We are pleased to present the Inaugural Issue of Inland Empire Outlook—a newsletter analyzing economic and political trends shaping California’s fastest growing region.

The Inland Empire, the combination of San Bernardino and Riverside Counties, has become highly consequential. With over 4.1 million residents, it is the third largest metropolitan area in California and the 14th largest in the United States. Remarkably, the Inland Empire now has a larger population than 24 states. In addition, in recent decades, the region has emerged as an important center of trade and commerce. But too often the Inland Empire has been overlooked by economic and political analysts. To fill this void, the Lowe Institute of Political Economy and the Rose Institute of State and Local Government—two prominent research institutes at Claremont McKenna College—have joined forces to publish Inland Empire Outlook. This unique partnership will provide business and government leaders timely and sophisticated analysis of political and economic developments in this pivotal region.

In many ways, the launching of Inland Empire Outlook could not come at a more important time. While the U.S. economy may be emerging from the “Great Recession”—the most severe economic downturn since the Great Depression—it is unlikely that the Inland Empire’s economy has yet reached bottom. To underscore this unpleasant reality, we begin this issue with a candid look at the region’s macroeconomic picture, which is more grim than commonly suggested. We find that the Inland Empire’s population gains have partially obscured the magnitude of the region’s losses in employment (p. 2) and production (p. 6). And while housing (p. 10) and trade (p. 12) appear to be stabilizing, they continue to be handicapped by the region’s cloudy economic outlook.

Local leaders need to think seriously about how to help the region emerge from this economic crisis and build a foundation for future economic development. We identify a good model in the City of Ontario (p. 16), where innovative business and political leaders have pursued a strategy of matching population growth with economic development. Moreover, we note that, due to its rapid population growth, the Inland Empire has the opportunity to increase its political influence. In 2010 the region not only will witness interesting Congressional races in current districts (p. 22), but also stands to gain representation (p. 20) and federal support if it achieves a full count (p. 26) in the upcoming Census.

At this unique moment of crisis and opportunity, we hope you will find Inland Empire Outlook a useful guide.

—The Editors
The impact of the recession on the labor market in the Inland Empire has been severe. The unemployment rate in the Inland Empire rose from 5.2% in May 2007 to 14.6% in October 2009. This increase of 9.4% in a span of little over two years is unprecedented in recent decades. What is worse is the deterioration of the labor market in the Inland Empire compared to Greater Los Angeles (defined as Los Angeles and Orange Counties), the rest of California and the United States as a whole. Even the recent slight improvement in the region’s unemployment numbers is largely due to discouraged workers giving up their search for jobs and simply dropping out of the labor force. San Bernardino and Riverside Counties have been affected roughly equally in terms of unemployment in the current recession, with the September 2009 unemployment rate hitting 13.6% and 14.7% in each county respectively. While the local situation is certainly dire, the Inland Empire is far from the most severely impacted metropolitan area in the United States. For example, in August 2009 the City of Detroit saw unemployment rise to 28.9%, roughly three times the national average. But as in Detroit, where the dying American auto industry is unlikely to recover in the near future, the Inland Empire will face a struggle to emerge from the recession. We believe that the Inland Empire’s return to full employment will require a fundamental structural shift in the region’s economic base; in particular, construction will not play the same role it has in the recent past.

From the official onset of the recession in the United States in December 2007 through September 2009, the number of people employed inside the Inland Empire has decreased by more than 11%. This decline was far greater than employment losses of 6.6% in Greater Los Angeles, 6.5% in the state as a whole, and 5.3% in the country.
Labor Market Ties between the Inland Empire and the Greater L.A. Area

The Inland Empire’s geographic proximity to the Greater Los Angeles metropolitan area ties its economy closely to the fate of Los Angeles and Orange Counties. We estimate that almost a quarter of the Inland Empire’s labor force commutes for work in Greater Los Angeles. (A small number of workers travels daily to San Diego for work, and we will include these workers implicitly in our arguments about Los Angeles commuters.) As there are no restrictions to commuting between the two regions, the situation resembles the relationship between Connecticut and New York City, or between areas of Virginia and Maryland and Washington D.C.

At first, this sounds encouraging: the large percentage of Inland Empire residents working in Greater Los Angeles suggests that, if Greater Los Angeles recovers, so will the Inland Empire. The data show, however, that while relative unemployment parity persisted between the two regions for the majority of the last decade, since the onset of the current recession, unemployment in the Inland Empire has fared worse than its neighbors to the west.

The current unemployment situation thus resembles what we observed following the recession of the early ’90s. If we determine that recent labor market developments are similar to that episode, then we will not expect unemployment levels in the Inland Empire to return to normalcy for possibly a decade, but certainly not for at least five years. Of course, this assessment hinges on the assumption that the Greater Los Angeles area will turn the corner sooner than the Inland Empire. A recovery in Greater Los Angeles, then, will not be sufficient to pull the Inland Empire out of recession.

Structural Differences in the Composition of Employment

The severity of the local situation is underscored by the fact that 80% of the increase in the Inland Empire’s unemployment rate has resulted from workers losing employment inside the region. These job losses have totaled approximately 138,000, or almost 11% of all existing jobs in the Inland Empire prior to the onset of the current recession.
Moreover, these figures actually understate the unemployment crisis in the Inland Empire. By taking into account workers who are discouraged by the poor state of the job market, we estimate that the actual number of unemployed in the region is between 170,000 and 175,000, with the majority of job losses suffered by those employed locally, not those commuting to Greater Los Angeles. Since this finding is crucial for an understanding of the current economic and labor market situation and the potential for a recovery, let us stress the point again: residents of the Inland Empire who work outside of Greater Los Angeles are not losing jobs at the same rate as people who both live and work in the Inland Empire. There must be significant differences, then, between the composition of employment in the Inland Empire and the neighboring areas. These structural differences should explain the divergence in employment levels. This, indeed, is what we find.

