Center for Economic Educaiton and Research
California State University, Bakersfield
9001 Stockdale Highway
Bakedrsfield, CA 93311-1099
Phone: 661/664-2460 Fax: 661/664-2049
Email: econdept@csub.edu

KERN ECONOMIC JOURNAL

Volume 2 Issue 2

2000 Second Quarter

INSIDE THIS ISSUE:

We're on the Web
www.csubak.edu/kej/

KERN ECONOMIC JOURNAL is a quarterly publication by the Center for Economic Education and Research at California State University, Bakersfield. Its main 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.

We wish to gratefully acknowledge the following sponsors:

Aera Energy LLC
Bank of Stockdale
CSB Foundation
California State University, Bakersfield
CB Richard Ellis, Inc.
City of Bakersfield
Employers' Training Resource
Kern Schools Federal Credit Union
Mid State Development Corporation
San Joaquin Bank
Weill Institute Small Business Development Center

KERN ECONOMIC JOURNAL is a quarterly publication (January, April, July, and October) on economic development issues and trends. It is owned, managed, and published by the Center for Economic Education and Research, California State University, Bakersfield. Sources of funding for the journal include sponsorship 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 both hard and electronic copies.

Local Economy in Perspective:

Business Outlook Survey: Businesses remained optimistic about local economic conditions. However, they were *less* optimistic this quarter than the previous quarter as the Business Outlook Index declined slightly from 129.7 to 128.

(Full story on page 2)

Local factors perceived to improve business outlook:

- Greater employment opportunities
- Increased funding for non-profit organizations
- Increased business in serving an aging population
- Commercial and educational construction and remodeling
- Higher oil prices, booming Stock Market, and increased consumer confidence

Consumer Sentiment Survey: Households expressed greater optimism about local economic conditions. The Consumer Sentiment Index rose from 117 to 123.

(Full story on page 3)

Question	Better	Same	Worse
How your family is doing financially compared to one year ago?	37%	52%	11%
The most likely financial situation of your family one year from now?	51%	42%	7%

Nonfarm Employment decreased by 500 or at an annualized rate of 1 percent. Seasonally adjusted unemployment rate rose from 9.8 to 10.7 percent. Over the past four quarters, however, Kern County created jobs at a rate equal to that of California, but faster than that of the United States.

(Full story on page 5)

Weekly Hourly Earnings: When adjusted for the cost of living, manufacturing workers in Bakersfield metropolitan area made $113 per week more than the state average, whereas those who worked in San Diego earned $102 less.

(Full story on page 6)

Commercial Real Estate: Throughout 2000, Bakersfield will continue to gain the attention of national retailers as they expand into California's Central Valley. Two such tenants expected to announce locations in 2000 are Borders Books and Best Buy. And Orchard Supply Hardware, located on Ming Avenue and Ashe Road, is actively pursuing two additional Bakersfield locations.

(Full story on page 8)

Kern County's population grew at a very rapid rate last decade and is expected to continue to grow this decade. While the county's age structure will remain fairly stable, its ethnic composition is going to change in favor of the minority groups.

(Full story on page 13)

Ethnic Composition	**1990**	**2000**	**2010**
White	63	57	49
Hispanic	28	33	40
African-American	5	6	6
Asian and Pacific Islanders	3	3	4
American Indians	1	1	1

Kern County's income disparity is more pronounced than California and the United States. For example, for each family making more than $75,000, there are 4 families in Kern County, 2 in California, and 3 in the United States with incomes less than $25,000. Also, Kern County with 52.2 percent of its families included in the $25,000 to $75,000 income bracket has a smaller middle class than the state and nation.

(Full story on page 15)

KERN BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

This article presents opinions of business managers regarding current and expected economic conditions of Kern County in the second quarter of 2000. On July 5-7 and 10, we telephoned a random sample of 400 members of the Greater Bakersfield of Commerce, of whom 110 replied. Responses were enumerated to construct a Business Outlook Index (BOI), for which 100 would indicate *neutrality* about local business conditions. A value greater than 100 would express *optimism* and less than 100 *pessimism*.

