analogy may not hold if the flu does not affect the country as a whole. It is well known that the 1990s recession in the United States was primarily bi-coastal in severity and had a much greater impact on California than it did on a state like Texas, which did not experience a downturn. Despite variations of this type, economic indices by state are scarce and have not been thoroughly analyzed. The Federal Reserve Banks of Dallas, Minneapolis, and New York date recessions for states in their district while the Federal Reserve Bank of Philadelphia has created CEIs for each state. The Federal Reserve Bank of San Francisco has been lagging in this respect, however, which seems remarkable given the sheer size of the California economy. California's importance is evidenced by the fact that if the state were removed from the picture, the U.S. economy would have had no negative annual growth during the recessions of 1990-1991 and 2001.

Many economic series for California date back only to 1979. As a result, the Lowe Institute Business Cycle Dating Committee has analyzed California's business cycles over the past three decades—a period that includes four national recessions. This analysis indicates that:

- The timing of the 1981-1982 recession was approximately the same in California and the nation. This downturn began when the Federal Reserve introduced a new tight monetary policy.
- The 1990s recession began simultaneously in California and the rest of the United States. However, this recession's effects were more severe and prolonged in the Golden State. The recession lasted 41 months in California, finally ending in October 1993. By comparison, the Great Depression of the 1930s lasted 43 months. While California suffered an additional decline in economic activity in early 1994 due to the Northridge earthquake, the Dating Committee did not believe this event warranted the extension of the recession into 1994, but rather viewed it as a one-time shock.
- The 2001 recession in California largely coincided with the national recession, but lasted longer, which can be explained by the acute damage Northern California experienced from the burst of the dot com bubble.
- The current recession had its origins in California, particularly in the real estate sector and the sub-prime mortgage crisis. The recession also gained additional momentum with the steep rise in oil prices in the state. Gas prices in San Francisco reached \$3.60 in the summer of 2007 and were almost that high again in November of that year. Some remote areas of the state reported prices of over \$4.50 during that same time period. The Dating Committee evaluated significant decreases in economic activity in all of California starting in the summer of 2007, almost half a year before the official start of the U.S. recession. While some have argued that the recession ended in California by early 2010, we disagree.

The Federal Reserve Bank of Philadelphia has produced a CEI for all U.S. states, including California. Although the methodology used to generate the CEI is different from that employed by the Conference Board and by the Lowe Institute Business Cycle Dating Committee, there is much agreement between the CEI and dates we have chosen. ↳

COINCIDENT INDICATOR FOR CALIFORNIA



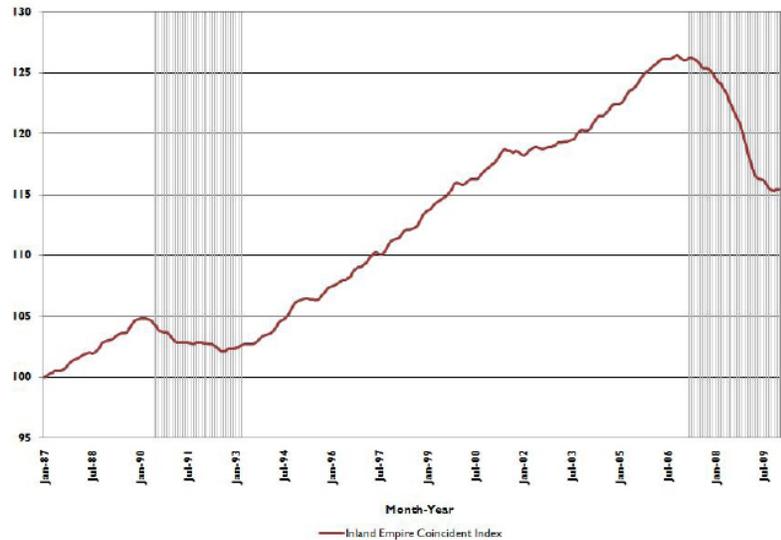
In general, the CEI of the Philadelphia Fed identifies recessions that are slightly shorter than the ones identified by the Dating Committee.

Inland Empire

The Inland Empire is the second largest Metropolitan Statistical Area in California and has a larger population than either the Greater San Francisco or San Diego areas.

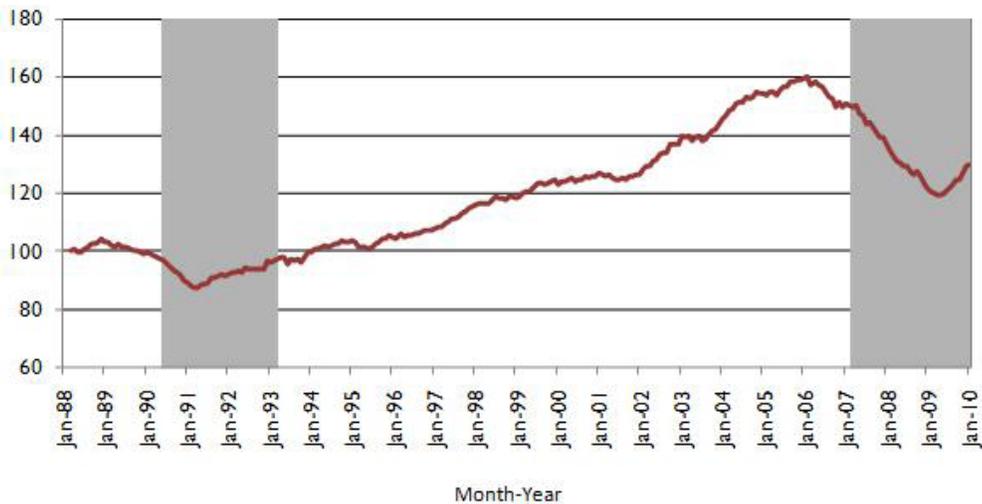
By constructing a CEI and an LEI for the Inland Empire, we hope to provide business leaders and government officials a better understanding of economic activity in this region. We have identified historic economic peaks and troughs in the Inland Empire by looking at a variety of economic series. Because adequate data on a county level did not become available until approximately 20 years ago, our analysis is limited to the three most recent U.S. recessions. Table 1 provides the dates of the recessions for the Inland Empire since 1990. As this table indicates, the Inland Empire has behaved quite differently in recent recessions than the rest of California and the United States.