Table 1 compares the composition of employment in the Inland Empire and Greater Los Angeles. Not surprisingly, farming is a more important sector in the Inland Empire, but too small to explain the respective job losses. As a result, we will focus on the larger sectors.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment in the Inland Empire</th>
<th>Percentage Relative to Greater Los Angeles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming, Fishing, and Forestry</td>
<td>1.0%</td>
<td>582.1%</td>
</tr>
<tr>
<td>Construction and Extraction</td>
<td>9.7%</td>
<td>255.1%</td>
</tr>
<tr>
<td>Installation, Maintenance, and Repair</td>
<td>4.3%</td>
<td>147.2%</td>
</tr>
<tr>
<td>Transportation and Material Moving</td>
<td>8.5%</td>
<td>121.1%</td>
</tr>
<tr>
<td>Sales</td>
<td>11.0%</td>
<td>107.8%</td>
</tr>
<tr>
<td>Service</td>
<td>19.7%</td>
<td>104.3%</td>
</tr>
<tr>
<td>Production</td>
<td>7.1%</td>
<td>99.3%</td>
</tr>
<tr>
<td>Administration</td>
<td>15.0%</td>
<td>84.1%</td>
</tr>
<tr>
<td>Professional</td>
<td>15.7%</td>
<td>75.7%</td>
</tr>
<tr>
<td>Management + FIRE (Finance, Insurance, and Real Estate)</td>
<td>7.9%</td>
<td>71.2%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
We see the most glaring difference between the two regions when we compare construction with professional and management plus FIRE (finance, insurance, and real estate). The construction industry’s share of the job market is three times greater in the Inland Empire than in Greater Los Angeles; conversely, management and financial services account for 30% more of the job market in L.A. than in the Inland Empire. Job losses during the current recession for the Inland Empire have been most severe in the construction industry, totaling over 133,000 jobs lost, or 44% of all jobs in construction in the Inland Empire prior to the onset of the recession. Those 133,000 lost jobs in construction are so significant that they account for 77%, or roughly three out of every four, of all jobs lost in the Inland Empire since the onset of the recession.

Inland Empire job losses in financial services, on the other hand, have totaled only 26,000, or close to 16% of jobs that existed in that industry prior to the recession. It is clear then that the Inland Empire has been much more dependent than Greater Los Angeles on employment in the construction sector, and this difference largely explains the divergence of the unemployment rates between the two geographic areas. The difference in the composition of employment also explains why commuters have fared better than those who work in the Inland Empire. Construction workers tend to take jobs locally rather than out of the region. The Greater Los Angeles area has significantly more financial service jobs, and while this sector has also experienced employment declines following the fallout from the financial crisis, people working in this sector have not lost jobs on the same scale as have construction workers.

**Prospects for a Jobs Market Recovery**

If the Inland Empire is going to recapture the low unemployment rates of the mid-2000s, the region’s economy will have to undergo a fundamental shift in the composition of employment. Construction job losses, by far the largest contributor to unemployment in the Inland Empire, cannot be remedied without a significant recovery in the local housing market. But as further analysis in *Inland Empire Outlook* indicates, a local housing recovery is not going to occur in the near future. Accordingly, either Inland Empire residents must become even more dependent on commuting to jobs in the Greater Los Angeles area, or new local growth sectors must emerge. The next section will shed more light on this possibility by looking at Inland Empire output and its sectoral composition.
Despite the Inland Empire’s economic growth over the past generation, residents in the region have not, on average, enjoyed rising incomes. Americans, on average, double their ability to purchase goods—their real income—about once every 35 years. Californians have done even better. In 2008, California’s (real) per capita personal income was around $43,000, while the United States averaged around $36,500. Hence the average Californian ended up with 18% more than the average American over the past four decades. But in that time, residents of the Inland Empire have not kept pace. Following a period of growth in per capita real income in the 1980s, overall living standards in the Inland Empire have not changed: in fact, in 2007, real per capita income levels were approximately the same as they were in 1987. This represents 0% growth over the last 20 years.

At first glance, it is not clear why per capita income in the Inland Empire would be stagnant: the region is often portrayed as one that has experienced an economic boom. And, in fact, output figures confirm that the Inland Empire has seen substantial growth in overall economic activity in recent years.

**Inland Empire’s Macroeconomics**

![Graph: Real Per Capita Personal Income](image)

**REAL PER CAPITA PERSONAL INCOME**


Source: Bureau of Economic Analysis and the Census Bureau
Data on real GDP for the Inland Empire first became available starting in 2001, so we can compute growth rates back to 2002. The growth in output in the Inland Empire was remarkably high through 2007, hitting almost 12% in 2004, nearly four times the U.S. average. By comparison, the highest growth rate in real GDP the United States has experienced in the past fifty years was only about seven percent in 1984, and before that one must look back to the 1950s to find a comparable rate. When the recession hit in 2007, Inland Empire growth rates converged with those of California and the United States at roughly 2%, revealing how disproportionately the Inland Empire has been affected by the recent downturn. But prior to the recession, the Inland Empire was doing remarkably well in terms of overall economic output.

Nevertheless, this expansion did not translate into rising per capita income because, in the Inland Empire, growth in output has not exceeded population growth.

**Rapid Population Growth**

When population changes at a low and steady pace, changes in per capita income generally mirror changes in output per worker, but dramatic population growth in a region makes it necessary to examine per capita measures for a more complete picture of a region’s economic strength. As seen in the graph below, from 2001 to 2007, the Inland Empire’s population grew by roughly 25%, almost four times the rate of California and the U.S. This massive population influx is largely a result of emigration from Greater Los Angeles due to the availability of more affordable housing in the Inland Empire.

We note one caveat associated with comparing real GDP with real personal income: GDP is a measure of goods produced in a given region, while real income represents wages and salaries earned by the residents of that region. Connecticut, for example, is the state with the highest per capita income, resulting from the fact that many of its residents work in the Greater New York area. Roughly 25% of Inland Empire residents commute to Greater Los Angeles for work, creating a notable discrepancy between income and output, which we examine in the section on unemployment. Nonetheless, changes in per capita income do still reflect variations in the area’s economy overall, and so should be considered.