Between the first quarter and second quarter of 2000, the BOI fell slightly from 128.0 to 125.1. This decline indicates that business managers are still optimistic about local business conditions, but their degree of optimism is less than that of the previous quarter. Compared with one year ago, however, the BOI rose by over 6 points, indicating increased optimism in the business community.

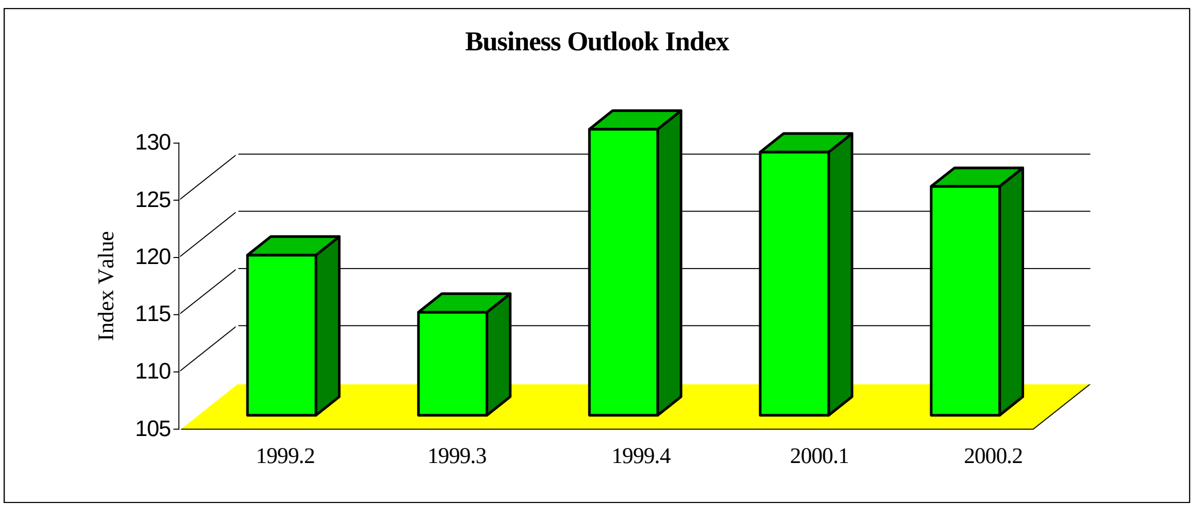
The majority of survey respondents reported that the number of jobs in their companies stayed the same as the previous quarter. They expected the number of jobs available in their companies to remain unchanged next quarter.

Over one-half of business managers perceived that their financial conditions (sales or profits) improved this quarter and will continue to improve next quarter.

Over fifty percent of business mangers felt that current employment and financial conditions of their industries were the same this quarter and are likely to remain constant next quarter.

The majority of business mangers perceived that employment and general business conditions in Kern County were the same as the previous quarter. They expected employment and general business conditions in Kern County to stay constant next quarter.

(Continued on page 4)



	Better	Same	Worse
Employment in your company this quarter was	20.6	70.6	8.8
Employment in your company next quarter will be	21.6	68.6	9.8

	Better	Same	Worse
Financial condition of your company this quarter was	52.0	34.3	13.7
Financial condition of your company next quarter will be	57.8	35.3	6.9

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS, INTERIM DEAN, EXTENDED UNIVERSITY DIVISION

The Bakersfield Consumer Sentiment Index increased from 117 in the final quarter of 1999 to 123 in the first quarter of 2000. The index is compiled from telephone surveys administered to a random sample of 250 households listed in the Bakersfield section of the phone book. Index values over 100 are indicative of consumer optimism, while values below 100 suggest pessimism. The index also is disaggregated into sub-indexes relating to recent trends and future expectations. Both sub-indexes increased in the first quarter. The Index of Recent Buying and Financial Trends increased from 113 to 116, while the Index of Future Expectations increased from 121 to 130.

