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KERN ECONOMIC JOURNAL

Volume 5 Issue 3
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KERN ECONOMIC JOURNAL is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides information and data that can help the community make informed economic decisions.

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KERN ECONOMIC JOURNAL is a quarterly publication (February, May, August, November) of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions. Sources of funding for the journal include university and community contributions and subscription fees.

Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in electronic copy. Individual authors are responsible for the views and research results.

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ECONOMY AT A GLANCE!

Kern's economy continued its improvement. Businesses and households became more optimistic about economic conditions. Labor markets recorded mixed results with lower unemployment, but sluggish growth of nonfarm employment because of the state's contractionary fiscal policy. The economy created more personal income. Housing prices continued to appreciate despite higher

mortgage interest rates. Still low, the rate of inflation increased for both consumers and producers. Investors recovered from earlier losses as stock prices climbed to higher levels. However, the U.S. dollar weakened further against the Japanese yen and Canadian dollar.

Economic Indicator	2003 Second Quarter	2003 Third Quarter	Quarterly Change	Data Source
Kern Business Outlook Index	102.0	104.5	2.5	CSUB
Bakersfield Consumer Sentiment Index	109.0	114.0	5.0	CSUB
Unemployment Rate (%)				California Employment Development Department (CEDD) and CSUB
Kern	11.4	10.3	-1.1	
Bakersfield	8.0	7.5	-0.5	
Nonfarm Employment Growth (%)				Bureau of Labor Statistics (BLS)
Kern	1.6	-1.6	-3.2	
Bakersfield	2.0	0.8	-1.2	
Total Personal Income (\$ billion)				Bureau of Labor Statistics (BLS)
Kern	13.71	13.85	0.14	
Bakersfield	7.60	7.70	0.10	
Personal Income Per Capita (\$)				Bureau of Labor Statistics (BLS)
Kern	20,520	20,580	60	
Bakersfield	31,150	31,290	140	
Economic Growth (%)				CEDD
Kern	2.6	3.9	1.3	
Bakersfield	2.7	5.0	2.3	
Average Weekly Earnings in Manufacturing (\$)	559	546	-13	CEDD
Median Housing Price (\$)				California Association of Realtors
Kern	129,000	137,420	8,420	
Bakersfield	137,000	147,000	10,000	
New Housing Permits (#)	480	524	44	
Housing Affordability Index	56	52	-4	
Interest Rates, U.S.				economagic.com
Mortgage Interest Rate (%)	5.51	6.03	0.52	
Bank Prime Rate (%)	4.24	4.00	-0.24	
Energy Prices				Berry Petroleum
Price of Crude Oil (\$/barrel), SJV	21.20	25.04	3.84	
Price of Gasoline (\$/gallon), CA	1.88	1.92	0.04	
Inflation Rate, U.S.				economagic.com
Cost of Living (%)	0.6	2.3	1.7	
Cost of Producing (%)	-2.5	2.7	5.2	
Stock Price Index				economagic.com
DJIA	8,772	9,374	602	
NASDAQ	1,561	1,800	239	
S&P 500	951	1,006	54	
Foreign Exchange Rate				economagic.com
Japanese Yen	118.5	117.4	-1.1	
Mexican Peso	10.4	10.7	0.03	
Canadian Dollar	1.40	1.38	-0.02	
Euro	0.88	0.89	0.01	

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB



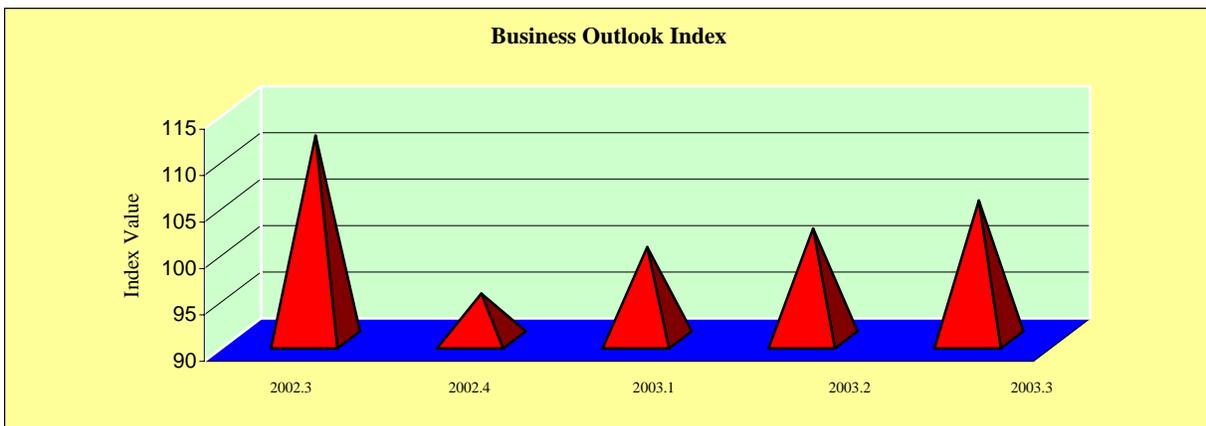
This article presents opinions of business managers regarding current and expected local economic conditions in the third quarter of 2003. We began compiling the local index in the first quarter of 1999. It is constructed from telephone surveys administered to a random sample of the Greater Bakersfield Chamber of Commerce membership¹. Responses were enumerated to construct the Business Outlook Index (BOI). The value of 100 indicates *neutrality* about local business conditions, greater than 100 expresses *optimism*, and less than 100 *pessimism*. Results are illustrated in the following charts.

The BOI increased 2.5 percentage points from 102.0 in the second quarter to 104.5 in the third quarter of 2003. This increase indicates that business managers have become more *optimistic* about local business conditions.

After the sharp drop of 17 percentage points in the fourth quarter of 2002, the BOI has gained 9.5 percentage points over the previous three quarters.

Still, *cautious optimism* was reflected in the neutrality of responses that most business managers gave to individual questions. Over fifty percent of the survey respondents reported that the number of jobs in their companies stayed the same as the previous quarter. They expected the number of jobs available in their companies to remain unchanged next quarter. The majority of survey respondents perceived that financial conditions (sales or profits) of their companies were unchanged this quarter and are likely to stay the same next quarter. They also indicated that current employment and financial condi-

(Continued on page 5)



Question	Response		
	Better	Same	Worse
	(Percentage of Total Responses)		
Employment in your company this quarter was	34	52	14
Employment in your company next quarter will be	32	58	10
Financial condition (sales or profits) of your company this quarter was	25	70	5
Financial condition (sales or profits) of your company next quarter will be	18	72	10
Employment and general business conditions in your industry this quarter were	14	76	10
Employment and general business conditions in your industry next quarter will be	13	77	10
Employment and general business conditions in Kern County this quarter were	0	84	16
Employment and general business conditions in Kern County next quarter will be	0	75	25

¹As suggested by the readership, we plan to extend the survey coverage to communities outside the Bakersfield metropolitan area.

BAKERSFIELD CONSUMER SENTIMENT SURVEY

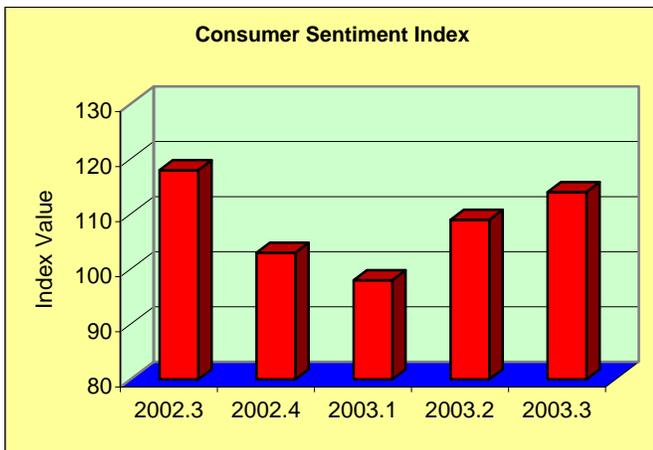
MARK EVANS
INTERIM DEAN, EXTENDED UNIVERSITY
DIVISION, CSUB



The Bakersfield Consumer Sentiment Index registered its second consecutive gain in the third quarter, increasing to 114 from 109 in the second quarter. The index stood at a troublesome 98 in the first quarter, which was characterized by uncertainty preceding the war in Iraq. We began compiling the local index in 1999. It is constructed from telephone surveys administered to a random sample of households listed in the Bakersfield section of the phone book. Index values about 100 indicate consumer optimism, while values below 100 are rare and suggest considerable pessimism. The index is disaggregated into sub-indexes relating to recent trends and future expectations. The third quarter increase was attributable to equal-sized gains in the two sub-indexes.

The Index of Recent Buying and Financial Trends is constructed from responses to questions relating to expenditures on discretionary items, financial status of the household compared to one year ago, and perceived changes in the financial condition of acquaintances in Kern County. This sub-index increased from 104 to 109. While seven-in-ten households spent an average amount on discretionary items such as dining out and entertainment, nearly two respondents spent more than usual for every one reporting they spent less than usual. The percent whose households doing better than one year ago increased slightly, but the percent that were worse off plummeted from 25 percent in the second quarter to only two percent in the third quarter.