![Real GDP Growth Rate Graph](Image)

**Real GDP Growth Rate**

Sources: Bureau of Economic Analysis and Bureau of Labor Statistics

![Indexed Population Growth Graph](Image)

**Indexed Population Growth**

Source: Census Bureau
Per capita growth rates of income—that is, the annual change in real incomes for workers—have fluctuated in the roughly the same cyclical fashion for the Inland Empire, the State of California, and the United States. With some exceptions, all three regions have followed a similar path of booms and busts, and at least for California and the United States, post-recession growth rates were high enough to exceed the losses to per capita income. But a closer look reveals that across the board, per capita income growth rates have been generally lower for the Inland Empire than for California and the United States, especially in the 1990s. Whereas other regions were able to recover from recessionary contractions and continue overall per capita income growth, the Inland Empire did not, falling behind in nearly every cycle.

**Economic Cycles**

The recession of the early 1990s dealt the Inland Empire a heavy blow. While the nation as a whole experienced an economic downturn, the Inland Empire suffered disproportionate losses. The region experienced negative growth of six percent in the recession of 1990-91, compared to negative three percent for California and less than negative two percent for the nation as a whole. This recession was caused in part by the shifts in federal spending after the end of the Cold War. In the early 1990s, the federal government reduced defense spending and scaled back or shut down many military bases. Locally, the most striking example was the closing of George Air Force Base in the Victor Valley. While federal grants softened the blow, this closure and others like it cost the region jobs and income in the 1990s.

By contrast, when California as a whole was hit hard by the 2001 recession, the Inland Empire actually experienced small positive growth in per capita income. A look at the San Jose-San Francisco-Oakland combined statistical area helps explain this anomaly. The bursting of the dot-com bubble disproportionately affected Silicon Valley and other technology-concentrated regions of the Bay Area. But because the Inland Empire has a smaller tech industry, it was not as severely impacted.

The Inland Empire’s economy fared well during much of the 2000s, but its per capita income growth rates were still low, due to downward pressure from the region’s population boom. As a result, the region could not catch up with state or national income averages. Moreover, while the Inland Empire largely escaped the fallout from the tech bust early in the decade, it remained susceptible to a recession in the service, housing, and construction sectors—that is, a recession just like the current one.

**Demographic Factors and Prospects for the Future**

An important factor for the Inland Empire’s income stagnancy is demographic. Much of the region’s population growth over the past two decades consisted of migrants from the Greater Los Angeles area who fell at the lower range of the income distribution. Many could not afford to buy a home where they lived, thus ventured inland for more affordable
options. The demographic trends can be seen in other socio-economic indicators, as well: at present, only 25% of the people living in the Inland Empire have a college education, compared to nearly 40% in California. In part due to these factors, most Inland Empire residents are not employed in professional or business services, even if they commute. Instead, the region’s new residents gravitated toward the service and construction industries, both of which are traditionally low-paying jobs.

The Inland Empire thus became dominated by low-wage manufacturing, construction, and transportation and distribution sector companies, which account for almost 30% of the region’s total output. Viewed another way, ten of the Inland Empire’s top-25 industries pay less than $25,000 in average employee salary. Looking at the Inland Empire economy by sector, we see that from 1990 to 2003, 80% of the Inland Empire’s job growth was in the service industry which accounts for approximately 19% of the region’s GDP. Moreover, by 2007, construction comprised roughly 8% of the total GDP in the Inland Empire, as compared to roughly 4% in the United States and in California. As a result, the abrupt end of the housing bubble and the surplus of real estate led to dramatic cuts in the construction and housing industries, devastated the Inland Empire economy. This recession, unlike others, has hit the region at its core.

The industries of wholesale and retail trade, as well as manufacturing and transportation, may provide some hope for the coming years. Together, these sectors comprise another 30% of the total GDP in the Inland Empire, which is not surprising, given that the Inland Empire houses some of the largest manufacturers’ distribution centers in the nation, such as those for Toyota and Nestlé, which we will discuss in more detail in the coming sections. Once domestic demand eventually increases and trade in the form of imports, exports, and the distribution of manufactured goods picks up, the Inland Empire finally may see some relief from the recession and begin again its attempt to catch up with the rest of the state’s and the country’s living standards.
The decline in the Inland Empire’s housing market has contributed significantly to the length and depth of the current recession. For several years, the region became accustomed to a booming housing market. As the Inland Empire’s population skyrocketed from the late 1990s through the early 2000s, home construction followed a similar trajectory. The availability of affordable land and blue-collar labor facilitated the rapid expansion of the housing sector. When the region’s housing bubble burst, it left the once-thriving new home and home resale industries gasping for air. But now that home prices have declined to levels last seen in 2002, it appears that the housing industry may finally have hit bottom and begun to stabilize—although a full recovery of the industry is much less certain.

The U.S. recession officially started in December 2007, with national home sales beginning to decline in the third quarter of 2007. However, the fall in home sales in the Inland Empire occurred much earlier, during the summer of 2006. Since then, average home sale prices in the Inland Empire have declined sharply. Much of this downward trend can be attributed to foreclosed homes hitting the market, due to the rapid increase in the supply of homes exceeding the demand of qualified buyers.

Inland Empire home sale prices hit a trough in April 2009 and have since seen minor fluctuations. The average sales price of all homes in the region seems to be leveling off in recent months as the market for foreclosed homes is absorbed and new homes are
finally beginning to sell again. In one neighborhood of San Bernardino, the $61,000 April 2009 median home sale price represented an 84% fall from the 2007 peak of $370,000. However, the continuing influx of foreclosures and the expectation of more throughout the year because of high unemployment will continue to keep the average prices at reduced levels. The average sales price in the Greater Los Angeles Area follows the same trend line, but remains well above prices observed in the Inland Empire. In Greater Los Angeles, the average sales price in June was more than 240% higher than that of San Bernardino and Riverside Counties, illustrating the gap in affordability between Southern California’s inland and coastal regions.

Real estate and construction activity has slowed tremendously in the Inland Empire, with fewer potential buyers looking to purchase homes even as prices have plummeted. From August 2005 to September 2007, monthly home sales in the region decreased 70%, or by 8,000 sales. The average number of home sales hit a peak in August 2006, one year before the region’s median home sale price reached its highest level of almost $390,000. At that point, many home buyers felt that home prices would continue their upward trend.