COINCIDENT ECONOMIC INDICATORS FOR THE INLAND EMPIRE



- The 1990s recession in the Inland Empire was quite severe. The downturn started approximately half a year later than in the rest of California and ended approximately half a year earlier.
- Although the Inland Empire experienced a rising unemployment rate during 2001, the Lowe Institute Business Cycle Dating Committee decided that the region did not experience a recession in the early 2000s. This is because employment never decreased during this period. The increase in the region’s unemployment rate in the early 2000s can be attributed to the rapid growth of population in San Bernardino and Riverside Counties.

LEADING ECONOMIC INDICATORS FOR THE INLAND EMPIRE



- The Great Recession has been more severe in the Inland Empire than in other parts of the country because the region has been harder hit by the subprime mortgage crisis and its aftermath. The current recession started in the Inland Empire in March 2007 and still has not reached a conclusion.

The Lowe Institute's Coincident Economic Indicator for the Inland Empire is composed of the following three series: employment, unemployment rates, and average hours of manufacturing.

The Inland Empire CEI decreases during recessions. This index suggests that the Inland Empire's decline in economic activity may be slowing, although it is too early to predict recovery.

While the CEI is useful, most decision-makers want to know about the immediate future for planning purposes. Accordingly, the Lowe Institute combined the LEI for the United States with housing starts in the Inland Empire and the change in housing starts. The index takes into account the fact that economic activity in San Bernardino and Riverside Counties heavily depends on trends in the rest of the country, as well as in the local housing and construction industries.

The Inland Empire index turns significantly downward before the recession of the early 1990s and current recession began, and shows a steady increase before the Inland Empire exited the recession in the early 1990s. Furthermore, the index does not predict the recession of 2001, which, in fact, largely bypassed the region. The Inland Empire escaped that recession largely because the regional housing boom mitigated the impact of the dot com bust. Notably, the Inland Empire LEI shows an upturn at the end of 2009 or beginning of 2010—which provides some hope that the region should soon see an economic recovery. However, this finding should be viewed with caution, because the limited availability of historical economic data for the region makes it difficult to verify the model's reliability until after the recovery is well underway. 



Riverside: An Innovative 'Capital City'



The City of Riverside serves as the unofficial capital of the Inland Empire. Founded in 1870 and incorporated in 1883, Riverside has long been the Inland Empire's most populous city, the seat of government for Riverside County, and a major supplier of jobs for the region.

PHOTO: U.C. RIVERSIDE

Riverside is also the Inland Empire's largest center of higher education. It is home to several colleges and universities, including the region's University of California campus. U.C. Riverside is the city's largest economic and cultural asset—a research and teaching center with nearly 20,000 students and a large, highly-educated faculty and staff. UCR will soon provide the city another major asset when it opens a new medical school in 2012—the first new public medical school in California in over forty years. In many ways, the region's future is tied to the fate of this important city.

An Innovative City

Riverside is led by Mayor Ronald Loveridge, a UCR political science professor who first won election to the city council in 1979 and rose to the office of mayor in 1994. During Loveridge's tenure, Riverside has pursued an ambitious plan to distinguish itself from its regional neighbors. Most notably, the city launched a program called "Riverside Renaissance"—a massive \$1.57 billion, 5-year investment in public works, utilities, parks, libraries, and other projects. In his 2010 State of the City address, Mayor Loveridge asserted that "we are on track to complete more [infrastructure] projects in five years than were completed over the last 30. I know of no city in California, or elsewhere, with such an ambitious 'bricks and mortar' program."

In addition, city leaders have sought to establish Riverside as the region's center for arts and culture. As part of its capital investment program, the city recently completed a \$32 million restoration of Riverside's historic Fox Theater, now a 1,600-seat Center for the Performing Arts in the heart of the city's downtown district. While some have criticized the city's large expenditure on this project, Loveridge has defended it as "Riverside's signature statement as a City of Arts and Innovation. It is our commitment to artistic excellence and audience enjoyment, for the City, the Inland Empire, and all of Southern California."

Riverside has also won recognition for its innovative environmental policies. The California Department of Conservation has named Riverside as the state's first "Emerald City"—a distinction based on Riverside's commitment to environmental sustainability. To win this recognition, Riverside has committed to pursue specific goals in areas including renewable energy sources, waste management, land use, construction, and transportation. While other California cities such as Santa Monica and Berkeley have pursued environmentally-friendly policies, Riverside stands out as a green city in a red region.

At the same time, the Riverside has sought to position itself as the region's technological leader. The city has launched the SmartRiverside program, which seeks to attract tech-sector businesses and improve residents' access to computers and the internet. Through one initiative, the city has worked to close the "digital divide" by soliciting donations of used computers, refurbishing them, and providing them free of charge to low-income families. Riverside also has been a pioneer in establishing a free wi-fi network that provides internet access to most areas of the city. In recognition of these and related projects, Riverside has been selected as one of 21 cities around the world to receive the Smart21 Communities Award.

The Recession's Impact

Riverside launched much of this ambitious agenda during the recent economic boom, when rising tax revenues filled the city's coffers with plentiful resources. More recently, Riverside has been hit hard by Inland Empire's economic bust—the horrific combination of home foreclosures, business failures, and job losses. As a consequence of the recession, the city's official unemployment rate has neared 15 percent, and property values in the county as a whole have dropped 10.5 percent—the largest decline in county history.

The economic downturn has had a direct impact on Riverside's finances. Like most cities in California, Riverside raises general fund revenues primarily through state subventions and local levies. Tax levies account for nearly two-thirds of Riverside's general fund revenues. Within that amount, 35 percent comes from property taxes. This means that more than one out of every five dollars in the city's general fund comes from property taxes. ↳



PHOTO: MAYOR RONALD LOVERIDGE

Under this revenue structure, the local real estate market greatly affects the city's income stream. When the recession shocked real estate prices, reductions in property values resulted in lower property tax revenues. High unemployment rates compounded the problem, as declines in disposable income reduced consumer spending, which in turn reduced the flow of sales and use taxes to the city.