(Continued on page 5)



	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	114	109	118
Sub index: Recent Buying & Financial Trends	109	104	115
Sub index: Expectations	119	114	121

	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	19 %	71 %	10 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	28 %	70 %	2 %
How your acquaintances in Kern County are doing financially compared to one year ago.	2 %	88 %	10 %

Business Outlook (Continued from page 3)

tions of their industries remained the same this quarter. They anticipated that employment and financial conditions of their industries to stay constant next quarter. Over seventy percent of the respondents felt that employment and business conditions in Kern County were the same as the previous quarter and are likely to remain unchanged next quarter.

Survey participants were asked to comment on local, regional, national, or international factors that have affected employment and financial conditions of their companies. They identified a number of factors that helped improve the business outlook:

- Retail business increasing due to discount pricing
- Economy benefiting from expenditures on the Governor’s recall election

- Construction of new medical facilities, homes, parks, and recreation areas

However, the survey respondents felt that several factors hindered progress in Kern County:

- State budget cuts affecting the operation of public schools, government agencies, and non-profit organizations
- Corporate mergers and state regulations hurting small business
- People not increasing credit card debt due to job insecurity

In summary, local business managers have become more optimistic about the county’s business outlook. A wide range of local and regional issues have helped forming business perceptions.

Consumer Sentiment (Continued from page 4)

To assess consumer expectations, households were asked how they thought the financial situation of their families would change over the coming year, how their acquaintances in Kern County view the coming year, and whether this is a safe or risky time to draw down savings or incur debt. The forward-looking index constructed from these responses also increased by five points to 119 from 114 in the previous quarter. When asked the most likely financial situation of their household in one year, the percentage of households expecting improvement was stable at 39 percent, but the percent expecting their

situation to worsen was more than cut in half (from 18 percent to 8 percent). There was no change in perceptions relating to the outlook of acquaintances. Although households who thought this was a safe time to incur debt or draw down savings declined from roughly one-in-four to one-in-eight, those who thought it was a risky time also was halved.

Summarizing, the Bakersfield Index of Consumer Sentiment increased slightly in the third quarter due to modest improvements in both the current conditions and future expectations of households.

TABLE 3—FUTURE EXPECTATIONS (Percentage of Responses)

	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	39 %	53 %	8 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	46 %	34 %	19 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	13 %	71 %	16 %

BIZ ED!!

SUCCESSION PLANNING: A KEY TO MAINTAINING ORGANIZATIONAL VIABILITY

MICHAEL BEDELL

ASSISTANT PROFESSOR OF MANAGEMENT, CSUB



Everyone knows Kermit the Frog. What many people forget is that Kermit's creator – Jim Henson – died very suddenly. Henson's death meant that the voice of Kermit was gone. Without a replacement in sight Henson Enterprises would lose their most recognizable character. Fortunately, a replacement was found quickly.

As illustrated by the example above, what do you do when a long time employee suddenly departs, retires, or even dies? How do you retain the institutional knowledge or capability that was within that employee? Some estimates suggest that a significant portion – perhaps as much as 75% – of an organization's value is within the minds of the employees. If even a portion of this estimate is true then it is critical that all organizations – especially small and family business – should engage in periodic succession planning to maintain organizational viability and retain institutional knowledge. The end of the year is a good time to create, review, and update succession plans.

A succession plan should focus on both employees and on positions. Focusing first on the employees, the succession plan should identify those employees that: (1) are in key positions (i.e. key decision makers); (2) have significant institutional knowledge/memory; (3) have many customer contacts; or (4) have scarce skills. For each of these employees the plan should track time until retirement/departure and attempt to catalog the knowledge and capabilities of each person.

Second, we focus on the organization's key positions – usually these are considered to be mission

critical positions. Once key positions have been identified the organization should catalog the knowledge, skills, and abilities that are needed for success. Much of this information can be found in the position job analysis. The succession plan should draw on this information to identify the pathway(s) through the organization so that adequately prepared employees are always available.

Finally, the plans that relate to employees and positions can be brought together. This enables the organization to identify a slate of potential candidates for each key position. The slate should list the candidates and their current capabilities. The slate should also note time until each candidate is ready. Note that not all candidates have to be from within the organization. Potential candidates that are familiar to the organization but not currently working within the organization may also be viable candidates at some point in the future. Finally, the plan should be dated so that the plan can be tracked and regularly updated.

The succession plan should be updated at least once per year. In the event that a key employee suddenly decides to retire, the organization should remember that it might be possible to engage that employee on a consulting basis so that institutional knowledge is partially maintained – at least until the knowledge is passed along. Finally, remember to keep the key employees informed about the succession planning process. Enlist their help. They may have ideas about employees or outside candidates that might be good replacements.

¹This is a new section of the Kern Economic Journal. Future articles in this section will focus on reviewing your strategic plan; cash flow management; organizational risk assessment; and marketing research and planning.

BAKER STREET ECONOMIC DEVELOPMENT STRATEGY UNDERWAY

DAVID LYMAN, PRINCIPAL PLANNER
ECONOMIC DEVELOPMENT, CITY OF BAKERSFIELD



An innovative state grant is funding an economic development strategy for one of Bakersfield's oldest areas. The Baker Street Corridor Economic Development Strategy is underway because of state funding secured by the City of Bakersfield. In November 2002, state Treasurer Phil Angelides came to Bakersfield with a check for \$143,600, made payable to the City of Bakersfield, to get the revitalization of Baker Street off the ground. Angelides' check was from the Sustainable Communities Grant and Loan Program of the California Pollution Control Financing Authority. Angelides is the chairman of the Authority. This program helps cities and counties pursue "smart growth" initiatives – projects that revitalize neighborhoods with struggling economies, promote sustainable development and reduce environmental impact.

"In many California cities, there is a place like Bakersfield's Baker Street – a place that once was a thriving part of the city, where people lived, worked and shopped," he explained. "A place that brought people together but slowly fell into decline as people moved away from the heart of the city; a place that, with a little help, could be vibrant again." Bakersfield was one of only 16 California cities out of 117 that applied to receive funding. Bakersfield's grant is funding a comprehensive planning process for the future development of the area – including a process to gather the community's input, develop a strategic plan for the revitalization effort, and conduct market research to identify potential sites for development. A consulting team headed by MIG, Inc. of Berkeley was selected from several proposals to perform a variety of tasks: a demographic and marketing assessment and analysis, a community visioning charette, and an economic development strategic action plan. The resulting strategies will provide a framework for revitalization, renewed community interest, and sustainable development of this historic area of Bakersfield.

The goal of the project is to identify opportunities for revitalization and economic development. MIG and its partner, Applied Development Economics, also of Berkeley, are responsible for engaging the community and stakeholders in the visioning and planning process and identifying commercial uses that reflect the needs of the changing demographics. The consultants are looking at ways to improve the pedestrian aspects of Baker Street and increase the nearby housing stock to support retail uses. In addition, the outdated and inappropriate mix of land uses in the area is being analyzed in the development strategy.

The Strategy focuses on the following three principles:

1. Strategic Vision for Change – This will identify the neighborhood and development goals for the community in the future and establish a framework for reaching these goals.
2. Community-Based Partnerships – These will involve individuals, groups, businesses and developers from throughout the community and engage them in visioning and planning efforts geared at revitalizing the corridor. Key partners include residents; local businesses; local political leaders; local, state and federal governments; local public health and social service providers; non-profit organizations; schools and universities; and private developers.
3. Sustainable Community Development - The resulting strategy should become the framework to advance the creation of a livable and vibrant community. This should be accomplished through the identification of comprehensive approaches that coordinate economic, physical, environmental, community and human development. These approaches will preserve the environment and historic landmarks, address brown fields clean-up and redevelopment, explore the economic develop-

(Continued on page 8)

ment advantages of energy efficiency and use of renewable energy resources, and improve transportation, education, public safety, and enhanced access to information and technology.

The general objectives to be achieved include

- Developing a market feasibility analysis to gauge the realistic potential for residential infill, mixed use, and transit-oriented housing development.
- Identifying and removing barriers to such development.
- Engaging the community in a participatory visioning and planning process.
- Creating a detailed action plan to promote a mix of infill residential and commercial development on identified infill sites.
- Promoting public improvements and encouraging enhancements to existing residential, commercial and industrial sites which will expand the City's economic base and further reduce blight.
- Improving, increasing and preserving the community's housing stock.
- Preserving the environment and historic landmarks, exploring the economic development advantages of energy efficiency and use of renewable energy resources, and improving transportation, education, public safety, and enhancing access to information and technology among all segments of the community.
- Developing a promotional outreach program to the public and development incentives to facilitate infill, mixed-use, and transit oriented development.

The community visioning charette was held May 16 and 17. A second community meeting was held June 26 to review the concepts and strategies developed from the charette. A third community meeting was held July 23 to give the community a final opportunity to refine the plan prior to it being presented to the Bakersfield City Council.

Some of the significant economic findings from the study to date:

- Between 1990 and 2000, total housing units increased 24.4% in Metro Bakersfield¹, while only increasing less than 1% in the Baker Street Market Area².

- Between 1990 and 2000, the number of households in Metro Bakersfield increased 5.3%, but decreased 5.8% in the Baker Street Market Area.
- The average household size in the Baker Street Market Area is 3.52, compared to 3.01 in Metro Bakersfield.
- The rate of owner-occupied housing in the Baker Street Market Area is 36%, compared to a Metro Bakersfield figure of 61%.
- The average household income in the Baker Street Market Area is \$26,100, compared to \$47,913 in Metro Bakersfield, and \$65,680 in California.
- Between 1990 and 2000, inflation-adjusted household income in the Baker Street Market Area declined 20% and in Metro Bakersfield 3%, compared to an increase of 6% statewide.