Following their sharp decline, home sales in the Inland Empire have leveled off at just over 7,000 homes per month, with September 2009 sales reaching close to 7,300 in the Inland Empire. However, over half (52%) of September 2009 home sales can be attributed to foreclosures in the area.

Nationally, one in seven home loans in the United States were in default or foreclosure during the third quarter of 2009, marking the highest quarterly level since reporting began in 1972. Taking into account the number of foreclosed homes on the market, new and existing home sales have not exhibited a dramatic change since the trough in the summer of 2007. Statewide and Inland Empire home sales have decreased almost uniformly: both have waned by about 40% since their peaks during the summer of 2005. The Mortgage Bankers Association, a prime lender group, reported in November 2009 that applications for mortgages to homebuyers in the United States had declined for six consecutive weeks while interest rates are very close to their all-time low. Thirty-year home loan rates averaged 4.7% during the first week of December, beating the record set last April.

Although this data may support the conclusion that the housing market is stabilizing, there are factors that could contribute to further decline. Expectations of additional foreclosures due to increased unemployment and the recasting of adjustable-rate mortgages (ARMs) could lead to even lower sales prices and inhibit the industry’s path toward recovery. These teaser-rate ARMs, the largest percentage of which are set to readjust in 2012, may prompt a further increase in defaults and place more pressure on the housing sector. Until the Inland Empire economy can support its own weight and stem job losses, the housing market will continue to struggle.
Although it is unlikely the construction sector will help the region recover from the current recession, another sector has the potential to kick-start an economic upswing: logistics and distribution. International trade is an increasingly important component of the Inland Empire economy. The Inland Empire has emerged as a trade logistics hub for the western United States. Much of the cargo entering through Southern California’s seaports and airports is processed in inland warehouses because of the availability of cheap industrial space and lack of congestion in comparison to the Los Angeles region.

The Inland Empire’s trade infrastructure provides numerous trade-related employment and revenue opportunities. The region boasts proximity to the Ports of Los Angeles and Long Beach (which account for 30% and 27% respectively of total trade traffic on the West Coast) and Los Angeles and Ontario International Airports, as well as access to several interstate highways and a prominent rail nexus. In 2008, trade-related employment, which consists of transportation, warehousing, wholesale trade, and manufacturing, represented more than 18% of total non-farm employment in the region. Although trade has declined during the current recession, the Inland Empire’s strategic location and trade-related infrastructure will allow it to benefit tremendously from any rise in levels of exports and, especially, imports.
**International Trade Statistics and Trends**

The Ports of Los Angeles and Long Beach witnessed double-digit import growth from 2004 to 2006, but have seen a decline in the past three years. In 2008, 90 million tons of trade merchandise flowed into these ports. This represents a decline of 10% from 2007 and 14% from 2006. The numbers of containers received in September 2009 fell 16% from a year ago, and 27% from September 2006.

Similarly, international air cargo trade at Ontario International Airport increased by 109% from 2004 to 2005 and by 44% from 2005 to 2006, but declined sharply afterwards. Since 2006, imports through air and sea have shown minimal growth and the effects of this stagnation are clearly visible in the Inland Empire economy.

Meanwhile, the last decade has seen an increase in exports from the region. Exports benefit the regional economy by increasing the competitiveness of local firms and attracting firms to shift their base of operations from the congested Los Angeles area to the Inland Empire. Exports rose steadily between 2005 and 2007, with growth averaging 15% annually. In the first half of 2008, export volumes from the Inland Empire rose to $3.2 billion from $2.3 billion in the first half of 2007, an increase of nearly 37%. The rapid growth of the export industry is confirmed by the higher volume of outgoing international cargo at Ontario International Airport and the Los Angeles ports. Departing cargo from the former rose from slightly less than 4,000 tons in 2003 to almost 11,000 tons in 2008, an average annual increase of 26%. The lack of congestion at the Ontario Airport in comparison to LAX has led carriers such as UPS and FedEx to use Ontario as their distribution center for the west coast. The high tech goods originating from or arriving in the Inland Empire usually use air transport, while the majority of low value goods arrive or depart by sea.

The Inland Empire’s main trading partners are primarily located in Asia, the South Pacific, and North America. Goods from Asia dominate vessel trade while the majority of goods from Canada and Mexico arrive via rail or road. China represents over 50% of the imports entering the Inland Empire by sea, followed by Taiwan, Japan, and Australia. The top export destinations for goods produced in the Inland Empire are North America (33%), Asia (28%), and the European Union (25%).

**TOP IMPORTING PARTNERS FOR SAN BERNARDINO COUNTY**

- China: 56%
- South Korea: 5%
- Hong Kong: 5%
- Australia: 7%
- Japan: 9%
- Taiwan: 10%
- Other Countries: 19.3%

**TOP EXPORTING PARTNERS FOR SAN BERNARDINO COUNTY**

- NAFTA: 33%
- EU: 25%
- Asia: 28%
- South America: 5%
- Africa: 1%
- Others: 8%

Source: California Department of Finance
Locally produced exports could help the Inland Empire in its recovery, as its main trading partners are China and other Southeast Asian countries. According to *The Economist*, Asian emerging markets were projected to grow by at least 5% in 2009, and by even more in 2010. Rising consumption expenditures in Asia could result in higher exports, which would boost the local economy. An increase in import demand will probably not be observed until consumption in the United States shows signs of improvement.

**Trade and Logistics Infrastructure**

An efficient transportation system is vital for any economy, particularly one that functions as a freight and shipping hub. The Inland Empire is well connected to neighboring states via rail, road and air. Interstates 10 and State Highways 60, 91, and 210 provide the necessary linkages between the Inland Empire and Interstate 710 which feeds into the Southern California seaports. Distribution from the Inland Empire to major markets in the United States flows via road through Interstates 10, 15, and 40 and via rail by the Burlington Northern Santa Fe Railway and the Union Pacific Railroad.