California's severe state budget crisis only made things worse. To patch massive holes in the state budget, the legislature has reduced the funds it normally allocates to local governments. In 2008-2009, for example, the city of Riverside relied on the state to provide 9 percent of its budget revenue. After Sacramento's 2009 cuts, the Riverside city budget showed that the amount was cut by nearly 5 percent.

Overall, in 2009-2010, the city of Riverside lost over \$17 million in general fund revenue. This sharp decline made it impossible for the city to avoid cuts in services.

Last year, the city council made many hard budget choices. It cut allocations to the Riverside Public Library by 19.86 percent; to Parks, Recreation, and Community Services Department by 15.11 percent; to general government by 10.43 percent; and to the police department by 4.56 percent. As part of the reductions, the city eliminated over 16 net full time equivalent positions, and limited authorizations for additional staffing.

Yet, in an interview with *Inland Empire Outlook*, City Manager Brad Hudson asserted that Riverside has been able to minimize cutbacks and even expand some investments in quality of life thanks to smart fiscal planning and management. He noted that Riverside was able to draw on its budget reserves and tap into revenues from other sources.



RIVERSIDE HOPES THAT BY STICKING TO ITS STRATEGY OF BUILDING A GREEN, HIGH-TECH METROPOLIS WITH A RANGE OF CULTURAL AMENITIES, IT WILL ATTRACT NEW BUSINESSES, GENERATE JOBS, AND EMERGE FROM THE RECESSION MORE SECURELY POSITIONED AS THE INLAND EMPIRE'S LEADING CITY.

HOW RIVERSIDE COMPARES TO MAJOR INLAND EMPIRE CITIES

	Riverside	Ontario	San Bernardino
POPULATION	296,842	173,690	198,580
POPULATION GROWTH SINCE 2000	15.8%	8.7%	7.1%
WORKFORCE SIZE	160,700	108,920	116,416
MEDIAN INCOME	\$69,611	\$56,688	\$38,282
MEDIAN HOUSEVALUE	\$221,015	\$356,700	\$266,200
MEDIAN AGE	30.2	29.8	27.6
LARGEST EMPLOYER	UC-Riverside	LA/ONT Airport	Stater Bros. Markets
EDUCATION - BA OR HIGHER	19.1%	10.5%	11.6%



PHOTO: THE MISSION INN

Over the years, Riverside has been disciplined in setting aside some of its current general fund budget as a reserve to be used in times of fiscal crisis. In the current fiscal year, the city was able to use over \$2 million of its cash on hand to supplement the general fund and buffer against the decline in other sources of revenue.

The city also shifted revenue from profitable sources using interfund transfers, or transfers from one city fund to another city fund. Most importantly, the city reallocated income from Riverside Public Utilities, which has seen increasing revenues in recent years. Riverside Public Utilities has been able to maintain steady returns by providing competitive rates to residential customers and discounted commercial rates to large power users. Earnings from Riverside Public Utilities traditionally feed into the city's electric and water funds. Last year, however, thanks to fund surpluses, the city was able to move \$32.5 million in utility revenues to the general fund.

These moves have allowed Riverside to avoid the draconian cuts now facing many other cities in the state and, at least in the short term, to make ongoing investments in environmental policies, technology, and the arts despite the economic downturn. Riverside hopes that by sticking to its strategy of building a green, high-tech metropolis with a range of cultural amenities, it will attract new businesses, generate jobs, and emerge from the recession more securely positioned as the Inland Empire's leading city. 

Trends in Commercial Real Estate



At the peak of the housing market in August 2006, the construction industry employed more than 10 percent of the Inland Empire's labor force. Today, it employs barely 5 percent. This sharp decline in construction jobs, which was felt in both the residential and commercial sectors, demonstrates how important the real estate market had become to the region's overall economy in recent years.

The Winter 2010 issue of *Inland Empire Outlook* focused on residential real estate and reported that even when the value of that market reached its lowest point in late 2009, it showed no signs of a quick rebound. But the downturn in the residential sector provides only a partial picture of the Inland Empire's real estate market. For a more comprehensive view how real estate affects overall economic activity in the Inland Empire, it is also necessary to consider the commercial real estate sector.

Commercial real estate can be divided into three primary categories—office space, industrial space, and retail and shopping space. Office and industrial real estate, because of their ties to employment, can be viewed as potential drivers of the economy and, to a certain extent, drivers of retail and shopping and residential real estate. As companies return to financial stability and increase their local employment, the improving job market will likely boost residential real estate prices and rising discretionary income among reemployed residents will help restore consumer spending.

Retail Follows Rooftops: Trends in Retail and Shopping Real Estate

Historical data show that residential housing and retail and shopping space are affected by a common set of factors. Fluctuations in retail and shopping space tend to mirror the activity

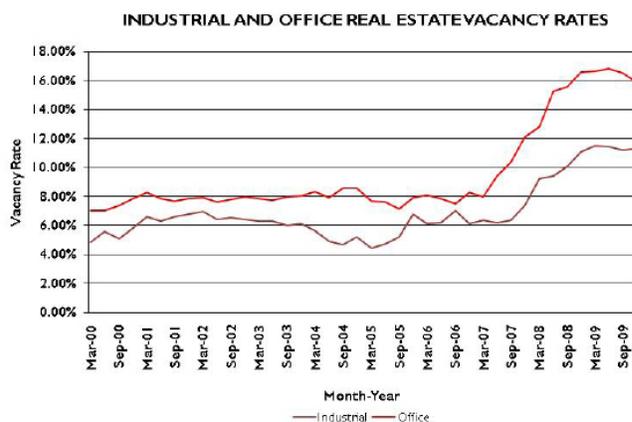


of the residential housing market but generally with a slight lag. Accordingly, it is likely that if residential real estate recovers, retail and shopping space should follow. An examination of historical vacancy rates in retail real estate reveals that this relationship has, indeed, existed in this region.