When the economic development strategy is completed, additional data will be available to assist developers, investors, and planners. These data will include a retail leakage analysis, an estimate of household demand for services, and distribution of employment by sector, both for the Baker Street Market Area and Metro Bakersfield. The Baker Street Corridor Economic Development Strategy is expected to be completed by the end of August 2003.

¹Metro Bakersfield is defined as all areas with ZIP codes beginning with 933.

²Baker Street Market Area is defined as the area bounded by Union Avenue, Columbus Street, Mt. Vernon Avenue, and East California Avenue.

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Econ Brief!

California's Sales and Use Tax Rate

On January 1, 2002 the minimum combined state, county and local sales and use tax rate increased from 7 to 7.25%. Components of this statewide minimum rate are:

- 6% State (General and Local Revenue Funds)
- 1% Local Jurisdiction (City or County of place of sale or use)
- 1/4% Local Transportation Fund (County of place of sale or use)

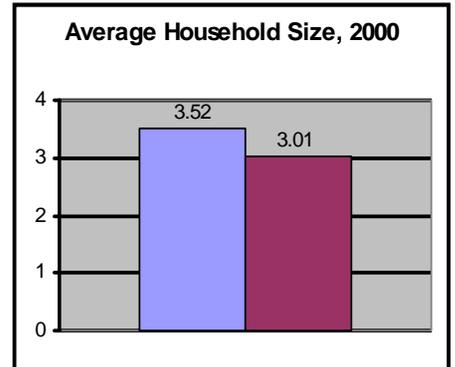
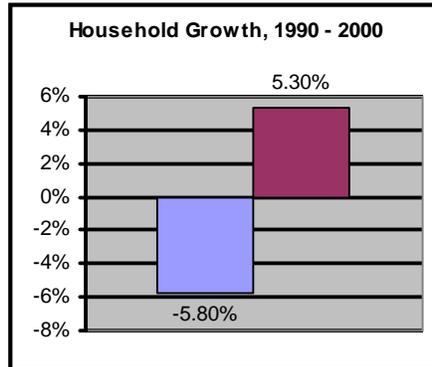
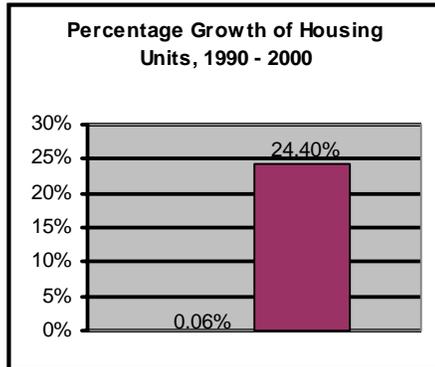
The rate is higher in cities and counties that have special tax districts. Kern is one of 35 counties that imposes the minimum sales and use tax rate.

Baker Street Market Area Compared to Metro Bakersfield

There are few new housing units . . .

. . . less households . . .

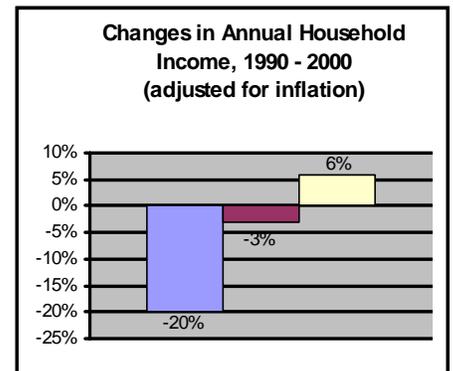
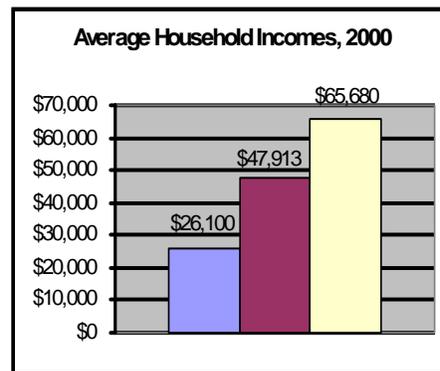
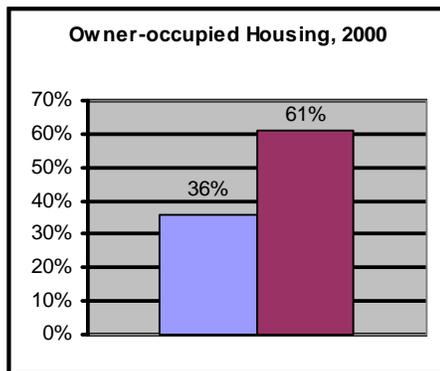
. . . and household sizes are larger.



Most housing units are rentals . . .

. . . household incomes are lower. . .

. . . and they have declined 20% since 1990.



Baker St. Market Area
 Metro Bakersfield
 California

Baker Street Market Area: bounded by Columbus Street and Union, East California, and Mt. Vernon avenues.

Metro Bakersfield: all areas with ZIP codes beginning with 933.

Source: Applied Development Economics, based on U.S. Census Data; 1990 figures adjusted to 2000 using Consumer Price Index (CPI).

Econ Brief!

The Place of Bakersfield in California

In its February 2003 issue, the *California CEO* evaluated cities in the state for their business climate. The evaluation criterion included many factors such as the crime rate, cost of living, business climate, workforce quality, and incentive programs. Of more than 400 cities reviewed, only 25 made the list of the Best Cities for Business. Bakersfield placed 5th among the Best Cities for Business in California:

- | | | | | |
|-----------------------|------------------|-----------------|-------------------|----------------|
| 1. San Diego | 6. Fresno | 11. Temecula | 16. Carson | 21. Redding |
| 2. Sacramento | 7. Stockton | 12. Chula Vista | 17. Lancaster | 22. San Marcos |
| 3. Riverside | 8. San Francisco | 13. Clovis | 18. Concord | 23. Visalia |
| 4. Los Angeles | 9. Long Beach | 14. Poway | 19. Santa Barbara | 24. Camarillo |
| 5. Bakersfield | 10. Oxnard | 15. San Jose | 20. Merced | 25. La Habra |

The survey indicated several advantages for doing business in Bakersfield: a growing economy, an aggressive business retention program, an effective problem solving practice, a short commute time, abundant industrial land, and affordable housing.

KERN COUNTY ECONOMIC DEVELOPMENT STRATEGY

GUY GREENLEE, DIRECTOR
COUNTY OF KERN COMMUNITY AND
ECONOMIC DEVELOPMENT DEPARTMENT



The recent recall of our Governor awakened an international audience to problems that have confronted California's Economic Development professionals for years. Extraordinary business regulation by the State, insufficient workforce preparation, high cost of everything from workers compensation insurance to electricity, air quality concerns, and inadequate funding for all types of urban infrastructure are concerns common to most areas of the State. The current State budget deficit has exacerbated the problem by causing reductions in State support of local government and the elimination of most State collaboration with, and assistance to, local economic development organizations.

In a foresighted effort to reduce the effects of many of these challenges and prepare Kern County for a brighter economic future, the County solicited proposals for preparation of an Economic Development Strategy in late 1997. The County hoped to use the proposed strategic plan to pursue the following goals:

- Create 20,000 new jobs for CalWORKs clients, as they cycle off welfare during the first five years after welfare reform legislation;
- Review the County's organization for Economic Development and make recommendations to improve effectiveness;
- Promote recruitment of new, and expansion and retention of existing, businesses based on identification and development of business/industry clusters consistent with the attributes of Kern communities and resources;
- Include Tourism as one of the targeted industry clusters;
- Protect and build the historical economy of the County (petroleum production, agriculture, national defense, and aerospace) and develop related and new industry sectors to promote economic diversification;
- Address the County's high unemployment rate by increasing the number and quality of jobs which do not require highly educated workers; and
- Increase the County's average wage by emphasizing creation of manufacturing, technology driven, and other higher paying jobs.

A consultant was hired and worked with an Economic Development Advisory Team to complete the Strategy. It was adopted by the Board of Supervisors in June of 1999. An Executive Summary of the Strategy is presented later in this article, and a more complete summary of the Strategy can be accessed on the County's Economic Development website at www.co.kern.ca.us/econdev. The Board directed the following actions during the months following its approval of the Strategy:

- Created the position of Business Resource Coordinator in the County Administrative Office to work with County Departments, private and non-profit economic development interests, local cities, and others, in a coordinated effort to implement the new Strategy;
- Approved a new Economic Incentive Program for qualified businesses that locate or expand within the County;
- Designated Kern Economic Development Corporation (KernEDC) as the County's lead agency for Economic Development, and assigned it responsibility for business recruitment, retention, and expansion responsibilities for six industry clusters;
- Contracted with KernEDC for creation of 3,500 jobs – 35% of which were to be appropriate and available for CalWORKs clients;
- Changed the mission of the County Board of Trade to emphasize promotion of local tourism and film production, and marketing the County as a retirement community;
- Contracted with the Weill Small Business Development Center to develop international trade linkages for local businesses;
- Developed a Kern County Economic Development website;
- Redesigned the County's Council on Competitiveness as a consortium of leaders from planned industry cluster groups;
- Created a multiple member Economic Development Partners group; and
- Later, transferred the duties assigned to the Business Resource Coordinator to the County's Community

(Continued on page 11)

Development Program Department and renamed the Department – Community and Economic Development Department.