**Transportation Networks in the Inland Empire**

The Ontario International Airport is the largest airport in the Inland Empire and is a primary trade hub for exports and imports. Notably, due to delays and difficulties in the expansion of Los Angeles International Airport, the Ontario Airport has become a main alternative to LAX for international cargo shipments. In addition, the Inland Empire has access to the March Air Reserve Base, the San Bernardino International Airport, and the Southern California Logistics Airport in Victorville. (Formerly George Air Force Base, SCLA now largely serves as an aircraft boneyard, but investments in the facility will make it an increasingly important trade and distribution center.) These airports provide a comparative advantage to companies located in the Inland Empire by allowing them to move goods quickly and easily.
Impact of the 2008 Recession and Prospects for Recovery

Recent reductions in trade have had severe consequences for the Inland Empire. Industrial space absorption has fallen from 21.7 million square feet in 2007 to 7.4 million square feet in 2008. Industrial vacancy rates, which reached 2.7% in 2005, are currently at 7.9%. Falling imports have led to a decline in demand for warehousing and manufacturing space, which in turn has increased vacancy rates in the region. The falling import demand has had serious ramifications on employment as well. Trade related employment rose from 147,000 jobs in 1995 to 239,000 jobs in 2007, an increase of more than 61%. In October 2009, trade related employment fell to 205,000, reflecting a decline of nearly 15%.

Cargo flows at the Los Angeles seaports and airports have registered sharp declines. Niche ports like the Port of Hueneme in Ventura County, which relies on automobiles and import produce for its business, are the worst hit. Hueneme lost $1.3 million in the fiscal year ending June 30, 2009, and does not expect the trend to reverse soon.

2009 and Beyond: Prospects and Challenges

The uncertain U.S. economy is one of many factors that could pose problems for the trade sector of the Inland Empire economy. Legislation such as the Clean Air Plan and increased customs verification could increase shipping costs and decrease the flow of goods through the Los Angeles ports. If the Ontario Airport and the Inland Empire’s former military bases can substantially expand their cargo capacity, export-oriented, high-tech businesses may have an incentive to move there. Given the current limitations on the expansion of LAX, the Ontario Airport can take the opportunity to expand since it does not face similar restrictions. Inland Empire communities, rather than coastal areas (tied to LAX), could be the region’s future trade winners. The Alameda Corridor East and the Orangethorpe Corridor, grade-separated rail projects from the downtown railheads to San Bernardino, can also enhance regional competitiveness by removing congestion from highways and increasing rail efficiency. Projects focused on improving logistics infrastructure and the transportation network are critical for the Inland Empire economy. Investment in these areas could reap large benefits for the region by making Southern California an even more important trade gateway between Asia, the South Pacific, and the United States.

The foregoing analysis demonstrates the relative importance of trade and its economic significance in the Inland Empire. Recovery in this region hinges on an increase in current trade flows. The following section stresses the increasing importance of the City of Ontario in this context.
Ontario: The Inland Empire’s New Urban Center

The City of Ontario has emerged as a hub for the Inland Empire. Ontario has experienced astonishing growth as its population doubled between 1980 and 2000. At the same time, income distribution has also improved, with more residents rising out of poverty and achieving increasingly higher income levels. Previously one of the citrus capitals of the world, Ontario’s economy has evolved and diversified. Ontario has taken advantage of its location to become a trade and logistics center, handling the mass of freight traffic between the Ports of Los Angeles and Long Beach and the rest of the country. The city is also home to one of the largest shopping centers in California, the Ontario Mills, which receives more annual visitors than Disneyland, and the newly constructed Citizens Business Bank Arena, the largest entertainment venue in the Inland Empire. The Ontario International Airport is the 15th busiest cargo airport in the United States and has the potential to become one of the busiest airports in the country as other Southern California airports are pushed over capacity. Inland Empire Outlook sat down with Ontario City Manager Greg Devereaux to discuss the distinctive methods the city has used to accomplish economic development even in this uncertain economy.

Devereaux is one of the most talented and accomplished leaders in the Inland Empire. Hailing from West Virginia, he was a theater major who initially dreamed of becoming an actor before deciding to obtain a law degree and enter government. Devereaux moved to California to accept the position of Cultural Superintendent for the City of Long Beach. He rose through the ranks there before Ontario hired him as City Manager in 1997.

As an innovative local leader, Devereaux has emphasized the importance of vision throughout an organization as well as the efficiencies created by operating a municipal government like a business. Most importantly, he believes that the key to success is finding the right people for the right jobs and always making sure to ask the right questions. Devereaux’s style of leadership has helped Ontario become an Inland Empire success story.
Q: Where is the City of Ontario today and what does its future hold?

A: The city master plan expects Ontario to grow from its current population of 175,000 to 360,000, and that is a conservative estimate. New developments in the city are going to be much denser as property values continue increasing and we try to get everything we can out of the remaining pieces of open space. The 10 and 15 freeways from Victoria Gardens to the heart of Ontario make up the main street of the Inland Empire, with two of the largest shopping malls, the airport, the Ontario Convention Center, and the arena. As the area grows, you can expect that area to be a lot denser as Class A office space moves in, mid-rise condo towers, and higher end retail. Because of the proximity of the airport, we will not be able to have high rises in the city, but we expect a lot of new office space as new tenants move to the Inland Empire to take advantage of cheaper rents and the large labor market.

The last dairies are moving out of the area and high-tech and white collar companies are moving in. The New Model Colony master planned development in the south of the city and the last open spaces near freeways such as the Meredith Property are going to be bringing in vast numbers of new residential units. These developments will bring in a density that is not common in the Inland Empire and will shift the housing stock of the city to add more homes for affluent families as well as residents at all other levels. With larger, more luxurious homes come influxes of small business, because owners of small businesses like to locate in cities where they can find nice homes for themselves nearby.

Q: What is the Complete City strategy? Is Ontario a Complete City?

A: Different cities in the Inland Empire are visibly at different stages of the Cycle of Growth described by local economist John Husing. First a city has its earliest residents move to the area, and these pioneers are often commuters to a nearby urban center. As the city grows, services follow, and jobs are created to serve the residents. By attracting more residents and offering low rents and competitive incentives, the first white collar jobs come. With the arrival of the first white collar jobs, better schools, culture, and entertainment come to an area. Once all of these are in place, the city brings in more white collar, educated workers as well as blue collar workers to serve the community. Thus a Complete City is born that climbs the upward spiral towards success.