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 financial condition of acquaintances in Kern County. One-half of the households reported no change in their financial condition, while more than three households reported improved conditions for each one that reported financial conditions had worsened. One-third of the respondents reported making a major discretionary purchase in the past 30 days (e.g., furniture, appliance, electronics, automobile, home improvement).

To assess consumer expectations, households were asked how they thought the financial situation of their families would change over the coming year. One-half of the respondents expected the financial situation of their household

(Continued on page 4)

	Most Recent Qtr.	Previous Qtr.	One Year Ago
Bakersfield Consumer Sentiment Index	**123**	**117**	**117**
Subindex: Recent Buying & Financial Trends	116	113	109
Subindex: Expectations	130	121	123

	More than usual	**Same as usual**	**Less than usual**
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	21 %	61 %	18 %
	Better off	**Same**	**Worse off**
How your family is doing financially compared to one year ago.	37 %	52 %	11 %
How your acquaintances in Kern County are doing financially compared to one year ago.	25 %	68 %	7 %

Business Outlook *(Continued from page 2)*

Survey participants were asked to comment on local, regional, national, or international factors that have affected employment and financial conditions of their companies.

Major factors perceived to hinder employment and business were:

- Rising interest rates and gasoline prices
- High taxes and insurance costs for the small business
- New workers' safety regulations and penalties
- Federal air quality regulations
- Excessive growth of the local economy

Major factors perceived to improve employment and business were:

- Continued economic growth and technological advancement
- Booming agricultural markets
- Improved export conditions
- Local land development
- Higher prices for the crude oil

In sum, a wide range of positive and negative factors has contributed to forming perceptions of business managers. In additional to external factors such as higher oil prices and rising interest rates, many internal factors like the booming agricultural markets and continued land development have impacted the local business outlook.

	Better	Same	Worse
Employment and general business conditions in your industry this quarter were	35.3	55.9	8.8
Employment and general business conditions in your industry next quarter will be	28.4	62.6	8.8

	Better	Same	Worse
Employment and general business conditions in Kern County this quarter were	36.2	52.0	11.8
Employment and general business conditions in Kern County next quarter will be	29.4	58.8	11.8

Consumer Sentiment *(Continued from page 3)*

to improve or become more stable over the coming year, while less than 10 percent feared things would become worse or more risky. Finally, households were asked if now is a safe or risky time to use savings or incur debt to purchase expensive goods. One-third (33 percent) thought it was a safe time to buy, while 26.5 percent thought it was a risky time.

EMPLOYMENT AND UNEMPLOYMENT IN KERN COUNTY

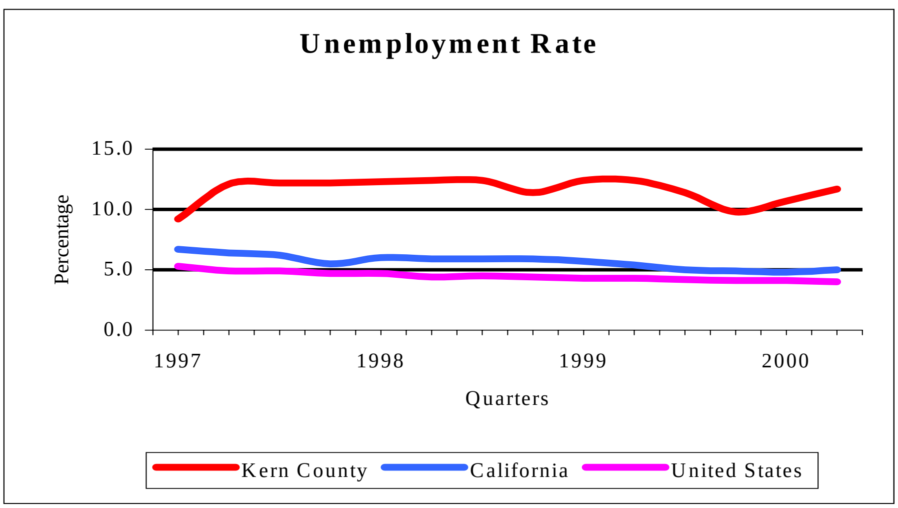
ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

Seasonally adjusted data indicate that Kern County continued to suffer from a double-digit unemployment rate. In the second quarter of 2000, the labor force increased by 1,800, whereas total employment declined by 1,300. The farm sector lost 900 jobs and the non-farm sector 700. However, self-employed workers and those who work outside their areas of residence added 300 new jobs. The deadly combination of rapid labor force growth and sharp employment decline caused the rate of unemployment to rise by one-percentage point.