In March 2002, the region's retail and shopping vacancy rates were only 1.02 percent, but starting in the third quarter of 2002, they started to climb. By December 2003, the retail and shopping vacancy rate had more than quadrupled, reaching 4.29 percent. Then, in mid-2006, the residential housing market crashed. Over the next three years, retail and shopping vacancy rates soared and by September of 2009, 8.74 percent of existing retail and shopping space in the Inland Empire lay vacant. These trends show that there is a relationship between residential and retail and shopping real estate in the Inland Empire, and that a recovery in retail real estate is unlikely to appear until the residential housing market has shown clear signs of recovery.

Driving the Economy: Trends in Office and Industrial Real Estate

Vacancy rates for office and industrial real estate in the Inland Empire remained stable between 2000 and the summer of 2007, when both sectors saw vacancy rates skyrocket. The timing of the sudden increase in office and industrial vacancy rates coincided with the collapse of the housing market. In March 2007, office and industrial real estate vacancy rates rose sharply to 7.99 percent and 6.33 percent, respectively. These vacancy rates continued to increase over the next two years until June 2009. At that time, they again leveled off but at an all-time high: office real estate had a 16.82 percent vacancy rate and industrial real estate had an 11.42 percent vacancy rate.



Although these vacancy rates have reached historic highs, they nevertheless understate the dire condition of commercial real estate in the Inland Empire because they fail to account for the dearth of construction of new commercial space units. While existing office and industrial real estate properties remain vacant, there is very little demand for new development. Over the past year, the amount of rentable building area (RBA) under construction has plummeted to unprecedented lows. Because there is virtually no new industrial real estate construction in the region, recent rates reflect only the vacancy of existing real estate.

The Demise of Real Estate

The high commercial real estate vacancy rates in the Inland Empire show no signs of decreasing in the coming months. While commercial real estate may have found its bottom, as residential real estate did in late 2009, it will not likely recover quickly. For commercial real estate to have a positive impact on economic activity, a significant increase in occupancy rates would need to be accompanied by an upswing in construction. The low probability of this outcome provides little hope that real estate will spur a broader economic recovery. More generally, it is unlikely that real estate will soon reassert its pre-recession role in driving economic activity in the Inland Empire. 



Recent Trends in Logistics: No Signs of Green Shoots



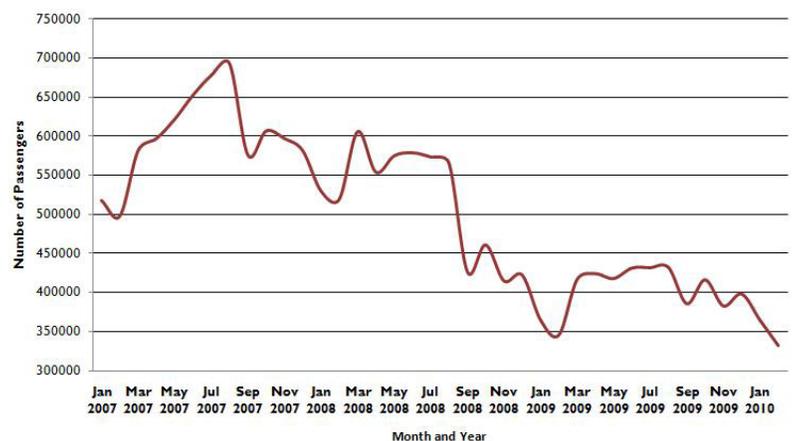
The Winter 2010 issue of *Inland Empire Outlook* described the Inland Empire's strategic role transporting goods from the Ports of Los Angeles and Long Beach to the rest of the country, and noted that the logistics industry (the part of the supply chain that provides for the efficient distribution of goods) is a critical component of the region's economy. Unfortunately, the Inland Empire's heavy reliance on logistics has been a drawback during the Great Recession because the downturn has been marked by a sharp decline in imports, and imports drive the region's logistics industry. Overall, U.S. imports declined by 11.5 percent during this period and the nation's trade-related employment fell by 7.8 percent. To analyze how the recession has affected imports in the Inland Empire, we have studied passenger and cargo traffic at Ontario International Airport (ONT) and incoming container traffic at the Ports of Los Angeles and Long Beach.

Ontario International Airport: Trends in Passenger and Cargo Traffic

Ontario International Airport is a major regional gateway for UPS and FedEx in the southwest and a trans-Pacific trade hub with China and other countries in Asia. As the recession progressed, Ontario airport suffered declines in air passenger traffic and air cargo volume.

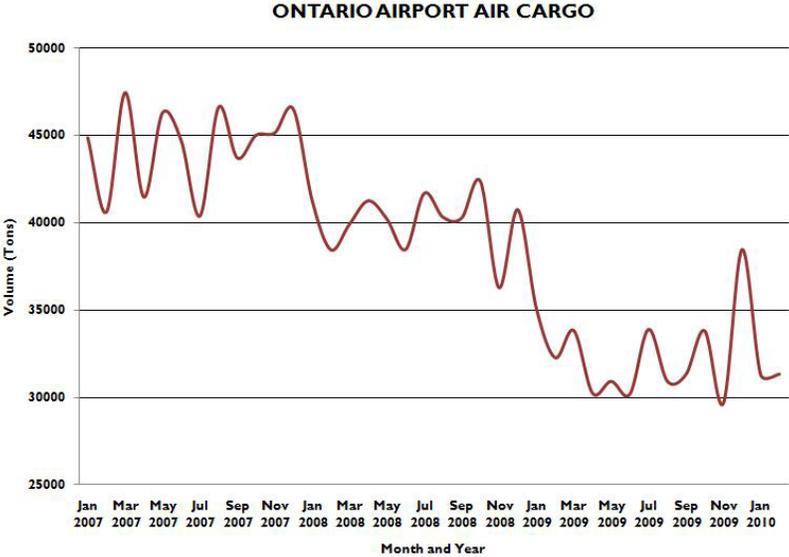
Air passenger traffic through Ontario airport fell from a peak of 700,000 in August 2007 (roughly 4 months before the onset of the

ONTARIO AIRPORT PASSENGER TRAFFIC



national recession in December 2007), to approximately 332,000 passengers in a dramatic 40 percent decline over the past two years. This decline in air passenger traffic helps explain why several airlines (including JetBlue and Express Jet Airlines) have eliminated routes in and out of Ontario.