Ontario is well on the way to being a Complete City. It is important that the city government anticipates elements of the city that the market does not yet demand. Many of these elements take over a decade to plan, approve, and construct, and if we wait until it is obvious that the market demands them, it could be far too late and prohibitively expensive to bring them in. One example is the arena. Fifteen years ago, few people would have thought to put a 10,000 [seat arena] in the city. Today, because we planned so far ahead, it is finished in a great location and has proven to be a hugely popular venue.
Q: What sort of growth do you predict for the rest of the Inland Empire?

A: The Inland Empire as a whole will urbanize, diversify, and grow significantly. The region is one of the largest metropolitan areas in the country, something that people do not realize because we are in the shadow of Los Angeles. Rancho Cucamonga and Fontana are both over 175,000 according to the latest estimates, and they are not finished growing. By the time the Inland Empire is built out, it could have ten cities in the 100 largest in America. Today, L.A. is nearly finished growing, and the I.E. cities still have a lot of potential population growth, so you can expect this area to continue growing larger and becoming even more important.

Q: What does the future hold for Ontario Airport?

A: L.A.-Ontario Airport is currently in a lull right now because of the recession, but it has a bright future as each of the other airports in the region is maxed out. In a metropolitan region like L.A., there is a champagne glass pyramid effect with airports. As soon as the top one is full, all the ones on the level below it will fill up. John Wayne Airport in Santa Ana is full and has limits placed on it, and Long Beach and Burbank have almost no room for expansion and already have strict noise restrictions. Sometime in the future, the FAA and pressure from neighboring communities will keep LAX from expanding any further. Ontario, which has plenty of room for expansion, will grow immensely at that point. In addition, people often forget that Ontario by itself has a catchment area of over four million. As Southern California residents find themselves with fewer airport options and the Inland Empire continues to grow quickly, Ontario will grow to be a major airport.
UPS and FedEx already use Ontario as a major cargo hub, avoiding the traffic and higher prices at LAX, and their operations have made it one of the busiest cargo airports in the United States.

**Q: What distinguishes Ontario from other cities in the region?**

A: Ontario is following what is called a Complete City Strategy. The more complete a city is, the more successful it will be in the long term. Being a Complete City involves being self-sufficient from other cities by offering enough housing and jobs for its residents at many socioeconomic levels. In Southern California, this is particularly true because the lack of transportation options makes commuting long distances an unpleasant option for many workers. A Complete City also includes services for its residents and a variety of entertainment options, transportation links, and educational centers.

Ontario is a job rich city. An economically healthy city should have 1.3-1.5 jobs for every household within its limits. Today, Ontario is a net job importer has two jobs for every household, and as the city’s economy continues to grow and diversify, many of those jobs are white collar and high tech jobs. More companies are moving to Ontario to escape the higher rents of L.A. and Orange County and to access the huge labor and consumer market of the Inland Empire. As these companies attract educated and affluent employees, education levels in the city will continue to rise. Ontario has great entertainment options with the opening of the new arena, and the city has three freeways, an airport, and train lines within its city limits.

The city has effective and responsive business-friendly leaders who recognize the importance of strong, sustained economic growth. Cities in upward spirals feed on themselves and continue to grow, becoming more successful economically, more diverse demographically, and more educated. Ontario is in a steep upward spiral, and this will help it to be a major urban center for the region.
Over the last decade, California’s population center has shifted away from coastal urban centers and moved farther inland. While almost all areas of California have increased in population and most Californians still live in coastal counties, the growth in inland areas has far outpaced that of the coastal region. As a result, when Congressional districts are redrawn following the 2010 Census, the Inland Empire and other inland areas stand to increase their representation at the expense of other parts of the state. The Rose Institute recently released a report titled “The 2010 Census: Congressional Reapportionment,” which analyzes the population shifts and predicts how they may affect redistricting.

The U.S. Supreme Court requires that states redraw Congressional district lines each decade to equalize population between districts. California currently has 53 Congressional districts and will likely have the same number after the next Census. The state will thus need to redraw the 53 districts to ensure that each has an equal number of constituents.

It has been nearly a decade since the last redistricting in 2001, and population shifts over the past decade have produced major population imbalances in the state’s Congressional districts. Several Riverside County Congressional seats are particularly over-populated. Mary Bono Mack’s Palm Springs-based 45th district has the largest population in the state with
over 962,000 residents, more than thirty-six percent over the 2010 population ideal. Bono Mack’s district splits the majority of Riverside County with Representative Ken Calvert’s 44th district, the second largest in the state. Calvert’s district is currently twenty-six percent over the ideal, with 892,423 residents. Two other districts represent parts of Riverside County: Darrell Issa’s 49th district and Jerry Lewis’s 41st district. Issa’s district is the third most populous in the state and eighteen percent over the ideal, while Lewis’s is the seventh most populous and thirteen percent over the ideal.

San Bernardino County’s Congressional districts are also over-populated. Rep. Lewis’s 41st district, which covers much of San Bernardino County, is thirteen percent over the ideal. Buck McKeon’s 25th district, geographically the second largest in the state, covers much of the rest of San Bernardino County and is sixteen percent over the population ideal, the fourth most overpopulated in the state. Other districts that have part of their population in San Bernardino County are David Dreier’s 26th district, Gary Miller’s 42nd district, and Joe Baca’s 43rd district. The first two are not particularly over-populated, but Baca’s is the fifth most in the state at fourteen percent above the ideal.

In contrast to these overpopulated inland districts are coastal districts like those of San Francisco Bay Area Representatives Nancy Pelosi, Jackie Speier, and Barbara Lee. These coastal districts are under-populated by seventeen, fourteen, and fourteen percent, respectively.

Overall, the inland congressional districts are currently at about 1.7 congressional seats over the ideal; conversely, the coastal districts are under-populated by the equivalent of 1.7 seats. We group the Inland Empire together with Orange County and San Diego County when analyzing the movement of congressional seats. That combined area stands to gain almost three quarters of a congressional seat in the 2011 redistricting, thanks to its estimated population gain of approximately 1.45 million over the last decade, by far the largest gain of any of the regions.

In the 2011 redistricting, line drawers will reconfigure existing Inland Empire districts to reduce their total population. They will then shift the surplus population either to a new Inland Empire-based district, or to nearby districts that require additional population. In either event, this change will shift district lines from the coast toward the Inland Empire.