Actions based on recommendations of the Strategy continue to be taken by the County, KernEDC, the Board of Trade, local cities, and other members of the local Economic Development Partnership.

Both KernEDC and the Board of Trade are very actively pursuing industry recruitment and expansion efforts within targeted industry clusters.

Vision 2020, a community based effort to encourage quality decisions in Economic Development, Education and Lifelong Learning, Quality of Life, Downtown Development, Community Planning, Transportation and Image, embraced the Strategy as the basis for many of its recommendations.

An ad hoc group of interested representatives from businesses, government, and education, known as Connecting Kern County, is pursuing projects to promote ubiquitous broad band access in the County and to inform local businesses and the public of the advantages afforded to them by the latest communications services.

The Weill Institute Small Business Development Center received grant funds for and has created an e-business center to nurture small technology based businesses.

Groups have formed to protect the missions of both military bases located within the County. Their synergy with each other, the California Defense Alliance, and the Southwest Defense Alliance will help protect two of the County's largest technology based employers from potential mission reduction or closure during the next Base Realignment and Closure (BRAC) process scheduled for 2005.

There is a substantial effort in Eastern Kern County to promote math, science, and engineering curricula in local schools. As this effort blossoms it should help foster higher educational attainment levels in the County and create additional justification for university expansion into technical fields.

The Strategy continues to serve as a guide to County Economic Development efforts, however, as is the case with all planning documents, it is a fluid document and

its recommendations evolve with achievement and circumstance. The County Community and Economic Development Department is planning a formal review and revision of the document, to begin early next year. The County will be soliciting participation by interested groups and the public during the process to revise the plan.

Additional information is available from the County's Economic Development website (www.co.kern.ca.us/econdev) or directly from the Community and Economic Development Department (661 862-5050).

Economic Development Strategy

This summary of the Kern County Economic Development Strategy distills information from a document that is itself in part a summary – of a series of working papers that documented research performed throughout the previous 12 months on the following topics:

- Kern County's welfare-to-work conditions and other background information
- Kern County's economic base in comparison to neighboring and key competing regions
- Business clusters that hold promise for Kern
- Kern's competitive position in comparison to specific counties and urban areas in California and elsewhere

The Kern County Economic Development Strategy's primary focus is a series of actions by which the county can help maintain and upgrade its economic competitiveness, and in the process achieve other objectives, namely:

- 1) Provide additional jobs for adults transitioning from welfare, for workers downsized in defense-related and oil industries, and for other unemployed and under-employed workers;
- 2) Recognize the variety of economic prospects that exist throughout the county – taking advantage of the opportunities and mitigating the problems; and
- 3) Diversify the economic base.

Like most plans, the Strategy is intended to serve as a framework that evolves over time; so the consultant has also provided research and analytical tools that will allow the County to conduct ongoing re-evaluation of the target clusters and strategies.

(Continued on page 12)

Approach to Strategic Development. To address the purposes stated on the previous page, the Strategy was formulated as outlined below.

Clusters. Seven “targeted clusters” of industries – related industries that hold the most promise for expanding

in Kern – were selected for special attention in the Strategy. The use of clusters is in keeping with the practice followed by the State of California, and economic development professionals generally agree that clusters provide the best framework for a strategic approach to economic development.

(Continued on page 13)

Concept	Process for utilizing	Findings/Recommendations	Intent/Purpose/Target
Focus on clusters	Reviewed California plans. Analyzed economic base and Kern “location quotients”. Involved many participants in process.	7 target clusters selected (see below)	Clusters will serve as focus for both programmatic and coordination actions.
Stress competitiveness	Reviewed existing conditions. Analyzed competition. Compiled comments from participants.	Kern has competitive strengths, overall. Strategies generated for “economic foundations” (see below).	Capacity for economic development needed first for existing firms and potential entrepreneurs.
Plan for CalWORKs job transitions	Determined recipients’ costs and needs.	Clusters selected offer a mix of entry-level and higher level jobs. Some strategies targeted to CalWORKs employers.	Once employed, current recipients save County money and contribute to economy.

Concept	Process – Key Indicators	Findings/Recommendations	Intent/Purpose/Target
Cluster selection			
Aerospace	Ties to E. Kern and technology transfer. Ties to Southern California	Focus on high-tech aspect, not assembly. Build up training capability. Stress entrepreneurial potential.	Preserve military presence in E. Kern. Have tools to produce necessary workforce.
Chemicals and Plastics	Strong growth trends. Established in Kern.	Promote for firms seeking market coverage.	Synergy with other strong Kern industries: oil and food packaging.
Financial Services	Established in Kern. Call center cost factors favor the county.	Call center good for diversity and entry-level jobs.	CalWORKs potential. Call center complements other industries in cluster.
High-Tech	Major cluster in California. Important growth area.	Worth effort to build on small existing base. Partner with aerospace, to strengthen.	Strategies are complementary with Aerospace, so results more cost-effective.
Textiles/ Apparel	Evolving cluster with increasing high-tech potential. Strong presence in So. Calif.	Target specifically to firms upgrading technology. Apply incubator strategy.	Can be good fit with high-tech. Wages increase with rising skill requirements.
Tourism/ Retirement/ Film	Important in Calif. generally and parts of Kern. Retirement is embryonic but complementary. Kern established as film location.	Maximize value of amenities county has by upgrading capacity. Pursue existing linkages with film production.	Extract higher value from tourists’ presence. CalWORKs potential; yet cluster has range of job needs.
Value-added Agriculture	Established and successful in Kern. Key cluster in Calif. valley areas.	Develop more detailed strategies for activities that complement agriculture production.	Strong cluster helps preserve agricultural production base and maximize value of ag. presence.

Organizational Framework. The existing multi-faceted economic development structure in Kern County, while beneficial in some respects, leaves room for enhanced coordination of resources and operations.

Action Plans. Three categories of actions are recommended in the Strategy:

- 1) A Strategic Plan Consensus Process;
- 2) Capacity building in the form of: a) “foundational” elements to increase the county’s overall competitiveness, and b) partnership interaction and communication to leverage the county’s resources with external efforts; and
- 3) Cluster-specific business retention/expansion/attraction and entrepreneurial start-up activities.

Targets, Costs, and Benefits -- There are a number of ways to think about what Kern County should attempt to achieve by implementing a series of job-creation strategies. One target would be to lower unemployment in the county to the state average over a period of perhaps five years. Using 1998 yearly average figures, this means creating an additional 17,330 jobs for Kern¹. Achievement of this goal would result, by the end of the 5-year period, in an estimated additional payroll of \$420 million annually (based on conservative average wage figures for the county).

Another target is to employ current CalWORKs participants, of which there are at present approximately 20,000 in Kern County. If this group were all employed

at the average wage figure the additional annual payroll would be \$485 million². County, state and federal taxpayers would also save money currently spent on health, human services and public protection--services that are typically impacted by high unemployment rates and low income levels. Approximately \$575 million per year is currently spent in Kern County on these types of services, including \$400 million annually in health and human services provided primarily to low income residents, and \$175 million for the criminal justice and public protection systems.

The costs to achieve these levels of employment increase are not estimated in this Strategy. An estimate of \$2,000 per job created has been used by some Kern officials. The federal Rural Development Agency makes reference to a target of \$10,000 per job created in its lending/granting programs. Of course, to the extent federal or state dollars can be obtained to generate jobs in Kern County, the local cost burden is reduced accordingly. For the sake of comparison however, creating 17,330 jobs at \$2,000 per job equates to a one-time total of \$34.7 million, or \$6.94 million per year over 5 years. At \$5,000 per job (if a \$10,000 per-job cost is split evenly between local and outside funding sources) the cost would total \$86.6 million or \$17.3 million per year over 5 years.

¹Strictly speaking, this scenario also assumes that the workforce is not expanded in the process, i.e. that existing local unemployed residents would take the new jobs. In reality, newly created jobs will go to some existing residents and some outsiders who move to Kern to take advantage of those job opportunities.

²CalWORKs participants are not necessarily counted as members of the present workforce. To the extent they are not, their change to employed status does not lower the unemployment rate in the short term.

(Continued on page 14)

Concept	Process for Recommending	Findings/Recommendations	Intent/Purpose/Target
Revised structure for providing economic development services	Reviewed functions and missions of existing organizations. Conferred with participants. Potential for greater efficiency identified.	Form Kern County Business Center (KCBC), with County oversight, by combining Board of Trade, KernEDC and other development-related operations. Assign retention/expansion and attraction responsibilities to KernEDC; BOT renamed to reflect focus on tourism/film/retirement cluster.	Establish clear point of contact for prospects. New KCBC will have strengthened leadership. Increase efficiency of econ. dev. investments and operations, and coordination among groups. Coordinated public and private role in econ. dev., with KernEDC operating in “private” arena.
Cluster task forces and Cluster Leaders	Cluster concept reinforced with industry participation. Many foundation issues are complex and have no clear, single public “sponsor”.	Resource Coordinator oversees cluster-focused task forces having industry involvement. Cluster Leaders serve as special agents to expedite foundation improvements.	Clusters’ interaction strengthened. Make use of industry expertise and authority. Widen involvement and commitment to strategies.