Meanwhile, air cargo processed at Ontario Airport declined by approximately 30 percent, or 140,000 tons per year, between 2007 and 2009. Cargo volumes were 9.7 percent lower in 2008 when compared to 2007, and fell by almost 20 percent between 2008 and 2009.

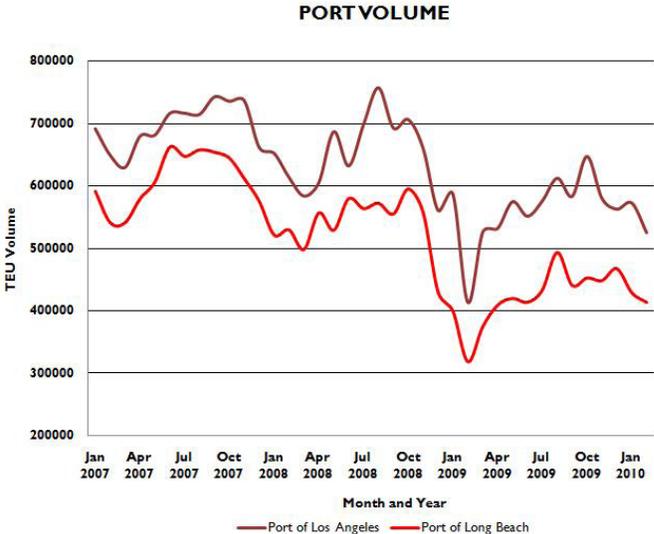


Air cargo tonnage dropped from a high of 45,000 tons in October 2007 to 30,000 tons in May 2009; November 2009 saw the lowest cargo tonnage (29,500 tons) since the beginning of the recession. Since air cargo mainly consists of light-weight, high-value merchandise goods, such as high-tech electronics and medical equipment, the decrease in overall tonnage may not fully reflect the loss in dollar value. An upswing in cargo volumes in late 2009 resembled a sighting of economic “green shoots,” but the subsequent months suggest this was a mirage. It is possible that the results were affected by seasonal patterns.

The decline in air cargo traffic mirrors the two phases of the recession: the initial decline began with the recession’s onset in December 2007 through September 2008, and then fell to lower levels from September 2008 (when Lehman Brothers imploded) through October 2009. We believe that the Great Recession ended in the United States as a whole either in June or July of 2009. Not surprisingly, the air cargo volumes began to stabilize in the following months as imports mirrored the improving national picture.

Ports of Los Angeles and Long Beach: Trends in Incoming Container Traffic

Monthly volume of containers processed in the Ports of Los Angeles and Long Beach is ↗



measured in TEUs, which stands for “twenty foot equivalent units” or twenty-foot long cargo containers. The processed container volume at the ports reached a peak of 1.4 million TEUs in September 2007, but fell to 732,000 TEUs in February 2009—a drop of 47.6 percent. The decline was not uniform over time. The initial drop-off occurred before the onset of the national recession, but the steepest decline happened after the Lehman Brothers collapse in September 2008. Note that the February 2009 volume was lower than at any time since 2003. Clearly the decline in U.S. income was a major cause of the slump in incoming container traffic. However, it is also necessary to consider the impact of oil prices and the strength of the U.S. dollar to get a more complete explanation.

The drop in trade volume seriously affected trade-related employment in the Inland Empire, which has declined 12 percent since December 2007. It may also have had spillover effects on manufacturing employment in the Inland Empire, which fell by nearly 20 percent over the same period. Although trade volume at the Ports of Los Angeles and Long Beach has been picking up in recent months, trade-related employment has yet to follow. While imports through the Ports of Los Angeles and Long Beach have grown by almost 30 percent and 40 percent since February of last year, trade related employment has been decreasing by an average 0.4 percent every month for the



TRUCKER TRACKER



past year and does not give hope of a “green shoot” soon. By comparison, manufacturing employment in the Inland Empire has leveled out at 92,600 jobs, but does not signal an impending increase.

There is some indication that employment and trade volume will show improvement with the recent increases in U.S. GDP. The nation’s GDP grew by 2.2 percent for the third quarter of 2009 and 5.6 percent for the fourth quarter. The growth in national GDP is due in part to rising exports—but exports are not a large factor in the Inland Empire economy. Instead, a significant rise in imports would be needed to produce a noticeable improvement in trade-related employment in the Inland Empire. Even then, experience suggests that there will be a lag between an increase in imports and a surge in trade related employment.

Finally, a more complete understanding of the health of the logistics industry can be gained by studying the movements of goods through interstate arterials. We plan to pursue this analysis in a future issue of the *Inland Empire Outlook*. This more advanced analysis will be possible by looking at movements in the Pulse of Commerce Index (or “trucker tracker”) recently developed by the UCLA Anderson Forecast and Ceridian Corporation, a business services company. This index is a real time measure of economic activity for the United States, and collects data on the amount of gasoline purchased by truckers at over 25,000 gas stations across the United States. Hence, it resembles the flow of blood in the veins of the body. Trucker Tracker is a useful indicator of economic activity in the United States, as well as in regions such as the Inland Empire, because the data are available at the zip code level and for stretches of interstate highways.

The Inland Empire Center is developing an Inland Empire Pulse of Commerce Index that covers San Bernardino and Riverside Counties. The new index will provide valuable real time information on economic activity in the Inland Empire and provide insights into the region’s logistics industry.

Rather than looking at U.S. GDP, which is published only quarterly and with a delay, or State/IE GDP, which is published only at an annual frequency, the Pulse of Commerce Index will provide frequent updates on the flow of goods that run through the Inland Empire. 