There is an increasing ideological divide between California’s more Democratic coastal areas and its more Republican inland areas. As the state’s Congressional districts shift inland, the California Congressional delegation may grow somewhat more conservative. However, it is also possible that in 2011 Congressional district lines will be redrawn in such a way as to preserve the current ideological balance of power and so we may see no such transfer of seats from the Democrats to the Republicans.
Congressional Races to Watch in 2010

2010 should be a fairly entertaining political year in California. Indeed, on top of the reality of the Census and the possibility of a Constitutional Convention comes the drama of some potentially close Congressional races, three of which will be contested within the Inland Empire: David Dreier’s (CA-26), Ken Calvert’s (CA-44), and Mary Bono Mack’s (CA-45). Part of the reason that all three of these races are considered competitive is the demographic change and population shift that has occurred in the Inland Empire over the last several years.

While none of these districts are yet clear takeover opportunities, some could develop into very competitive races. The races were deemed potentially competitive based on three factors: (1) the race was competitive in 2008; (2) the incumbent won the last election by a narrow margin; or (3) either the Democrats or Republicans have targeted the race.

Before looking at individual races, it is important to consider briefly the overall environment in California going into 2010. In 2008, Barack Obama did very well in California, even in traditionally Republican districts. Having Obama at the top of the ticket clearly helped Democrats further down the ballot and made some Republican incumbents do worse than they otherwise would have done. In 2010, Obama will not be at the top of the ballot. Instead, the election will feature the Governor’s race and the U.S. Senate race. With Gavin Newsom’s departure from the race, 71-year-old Jerry Brown will likely be the Democratic gubernatorial nominee, and incumbent Democratic Senator Barbara Boxer will be the nominee for Senate. While both Brown and Boxer may run strong campaigns, neither will create enough excitement to help Democratic congressional candidates down the ballot in the way that Barack Obama did in 2008. Republican incumbents who had close elections in 2008 because of Obama will likely face a more favorable climate in 2010.
CA-26 David Dreier (R)

As the Ranking Member on the Rules Committee, David Dreier is one of the most important Republicans in the House of Representatives. He is currently serving his 15th term in Congress and plans to run for re-election in 2010. Dreier’s 26th district was designed to be safely Republican. It runs along the 210 Freeway corridor, extending from Los Angeles County into the Inland Empire. It includes part or all of the foothill cities of Sierra Madre, San Gabriel, Pasadena, Monrovia, Glendora, Walnut, Covina, San Dimas, La Verne, Claremont, Montclair, Upland, and Rancho Cucamonga, as well as portions of the Angeles National Forest. The district has grown by about 50,000 people since 2000 and currently has a total population of about 688,700, according to the Census Bureau’s 2008 American Community Survey. The district’s population is now approximately 64.6% white and 30.2% Hispanic. The district has 40.5% registered Republicans and 35.7% registered Democrats.

Although the 26th district was designed to protect Dreier, it has not been completely safe. Dreier survived a scare in 2004, when he was targeted by conservative talk radio hosts for his positions on immigration. That year, he narrowly defeated underfunded Democratic challenger Cynthia Matthews by a vote of 54% to 43%, one of the closest congressional races in the state. In 2008, Dreier defeated Democratic businessman Russ Warner by over 10%, but President Obama won the district’s with 51% of the vote. The Democratic Congressional Campaign Committee (DCCC) viewed this seat as a target in 2008 and may do so again in 2010. Dreier has formidable financial resources ($940,000 cash on hand as of the third quarter of 2009). Warner, his 2008 opponent, has announced he will run again in 2010, but raised roughly only $40,000 in the third quarter of 2009, leaving him with $95,000 cash on hand. Dreier is potentially vulnerable against a strong Democratic candidate, but unless Warner runs a better campaign than in 2008, or a stronger Democratic challenger enters the race, Dreier will likely win election to his 16th term in 2010.
Nine-term Rep. Ken Calvert had a surprisingly close race in 2008. He won reelection by only 2% against Democratic challenger Bill Hedrick, an underfunded public school teacher. Hedrick is currently in his 5th term as the President of the Corona-Norco Board of Education. Calvert had won this district comfortably in past elections, but the district has been trending Democratic in recent years. While President Bush won the district’s vote in 2004, President Obama narrowly won it in 2008 with 50% of the vote. Democrats have been gaining ground in voter registration in the district; the number of registered Democrats is up by around 2.5% since 2006 while the number of registered Republicans is down by around 4.5%. Currently the district is approximately 42.4% Republican and 34.6% Democrat. The 44th district contains Inland Empire communities of Riverside, Corona, Norco, and El Cerrito, but it also extends to the Southwest into Orange County as far as San Clemente. The district’s population has grown by over 190,000 since 2000, and its current population is about 831,000.

The National Republican Congressional Committee (NRCC) has placed Calvert in its “Patriot Program” (the NRCC’s fundraising program for vulnerable Republican incumbents) to try to prevent another close call in 2010. Hedrick is running again and he and Calvert will likely face off again in the fall. In a controversial move, Hedrick recently opposed against sending additional troops into Afghanistan.
Calvert raised $227,000 in the third quarter of 2009 and has $511,000 cash on hand. By contrast, Hedrick raised only about $44,000 in the third quarter and has only $74,000 cash on hand. Hedrick’s unimpressive early fundraising total might lead some to believe that Calvert is safe, but Hedrick proved in 2008 that he can do well without money. In addition, Calvert faces ongoing criticism and potential investigation of his real estate dealings—an area of potential vulnerability for the incumbent. Clearly, Calvert will not be surprised by the challenger this time, but if Hedrick can build on his 2008 success, improve his fundraising ability, and exploit Calvert’s potential weaknesses, this will be a race to watch.

**CA-45 Mary Bono Mack (R)**

Democrats are targeting six-term incumbent Rep. Mary Bono Mack in 2010. In 2008, Bono Mack won reelection by 16% against Julie Bornstein, but President Obama won this formerly safe Republican district with 52% of the vote. The increasing Democratic strength in the 45th district is reinforced by the decision of Democratic Palm Springs Mayor Steve Pougnet to challenge Bono Mack in 2010.