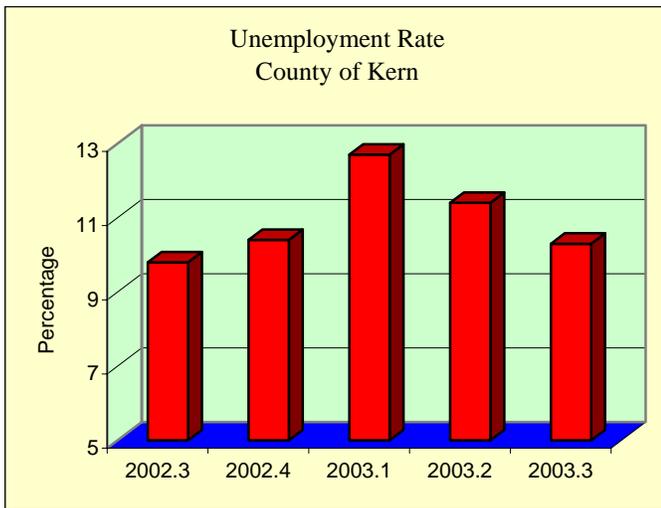
Concept	Process for Recommending	Findings/Recommendations	Intent/Purpose/Target
Strategic Plan Consensus Process	Participants throughout county expressed considerably different opinions.	Institute formal, short-term process by which goals and objectives of other planning documents are married with Strategy.	Action items recommended in this Strategy are further refined and prioritized, with countywide consensus.
Econ. foundations			
<i>Training, business assistance</i>	Data indicate educational levels lag in Kern. High-tech, aerospace dictate need for increased skills.	Focus on technical personnel. Add advanced degree programs. Address problems of labor regulations.	Give workforce opportunities to upgrade skills within Kern. Increase attractiveness of Kern for technically oriented firms.
<i>Communication</i>	Critical messages not being disseminated, based on participants' interviews.	Produce image-enhancing materials. Increase dialogue with military and promote those resources.	Create more positive overall image for Kern. Maximize value of Kern's association with military.
<i>Infrastructure</i>	Deficiencies noted by study participants. Strategies call for specific improvements.	Visitor center(s), beautification projects, industrial facilities, and incubators needed in certain areas. Road system needs attention.	Comprehensive improvements enhance potential for making use of existing assets and for diversification of economic activity.
<i>Fact-finding</i>	Participants raised many questions and put forth ideas that require further study.	Wide range of topics need documentation: market potential for numerous activities, specific strategic plans, and retention of military facilities.	Provide basis for more focused and knowledgeable actions in future. Facts will add to potential for consensus on now-speculative ideas.
<i>Functional improvements</i>	Problem areas noted by study participants.	Regulatory, incentive, procurement, and budgeting policies need review. Public agencies can take actions to increase economic efficiencies.	Reforms will make existing business operations and expansions easier and also enhance attractiveness of Kern for newcomers.
Capacity building			
<i>Partnership interaction</i>	Key component of economic development, with many dimensions.	Lead agency track business issues. Maintain and nurture partnerships as formal responsibility.	Enhances efficiency of and support for sound economic development policy.
<i>Communication</i>	Information specific to economic development needs to be expanded and refined.	Document advantages of Kern to industry, land/buildings available, etc. in progressive formats.	Information is "first impression" for prospects, and helps image of existing businesses too.
Industry retention and expansion	Day-to-day economic development activities also need attention in Strategy.	Scheduled formal and informal sessions with cluster organizations. Expand focus on business counseling. Disseminate data.	Promote networking, especially among cluster members. Increase awareness of business support and opportunities.
Small business development	Small businesses are key components of job-growth strategies and also add to regional wealth by helping to "internalize" profits.	Use cluster system to reach prospective entrepreneurs, and provide assistance for start-ups.	Skilled technical and professional workers, including some recently downsized, will be encouraged to start own ventures.
Industry attraction	Essential to keep Kern in running for opportunities to raise economic profile through key recruitment.	Target recruitment to clusters, in concert with partners. Conduct national marketing program with cluster-specific materials.	Strengthen clusters and add diversity to economy.

ECONOMIC INDICATORS

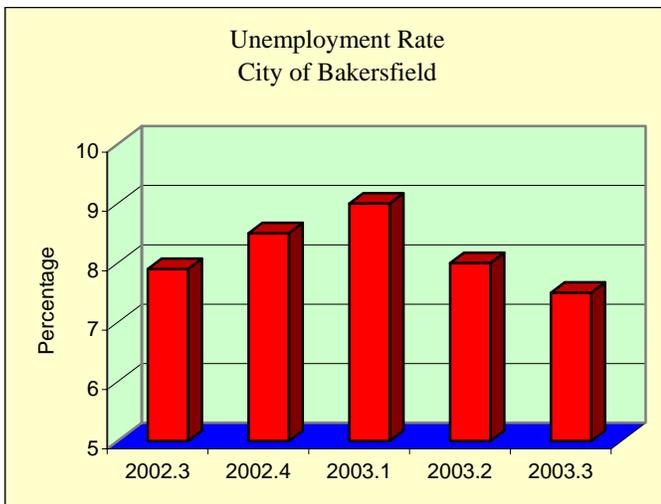
ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

Unemployment Rate

The *seasonally adjusted* unemployment rate in Kern County declined from 11.4% in the second quarter to 10.3% in the third quarter of 2003. Compared with four quarters ago the county's unemployment rate was 0.5% higher. The county's unemployment rate was 3.7% higher than the state rate and 4.2% greater than the national rate.

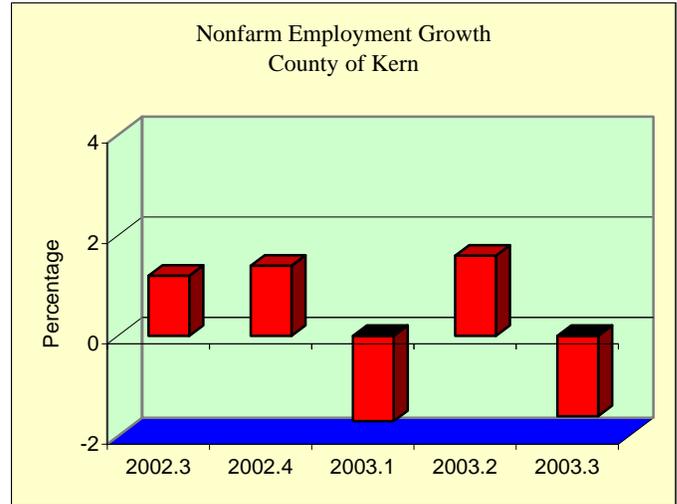


The *seasonally adjusted* unemployment rate in the City of Bakersfield dropped from 8.0% in the second quarter to 7.5% in the third quarter of 2003. Compared with four quarters ago, the city's unemployment rate was 0.4% lower. Bakersfield's unemployment rate was 2.8% lower than the county rate, but 0.9% higher than the state rate and 1.4% greater than the national rate.

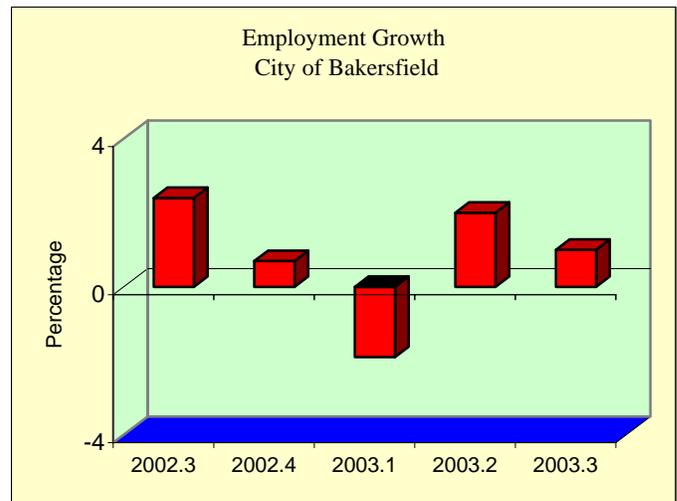


Employment Growth

A large increase in farm employment offset the decline in non-farm employment, resulting in a net increase in the total employment. Nonfarm employment fell at an annual rate of 1.6% in the third quarter of 2003. Among the nonfarm industries, construction, manufacturing, and leisure and hospitality added jobs. But, professional and business services, educational and health services, state government, and local public education reduced employment.



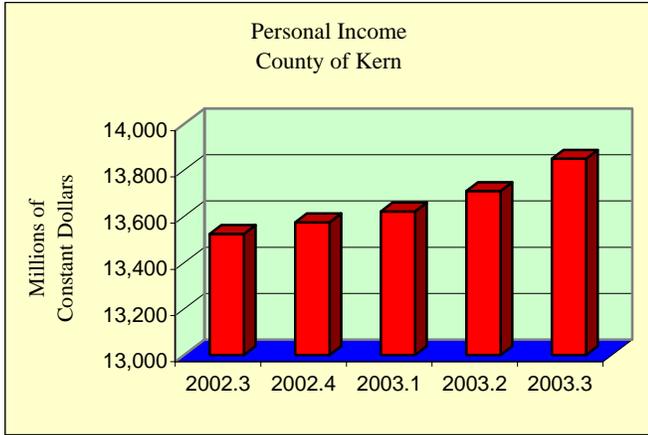
In the City of Bakersfield, employment growth slowed considerably from an annual rate of 2.0% in the second quarter to 0.8% in the third quarter of 2003.