THE GROWTH IN NATIONAL GDP IS DUE IN PART TO RISING EXPORTS—BUT EXPORTS ARE NOT A LARGE FACTOR IN THE INLAND EMPIRE ECONOMY. INSTEAD, A SIGNIFICANT RISE IN IMPORTS WOULD BE NEEDED TO PRODUCE A NOTICEABLE IMPROVEMENT IN TRADE-RELATED EMPLOYMENT IN THE INLAND EMPIRE.



Agua Caliente Seeks to Diversify



The Coachella Valley is home to five tribes—Agua Caliente Band of Cahuilla Indians, Augustine Band of Mission Indians, Cabazon Band of Mission Indians, Torres-Martinez Band of Desert Cahuilla Indians, and Twenty-Nine Palms Band of Mission Indians.

Through development of casinos and other businesses, these tribes have contributed to the economy of the Coachella Valley. But the gaming industry has been hit by the current economic downturn. In 2008, revenues from tribal casinos in California were \$7.3 billion, a 6 percent drop from 2007. *Inland Empire Outlook* met with Tom Davis, the Chief Planning and Development Officer for the Agua Caliente tribe, to discuss how the recession has affected its enterprises.

The Agua Caliente Band of Cahuilla Indians is a Palm Springs-based tribe with approximately 400 members and land covering 31,500 acres. The tribe launched its gaming business in 1995 when it opened its first casino in a tent in Palm Springs. Over the past 15 years, Agua Caliente's business operations have rapidly expanded to include two casinos, two hotels, a golf course, and a concert center. The Agua Caliente Casino in Rancho Mirage is a large operation, with over 45,000 square feet of gambling space, a 16-story hotel, and the concert venue called The Show. The tribe's other casino, the Spa Resort Casino, is located in downtown Palm Springs.

After more than a decade of rapid expansion, Agua Caliente, like other casino operators, is facing an uncertain period: fewer people are going to casinos, and those who do are spending less money. This softening demand is making it difficult for casinos to expand. Although Agua Caliente has the option to open a third casino or to renovate and further expand the existing Agua Caliente Casino, the tribe is currently not moving forward with either plan.

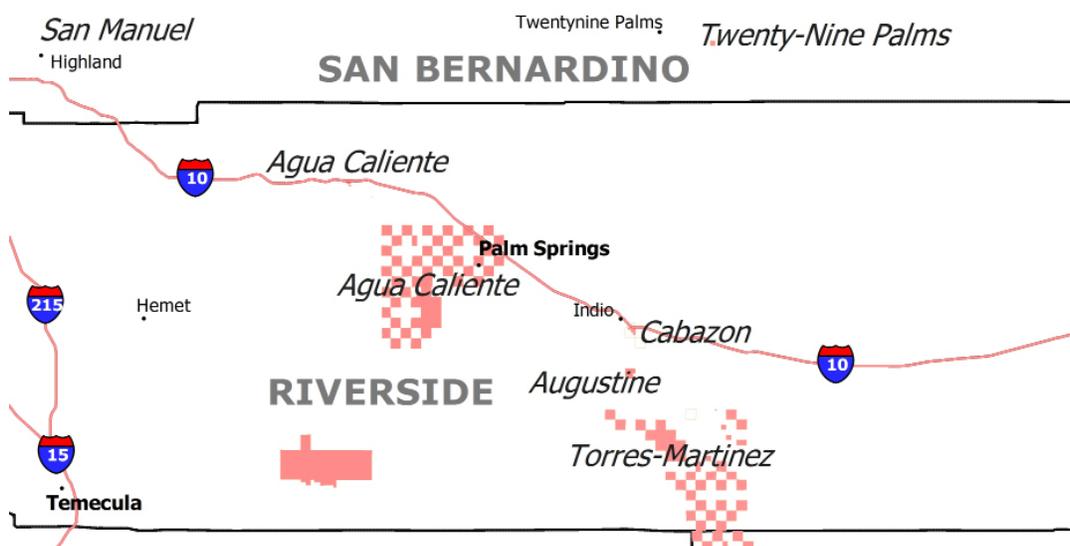
Agua Caliente and other casinos close to Los Angeles have not been hit as hard as those in Las Vegas or the fringe casinos in Reno. According to Mr. Davis, Agua Caliente has benefited from its unique market position as a destination resort that is an affordable option for Los Angeles residents. Coachella Valley casinos offer a comparable experience to a Las Vegas casino, but since they are closer to Los Angeles, they are a less expensive to travel to and are able to draw customers in the current economy.

In the longer term, Agua Caliente's casinos also stand to benefit from several new expansion projects, including the I-10 Bob Hope Drive/Ramon Road interchange construction project in Palm Springs. This project is estimated to cost around \$35 million. The federal government is covering the majority of the construction costs through the American Recovery and Reinvestment Act of 2009. The new interchange will help decrease traffic congestion and thus help increase the revenue stream that the I-10 provides into the area. Agua Caliente is also investigating initial plans to build an open-air retail center on the west side of the I-10 Bob Hope Drive interchange.

By diversifying into other industries and engaging in new construction projects, tribes hope to minimize the impact of diminished casino revenues. Mr. Davis believes that diversification will be important for long-term sustainability for the Agua Caliente. "We have only been diversifying for about 10-15 years. Because of this, our investments were not enough to insulate us greatly from this economic downturn," said Mr. Davis, "but as our current projects are further developed and grow to their full potential, they will be able to act as a buffer against a bad economy in the future."

The tribe has already started diversifying in several ways: it owns leases on over 570 residential properties, two golf courses, and various other non-gaming related real estate. The tribe is dedicated to further diversification, particularly in the area of green technology, including wind power and industrial research. Agua Caliente is also in the process of developing more residential properties, the biggest of which is the construction of 100 town homes in the Village Traditions neighborhood. So far, the tribe has finished the first stage of construction with most of the completed units already sold. In addition, the tribe is hoping to develop homes in the Alexander Village Development, which aims to reproduce classic Hollywood homes from the 1950s and 1960s within a 21-acre community.

According to Mr. Davis, sustainable growth through diversification reflects the tribal "seven generations" principle by which current leaders keep future generations in mind. 