The 45th district includes much of Riverside County, including Palm Springs and other communities in the Coachella Valley, Idyllwild, Hemet, and Moreno Valley, as well as Joshua Tree National Park. It extends all the way to the Arizona border. The district’s population has grown dramatically over the past decade, increasing by over 220,000 to about 860,000. The district currently has 42.1% registered Republicans and 37.8% registered Democrats. Bono Mack can make a credible argument that she takes a bipartisan approach to governing. For example, she was one of the only House Republicans to vote for the Cap and Trade bill this summer. Yet, she may be vulnerable to a strong Democratic challenger. The National Republican Congressional Committee has placed her in its Patriot Program.

Bono Mack raised approximately $343,000 in the third quarter which gives her $716,000 cash on hand. Pougnet raised $201,000 and has $347,000 cash on hand. He has attacked Bono Mack for not holding healthcare town hall meetings and has started a petition demanding that Congress repeal the “Don’t Ask, Don’t Tell” policy for gays in the military. Bono Mack is a seasoned member and should run a strong campaign, but if Pougnet can come close to her fundraising numbers (or outraise her), he will likely make it a close race.

For previews of the other competitive Congressional races in California, including CA-03, CA-04, CA-11, CA-47, and CA-50, as well as more up-to-the-minute political analysis, visit the Rose Report: [http://rosereport.org](http://rosereport.org)
Obtaining an accurate Census count is a challenging task. Doing so is extremely important, however, both for the reapportionment of Congressional seats and allocation of federal funds. The U.S. Census Monitoring Board estimates that the 2000 Census missed 18,012 people in Riverside County and 22,941 in San Bernardino County, resulting in undercount rates of 1.15% and 1.32% respectively. While these numbers may seem small and relatively insignificant, they have cost the region both funding and legislative representation.

The 2010 Census undercount is likely to be even more extreme, according to a survey conducted by the Pew Charitable Trusts and the Philadelphia Research Initiative in October 2009. The Pew report notes that all of the cities in its study had set aside less money and fewer staffers for the 2010 Census preparation than they had in 2000. Without the outreach programs normally organized by cities, fewer people will turn in their mail-in questionnaires, causing response percentages to decline and undercounting to rise. The cash-strapped California state government has also cut back on funding for the Census. This reduction, however, will be offset at least in part by a recent grant of four million dollars from the California Endowment to fund awareness campaigns in areas considered hard to count, including both San Bernardino and Riverside Counties.
The huge rise in home foreclosures means many people will have no permanent address, making them difficult to count. This could prove especially problematic in the Inland Empire, which between July and September of 2009 had the second highest foreclosure rate in the state and the sixth highest in the country, with one in twenty-eight homes in some stage of foreclosure.

The undercount in the 2010 Census may be higher in San Bernardino and Riverside Counties than it is in most other counties in the state. The Census Monitoring Board has released a list of the fifty counties in the nation that it believes will be the hardest to count. Ten are in California, including the number one ranked Los Angeles County. San Bernardino County is ranked fifteenth in the country and fourth in the state, and Riverside County is ranked sixth in the state. The list is calculated based on an estimate of how many hard-to-count people reside in the county. Groups classified as hard-to-count are those considered least likely to return their census questionnaires and include groups such as minorities, the poor, residents of large urban centers, people in isolated rural areas, youth and single parent households, among others. Accordingly, much of the Inland Empire is considered “hard-to-count.”

The consequences of undercounting are serious. Many federal grant programs including medical assistance, unemployment insurance, Head Start, and the National School Lunch Program distribute money partly based on the Census’s population estimates. In Fiscal Year 2007 alone, almost $450 billion in federal funds were distributed based on the 2000 Census calculations. Even when the undercount is less than half a percent, the amount of lost money in state and county income can be enormous. The Census Monitoring Board estimates that between 2002 and 2012, Riverside County will lose out on a total of more than twenty five million dollars in federal funding and San Bernardino will lose out on more than fifty million dollars, both as a result of undercounting in the 2000 Census. California as whole will lose a total of almost $1.5 billion dollars over the decade. According to the Brookings Institute, the state will lose around $11,500 in federal funding over the next ten years for each person not counted by the 2010 Census.

In addition, an undercount could cause a state to lose national representatives or a county to lose power in its state delegation. While it may seem as though it would take a massive undercount to affect the distribution of Congressional seats, this is not so. According to Ditas Katague, California’s Director of the 2010 Census, very small undercounts of only a few dozen people could possibly shift House seats from one state to another. In the coming reapportionment process, she believes that the seat Oregon stands to gain could be lost by a margin of only two people and that California could lose one of its seats, a first in the history of the state, by only eighteen people to either North Carolina or Minnesota. These extremely close numbers make clear the immense importance of counting as many people as possible.

“EVEN WHEN THE UNDERCOUNT IS BY LESS THAN HALF A PERCENT, THE AMOUNT OF LOST MONEY IN STATE AND COUNTY INCOME CAN BE ENORMOUS.”
The Inland Empire Outlook is a joint publication of two institutes at Claremont McKenna College.

**The Lowe Institute of Political Economy**

The Lowe Institute analyzes economic policy issues and their social and political contexts. Director Marc Weidenmier, Ph.D., is a Research Associate of the National Bureau of Economic Research and a member of the Editorial Board of the *Journal of Economic History*. Manfred Keil, Ph.D., an expert in comparative economics, has extensive knowledge on economic conditions in the Inland Empire and has served as a consultant on economic development issues to several private firms in the region.

*See more at [http://lowe.cmc.edu](http://lowe.cmc.edu)*

**The Rose Institute of State and Local Government**

The Rose Institute authors studies of political and demographic trends on national and local issues. Director Ralph Rossum, Ph.D., is a nationally recognized constitutional law scholar who has expertise in tribal law and the relationship between the region’s tribes and local governments. Kenneth P. Miller, J.D., Ph.D., is an expert in California politics and policy who studies political developments in the Inland Empire. David Huntoon, MBA, specializes in economic development in the region.

*See more at [http://rosereport.org](http://rosereport.org)*