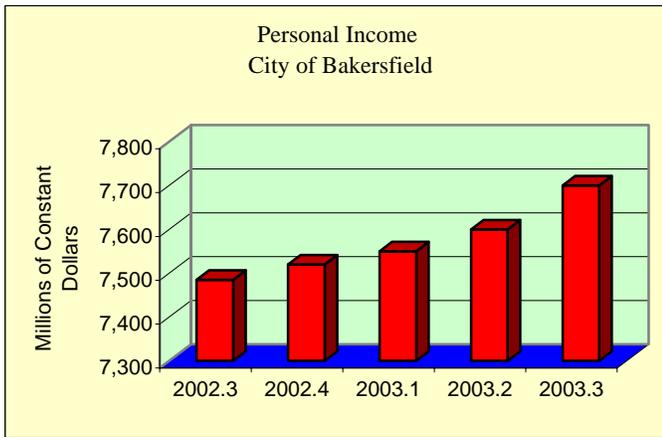
Total Personal Income

Kern County's total personal income (in constant 1996 dollars) increased continually from \$13.71 billion in the second quarter to \$13.85 billion in third quarter of 2003. Hence, the county's economy expanded by \$140 million.

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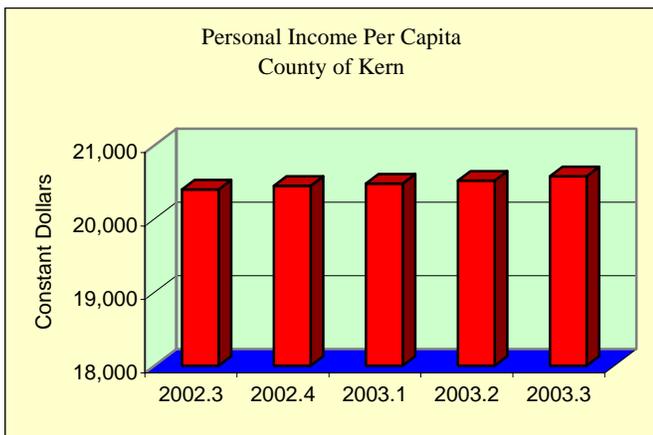


In Bakersfield, total personal income (in constant 1996 dollars) rose from \$7.60 billion in the second quarter to \$7.70 billion in the third quarter of 2003. Hence, the city's economy expanded by \$100 million.

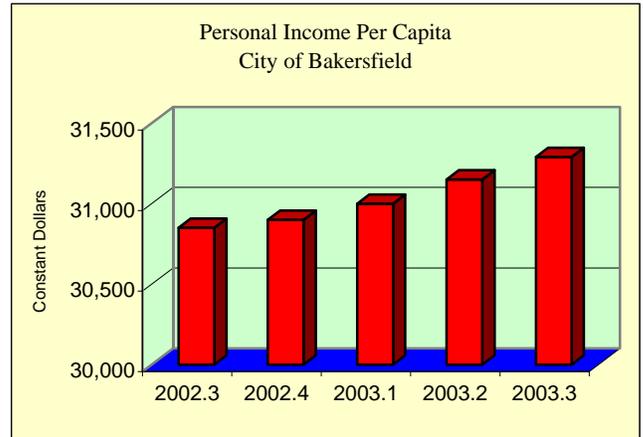


Personal Income Per Capita

In Kern County, personal income per capita (in constant 1996 dollars) rose from \$20,520 in the second quarter to \$20,580 in the third quarter of 2003. Over the previous four quarters, the county's personal income per capita has increased \$180.

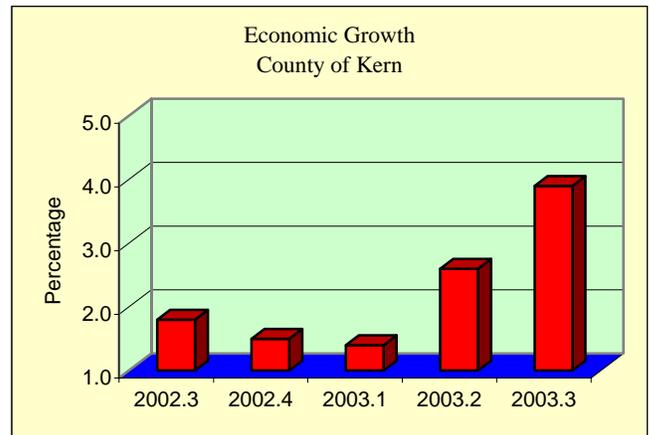


Bakersfield's personal income per capita (in constant 1996 dollars) rose from \$31,150 in the second quarter to \$31,290 in the third quarter of 2003. Over the past four quarters, the city's personal income per capita increased \$440.

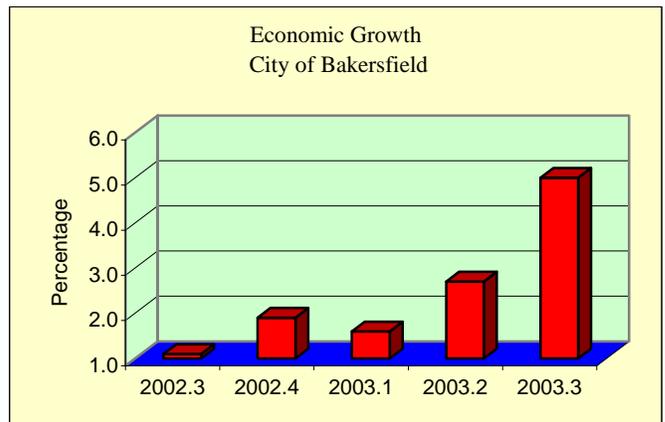


Economic Growth

In Kern County, total personal income increased at an annual rate of 3.9% in the third quarter of 2003. It accelerated from 2.6% in the previous quarter. Over the past four quarters, the county's economy expanded at an average annual rate of 2.2%.



In Bakersfield, total personal income grew at an annual rate of 5.0% in the third quarter of 2003. It accelerated from 2.7% in

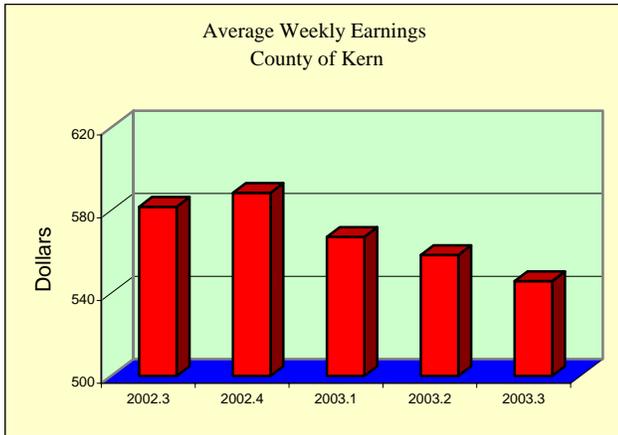


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the previous quarter. Over the past four quarters, the city's economy expanded at an average annual rate of 2.1%.

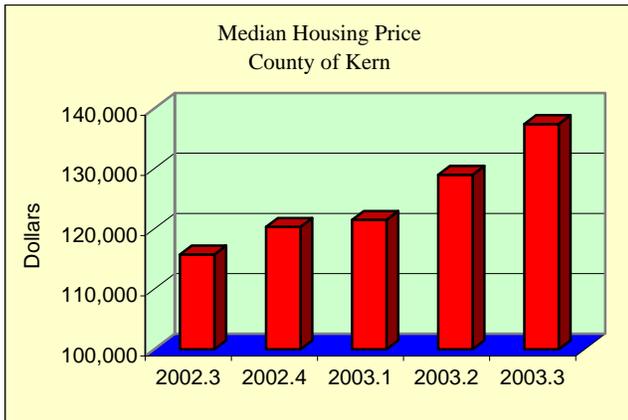
Average Weekly Earnings

In Kern County, average weekly earnings in the manufacturing industry declined from \$558.60 in the second quarter to \$545.90 in the third quarter of 2003. This decline was attributed mainly to the fall of the average weekly hours from 36.1 to 35.6. Compared with four quarters ago, manufacturing workers lost \$35.90 a week.

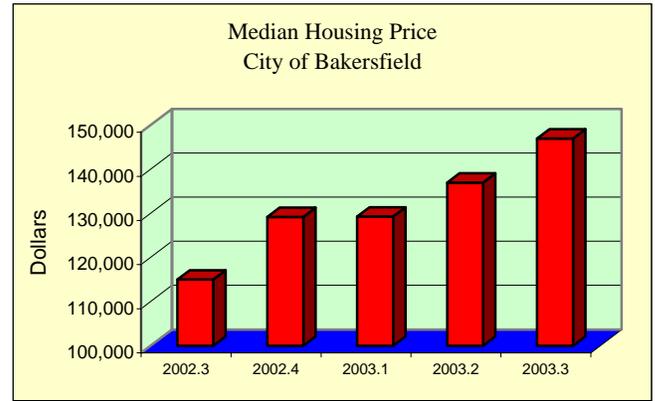


Housing Price

In Kern County, the median sales price of all homes (i.e., new and existing condominiums and single-family detached homes in current dollars) rose 6.5% from \$129,000 in the second quarter to \$137,420 in the third quarter of 2003. Since the third quarter of 2002, the median price has increased by a whopping \$21,670 or 18.7%.



In Bakersfield, the median sales price of all homes jumped by \$10,000 (7.3%) from \$137,000 in the second quarter to \$147,000 in the third quarter of 2003. The city's median price was \$9,580 higher than the county's average. Since the third quarter of 2002, the median price increased by a whopping \$32,000 or 27.8%.