Inland Empire State Legislative Races in 2010



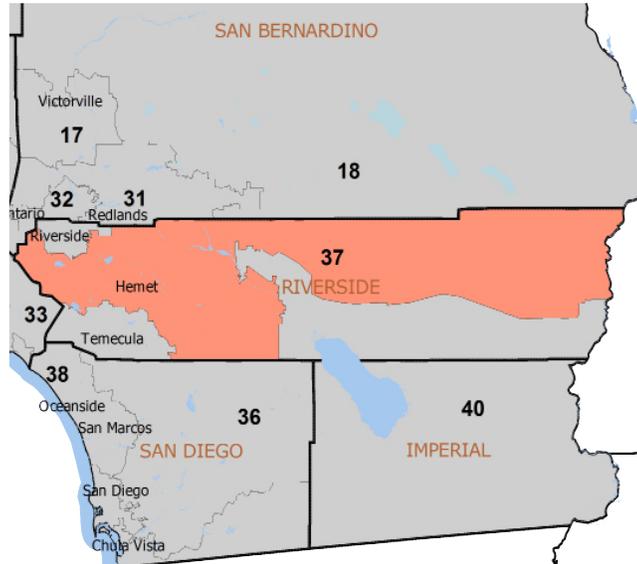
In the Inland Empire, 2010 is shaping up to be an unusually competitive year for state legislative elections. Due to term limits and resignations, several of these elections have no incumbent on the ballot. A changing electorate and a difficult economic climate also bring new dynamics to the races. The election season kicked off with an April 13 Special Election to replace former State Senator (now Supervisor) John Benoit in Riverside County's Senate District 37. Republicans Bill Emmerson and Russ Bogh combined to spend over \$1 million and outside groups including tribes and unions collectively spent at least \$1 million more on this hotly contested race. After a contentious campaign, Emmerson outpolled Bogh and will now advance to a June run-off. The June Primary in Assembly District 59, which spans San Bernardino and Los Angeles Counties, is also expected to be highly competitive. Assembly District 36, also shared between Los Angeles and San Bernardino Counties, saw a surprisingly close 2008 election. The Democratic Party hopes to make it competitive again this November.

SD-37

California's State Senate District 37 encompasses most of Riverside County, including the Coachella Valley. The district starts in Norco and Corona, swings south to include Lake Elsinore and Perris, north to Moreno Valley, eastward through Hemet, San Jacinto, Calimesa, Beaumont, and Banning, and then continues into the Coachella Valley cities of Desert Hot Springs, Palm Springs, Rancho Mirage, Palm Desert, Indian Wells, and La Quinta. To the East, it extends all the way to the Arizona border. The district's population in the 2000 Census was approximately 8 percent African American and 31 percent Latino. According to Secretary of State's most recent Statement of Registration, the district has 462,132 registered voters—37 percent are registered Democrats and 41 percent are registered Republicans, 17 percent are decline to state and 5 percent are registered with minor parties. Latino voter

registration has increased by 4 percentage points since 2007, and is now 23 percent, according to the California Target Book.

After John Benoit resigned in November 2009 to become a Riverside County Supervisor, candidates scrambled to prepare for the special election. The first Republican to declare his candidacy was Assemblyman Bill Emmerson (AD-63). Emmerson's Assembly District is in San Bernardino County and he faced charges that he was running as a carpetbagger in the Riverside County Senate District. (Emmerson switched his voter registration from Redlands to Hemet shortly after Benoit was appointed to the Riverside Board of Supervisors.) Emmerson's leading opponent was former Assemblyman Russ Bogh. Bogh had lost to Benoit in the 2008 GOP primary. This time, Emmerson defeated Bogh by a 42-22 percent margin. On the Democratic side, Justin Blake, a member of the Palm Springs USD Board of Education, emerged as the leading candidate with 14 percent of the vote. Emmerson, Blake, and American Independent candidate Matt Monica now advance to the run-off.



Although the district leans Republican, it is not a completely safe for the GOP. President Barack Obama won this district by 2 percentage points in 2008. Democrats also have a plurality in some key cities in the district. Of Moreno Valley's 64,114 registered voters, 49 percent (31,425) are registered Democrats compared to the 29 percent (18,733) registered Republicans. In Palm Springs Democrats are 49 percent (11,037) of the district's voters, while Republicans are 31 percent (6,956). Nevertheless, Emmerson is favored to win the run-off.

AD-36

The 36th Assembly District joins the Los Angeles County cities of Lancaster and Palmdale with the San Bernardino County cities of Adelanto and Victorville. The district's population is approximately 52 percent white, 30 percent Latino, 12 percent African American, and 3 percent Asian. Latino voter registration increased by 5 percent to 25 percent between 2007 and 2009.

Although this district has been controlled by the GOP since its creation in the 2001 redistricting, the 2008 General Election saw a surprisingly close race. In 2008, Republican Stephen Knight beat Democrat Linda Jones, 52 percent-48 percent. Although Knight's campaign believes the close call was due to its minimum effort, Jones garnered a large percentage of the vote despite spending less than \$50,000.

Three Democrats will be on the primary ballot. Linda Jones has filed again, as has her competitor in the last Democratic Primary, Maggie Campbell, who lost to Jones 80 percent-20 percent last time. The new candidate is Shawntrice Watkins, an LAPD officer.

The general election could be competitive. Latino and Democratic registrations have increased, leaving Republicans with only a 138 voter advantage among registered voters in