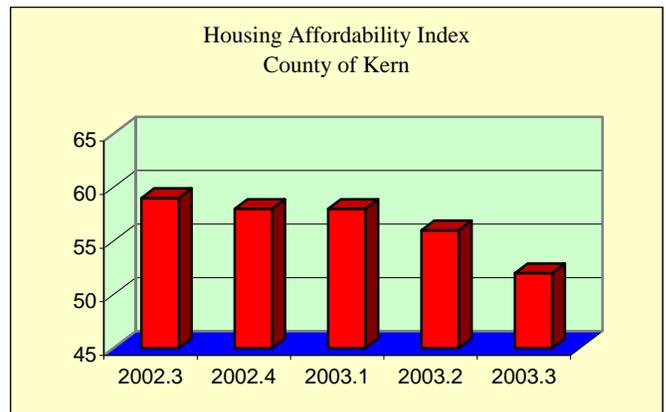
Over the third quarter of 2003, the median sales price of all homes appreciated in California City, Rosamond, and Tehachapi, but depreciated in Delano and Ridgecrest.

Housing Price for Selected Cities (Third Quarter of 2003)		
City	Median Sales Price (\$)	Change from Previous Quarter (%)
California City	95,420	4.6
Delano	102,170	-6.3
Ridgecrest	99,840	-1.2
Rosamond	142,090	8.5
Tehachapi	162,670	8.4

Housing Price Affordability

The index of housing affordability declined four percentage points from 56% in the second quarter to 52% in the third quarter of 2003. Compared with the state's affordability index of 25%, Kern County remains one of the most affordable areas of California.

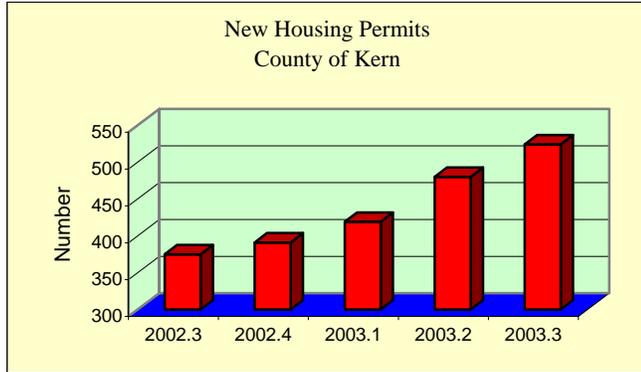
Over the past four quarters, the county's index fell 7 percentage points. Higher interest rate on mortgage loans contributed to the decline in the housing affordability index. This current index value indicates that a family earning the median household income has 52% percent of the income necessary to qualify for a conventional loan covering 80% of a median-priced existing single-family home.



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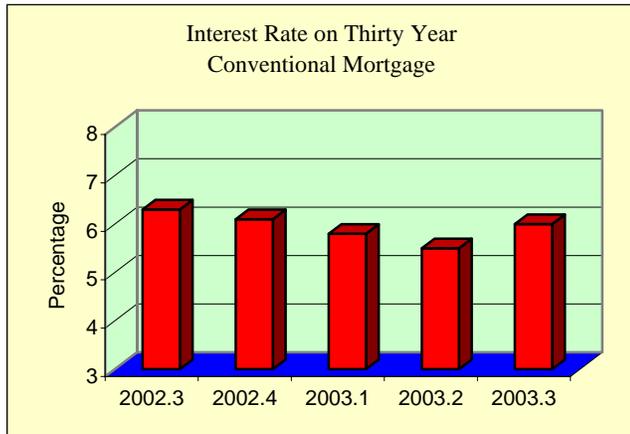
New Housing Permits

In Kern County, the number of construction permits for new single-family homes increased by 44 from a revised figure of 480 in the second quarter to 524 in the third quarter of 2003. Compared with four quarters ago, 149 more housing permits were issued.

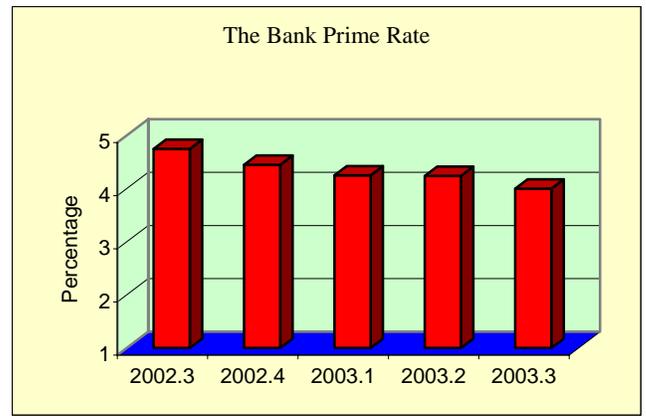


Interest Rate

After five consecutive quarters of decline, the interest rate on thirty-year conventional mortgage loans rose from 5.51% in the second quarter to 6.03% in the third quarter of 2003. Compared with four quarters ago, the interest rate was 0.3% lower.

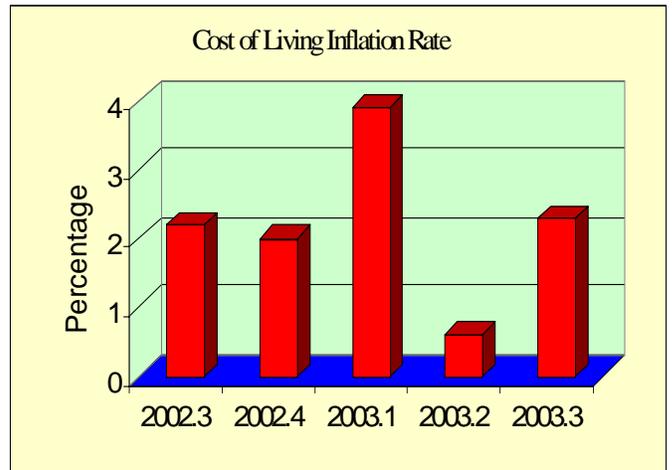


The prime loan rate is the interest rate charged by banks to their most creditworthy customers. The prime rate fell from 4.24% in the second quarter to 4% in the third quarter of 2003. Compared with four quarters ago, the prime rate was 0.75% lower.

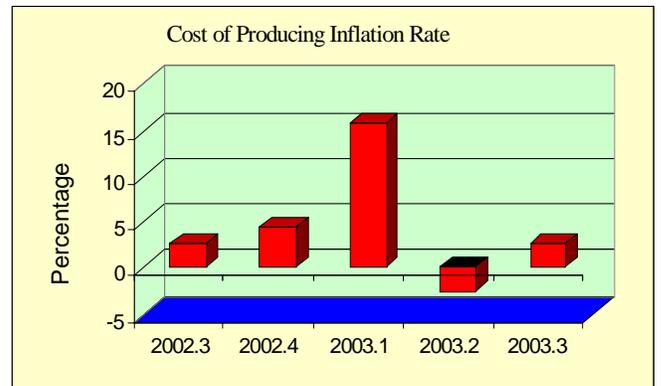


Inflation Rate

The Consumer Price Index for all urban areas (1996 =100) rose from 183.4 in the second quarter to 184.5 in the third quarter of 2003. The cost of living inflation rate ascended from 0.6 to 2.3% per year during this quarter.



The Producer Price Index for all finished goods (1996 =100) rose from 137.2 in the second quarter to 138.1 in the third quarter of 2003. The cost of producing inflation rate ascended from -2.5 to 2.7% per year during this quarter.

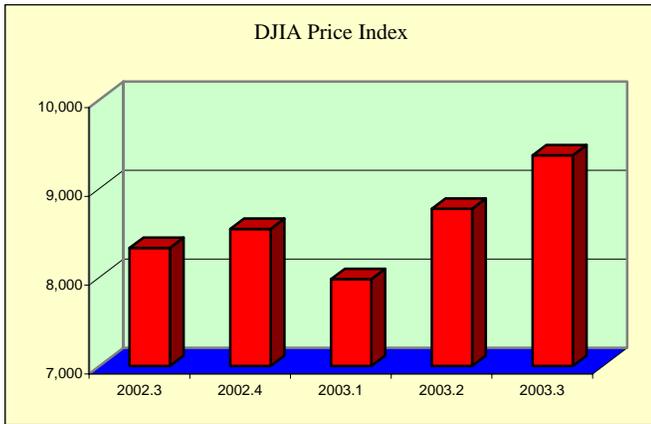


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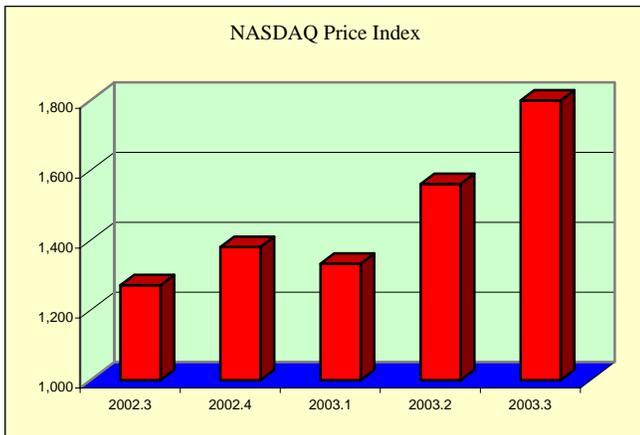
Stock Price Index

Still volatile, stock prices continued an ascending trend in the third quarter of 2003.

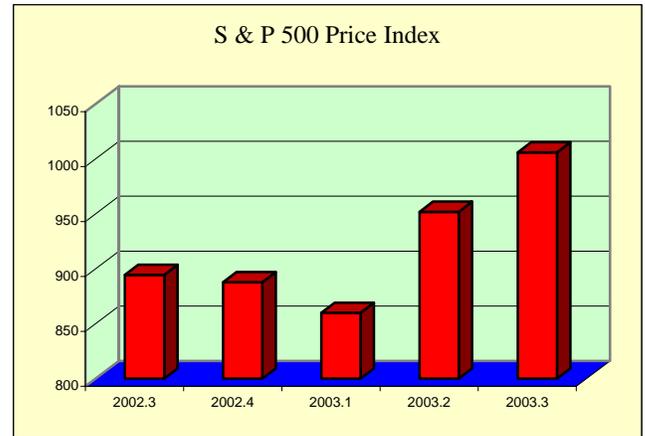
The Dow Jones Industrial Average soared by 602 points (or 6.9%) from 8,772 in the second quarter to 9,374 in the third quarter of 2003. Relative to the third quarter of the previous year, the index was 1,043 points (or 12.5%) higher.



Likewise, the NASDAQ price index leaped 239 points (or 15.3%) from 1,561 in the second to 1,800 in the third quarter of 2003. Relative to the third quarter of the previous year, the index was 528 points (or 40.5%) higher.

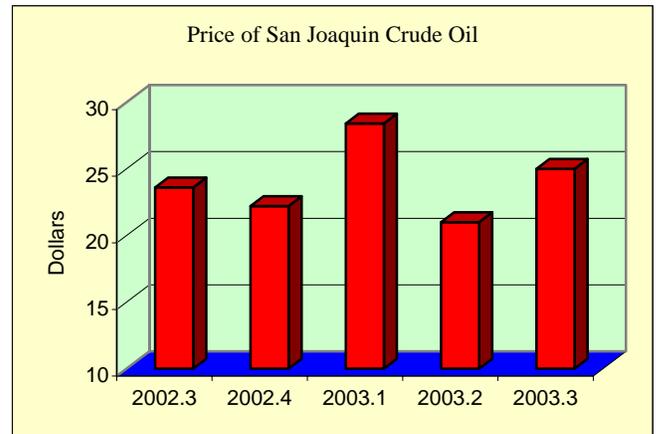


The S&P 500 price index inclined from 951 in the second quarter to 1,006 in the third quarter of 2003. This 54 points increase accounted for a quarterly growth rate of 5.7%. Compared with four quarters ago, the index was 111 points (or 12.4%) higher.



Price of Crude Oil

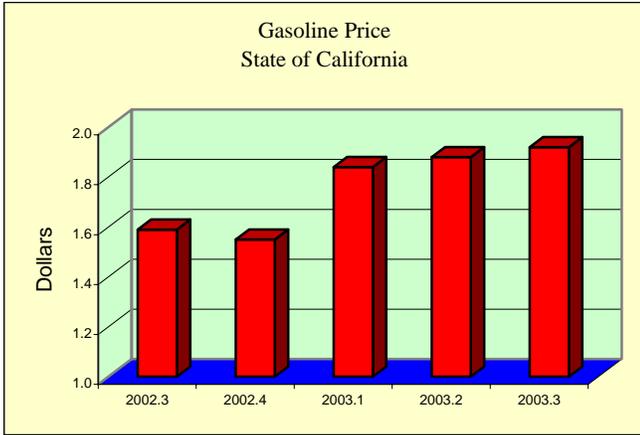
The average quarterly price of the San Joaquin Valley heavy crude oil climbed from \$21.20 per barrel in the second quarter to \$25.04 per barrel in the third quarter of 2003. Compared with four quarters ago, the per barrel price of crude oil was \$1.40 (or 5.9%) higher.



Price of Gasoline

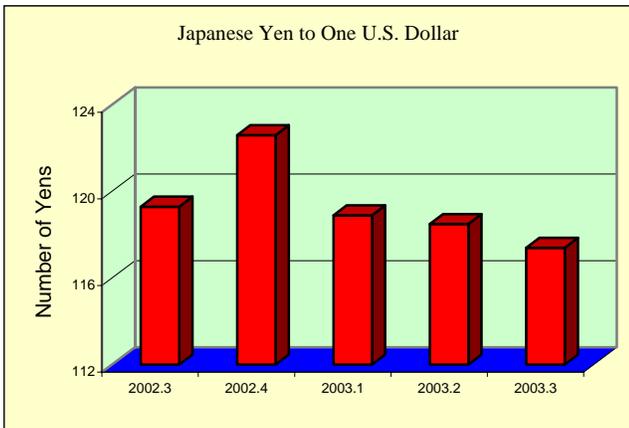
In California, the average retail price of gasoline (all formulations) per gallon jumped from \$1.88 in the second quarter to \$1.92 in the third quarter of 2003. Compared with the second quarter of 2002, the average price was 33 cents (or 21%) higher.

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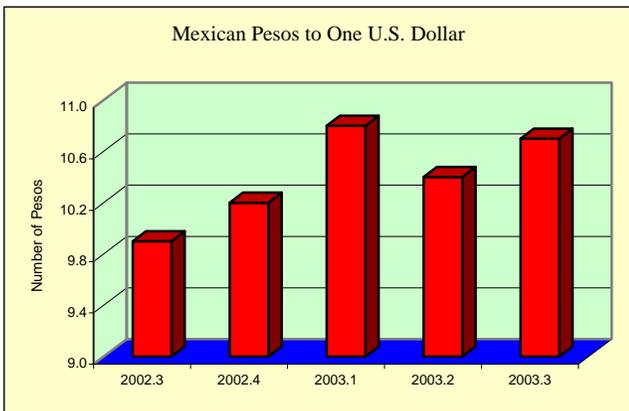


Foreign Exchange Rate

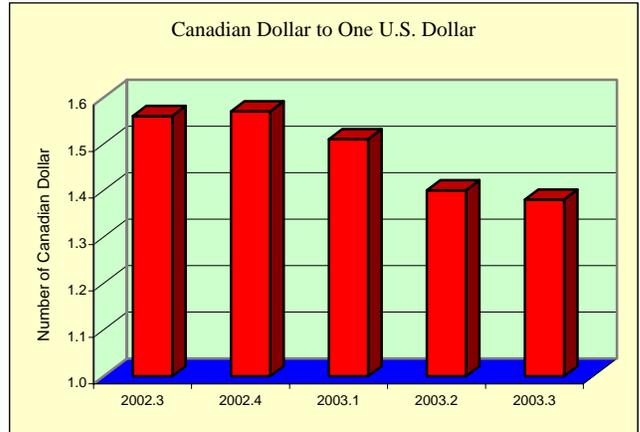
The number of Japanese yens to one U.S. dollar plunged from 118.5 in the second quarter to 117.4 in the third quarter of 2003. However, four quarters ago one dollar exchanged for 119.3 yens.



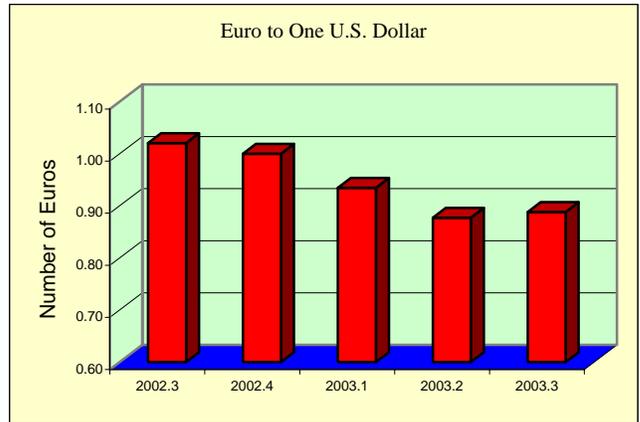
The number of Mexican pesos to one U.S. dollar appreciated from 10.4 in the second quarter to 10.7 in the third quarter of 2003. Four quarters ago, one dollar converted into 9.9 pesos.



The Canadian dollar continued its depreciation against the U.S. dollar. The number of Canadian dollars to one U.S. dollar depreciated from 1.40 in the second quarter of 2002 to 1.38 in the third quarter of 2003. Four quarters ago, one U.S. dollar exchanged for 1.56 Canadian dollars.



The number of euros to one U.S. dollar jumped slightly from 0.88 in the second quarter to 0.89 in the third quarter of 2003. However, one U.S. dollar converted into 1.02 euros four quarters prior.



**Economic & Demographic
Profile of Kern County
1990-2005**

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Econ Brief!

Economic Development in Kern County

A recent survey was administered to members of the Kern County Economic Development Partners (a committee of public and private sector representatives involved in local economic development efforts). Of the many items considered, the group identified the most important factors affecting economic development in Kern County:

Positive Factors:

- Affordable cost of living
- Positive local business climate
- Affordable land prices

Negative Factors:

- A workforce that does not include an abundance of potential workers who are highly trained/educated
- Poor air quality
- California's anti-business climate

The survey respondents recommended that the Kern Economic Development Partners should try to:

- Establish a clear, measurable strategy with direction and goals for economic development in Kern County, and the Partner's group. It is anticipated that this will be addressed by facilitated goal setting by the Partner's group, and by focused and coordinated implementation of the County's adopted Economic Development Strategy.
- Emphasize work with educators for improved training of the local workforce.
- Foster improved communication and coordinated activities between all Economic Development Partners.

4045
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