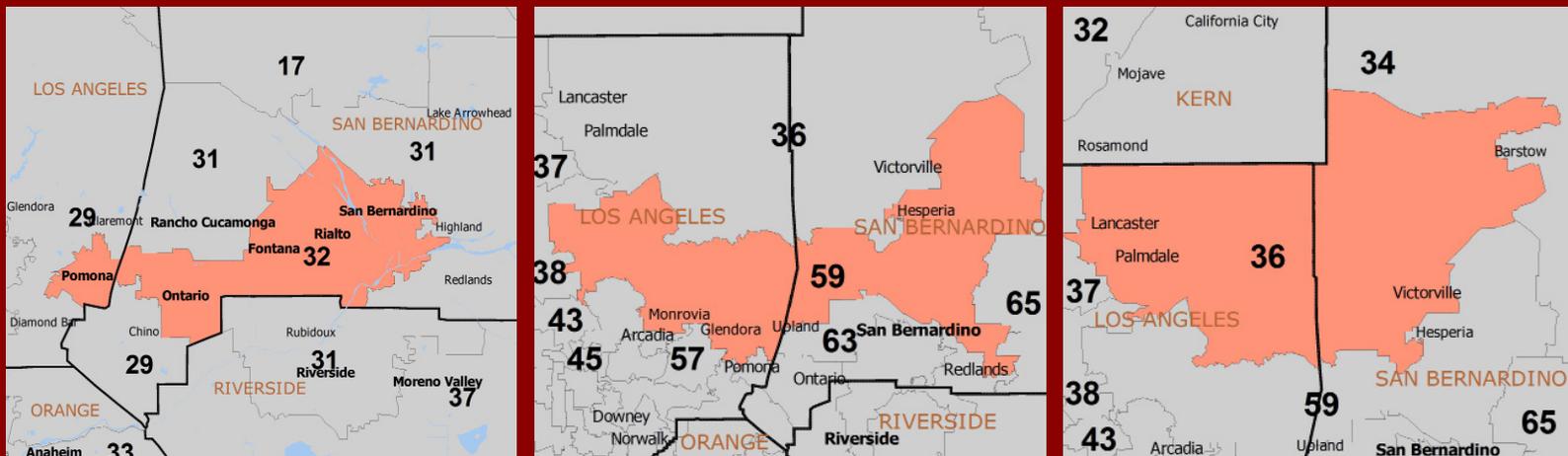
January 2010. Three of the four cities in this district have a Democratic plurality. Registered Democrats have a plurality in Palmdale, 44 percent to 35 percent, in Adelanto, 49 percent to 25 percent, and in Victorville, of 43 percent to 33 percent. In Lancaster, Democrats make up 39 percent of the registered voters while Republicans have a slight plurality with 40 percent of the registered voters. Decline to State voters, who comprise 17 percent of the district's registered voters, will decide the winner of this Assembly District in November.

AD-59

California's State Assembly District 59 is split almost exactly in two between 123,000 registered voters in San Bernardino County and 127,000 registered voters in Los Angeles County. In Los Angeles County, the district includes the cities of Bradbury, Claremont, Glendora, Hesperia, La Verne, Sierra Madre, a small portion of Arcadia, and most of Monrovia, San Dimas, La Crescenta-Montrose, and the Angeles National Forest. In San Bernardino County, the district includes the town of Apple Valley and the City of Hesperia, as well as a portion of Highland, a small portion of the city of San Bernardino, and the San Bernardino National Forest, including Lake Arrowhead and Crestline. The district's population in the 2000 Census was 65 percent Caucasian, 5 percent African American, and 21 percent Latino. As of January 2010, the district has 249,810 registered voters, 35 percent of which are registered Democrats and 43 percent are registered Republicans. In the 59th Assembly District McCain outpolled Obama in the 2008 Presidential Election 51 percent to 47 percent.

Conservative activists attempted to recall the incumbent, Anthony Adams (R-Hesperia), following his vote for the budget bill in 2009, but they failed to qualify the recall for the ballot. Following the recall controversy, Assemblyman Adams decided not to seek reelection. Five Republicans have entered the race for the GOP Primary. Ken Hunter, Michael Rogers, Corey Calaycay, and Chris Lancaster, Anthony Riley, Iver Bye, and Tim M. Donnelly have all submitted Statements of Intention. In the 2006 Republican primary, Christopher Lancaster lost to Adams despite spending nearly \$200,000, \$100,000 of which was his own money. Nevertheless, Adams won by a nearly two-to-one margin, 5,584 votes for Lancaster and 10,997 for Adams. As of March 24, 2010, Lancaster had spent \$56,111 on the 2010 election and still has \$70,513 cash on hand. The other Republican candidate to have reported funds is Claremont City Councilmember Calaycay, who spent \$18,681 by March 24 and has \$54,416 cash on hand.

IE SENATE & ASSEMBLY DISTRICTS MAPS





The Democratic candidate is Darcel Woods, an instructor at Chaffey College. As of March 24, 2010, Woods had spent only \$4,304 and had only \$5,825 cash on hand.

Although this district has traditionally been fairly safe for Republicans, GOP registration has decreased by 5 percent since 2002, from 48 percent to 43 percent. Yet Republicans maintain an 8 percent advantage over Democratic registration. AD 59 promises to be one of the most competitive June primaries in the state, but is expected to stay safely Republican in November.

SD-32

The 32nd Senate District consists of cities in San Bernardino County plus Pomona in Los Angeles County. It includes Montclair, Ontario, Fontana, Rialto, Bloomington, Muscoy, 80 percent of the city of San Bernardino and 89 percent of the city of Colton. In the 2000 Census, the district was 59 percent Latino, 12 percent African American, and 4 percent Asian. Since 2007, Latino voter registration in this district has increased by 8 percent, reaching 48 percent in 2009. The overall voter registration also increased from 289,860 total voters in 2006 to 302,105 total in 2009. Registered Democrats increased from 48 percent to 51 percent in January 2010, while registered Republicans decreased from 33 percent to 27 percent.

The Democrat Gloria Negrete McLeod ran unopposed in the 2006 General Election for this seat, and if she wins this year, she will not be termed out until 2014. McLeod was first elected to the Assembly in 2000 and termed out in 2006, when she won this Senate seat. For this upcoming election, McLeod has a huge war chest, with over \$943,000 cash on hand. Compared to Senate District 37 and Assembly Districts 36 and 59, Senate District 32 will be quiet this election year. With this large sum at her disposal, however, McLeod is rumored to be running against San Bernardino County Supervisor Gary Ovitt next year. She denies any such plans. 

“...GOP REGISTRATION HAS DECREASED...AD-59 PROMISES TO BE ONE OF THE **MOST COMPETITIVE JUNE PRIMARIES** IN THE STATE, BUT IS EXPECTED TO STAY SAFELY REPUBLICAN IN NOVEMBER.”



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