Among the non-farm industries, service producing, wholesale trade, retail trade, services, local government, and local education added jobs, whereas transportation equipment, finance, insurance, and real estates, state government, and state education reduced employment. Over the previous quarter, employment decreased at an annualized rate of 1.5 percent in Kern County, but rose at 4.1 percent in California and 3.4 percent in the United States. Over the previous four quarters, employment growth averaged 1.9 percent in Kern County, 3.1 percent in California, and 2.5 in the United States.

The chart below illustrates unemployment trends in the local, state, and national economies.

Historically, the rate of unemployment in Kern County has been in double digits. Twice in the 1990s, the first quarter of 1997 and fourth quarter of 1999, Kern's jobless rate fell to single digits. From the first to second quarter of 2000, the unemployment rate rose from 10.7 to 11.7 percent in Kern County and from 4.8 to 5.0 percent in California. It fell, however, from 4.1 to 4.0 percent in the United States. Compared with the second quarter of 1999, the unemployment rate has declined from 12.4 to 11.7 percent in Kern County, 5.4 to 5.0 percent in California, and 4.3 to 4.0 percent in the United States.



[1] Quarterly data are adjusted for seasonality by the X-11 procedure of the ARIMA model using the SPSS statistical software package.

Cost of Living in Bakersfield

Abbas P. Grammy, Professor and Chair of Economics

A major factor in making relocation decisions is the amount of salary adjustment you would need to sustain your lifestyle. You must ask for a salary that, at least, maintains your purchasing power in the new location. For example, a cost of living index of 100 in city A compared with 110 in city B indicates that you would need a 10 percent salary increase to maintain your real income if you moved from A to B. Indeed, you would need more than a 10 percent increase to cover your moving expense, settle-down cost, and relocation incentive. You should also take into consideration your relocation "net" *psychic cost*, which is the loss (or gain) in satisfaction from leaving friends and relatives.

Let us assume you are contemplating a move from Bakersfield to another city in California.

To help you make a "rational" decision, I have calculated the percentage of salary adjustments between Bakersfield and 75 cities. *Numbers in parentheses measures the percentage difference in average salary between Bakersfield and each city under consideration.*

Of these 75 cities, only 9 have cost of living less than Bakersfield. You may be able to afford taking a salary cut if you move from Bakersfield to:

- Ridgecrest (-17)
- Palmdale (-10)
- San Bernardino (-10)
- Merced (-5)
- Redding (-5)
- Lompoc (-5)
- Ontario (-2)
- Eureka (-2)
- Fresno (-1)

You would need less than 10 percent in salary increase to move to:

- Stockton (1)
- Visalia (1)
- Modesto (1)
- Chico (4)
- Rancho Cucamonga (5)
- Van Nuys (6)
- Pomona (6)
- Salinas (6)
- Riverside (7)
- Sacramento (8)

Moving from Bakersfield to each of the following cities would require a salary increase of 10 to 20 percent,

- Lake Arrowhead (10)
- South Lake Tahoe (10)
- Santa Maria (13)
- Oxnard (13)
- Concord (14)
- Santa Clarita (17)
- Seaside (17)
- Tracy (17)
- Encino (17)
- Vallejo (17)
- Oceanside (18)
- Long Beach (19)

There are 14 cities that require a salary adjustment of 20 to 30 percent for your relocation,

- Hayward (23)
- Santa Ana (23)
- San Luis Obispo (23)
- Torrance (24)
- Anaheim (24)
- Orange (24)
- Westminster (25)
- Cyprus (25)
- San Diego (28)
- Fullerton (28)
- Simi Valley (28)
- Santa Rosa (29)
- Tustin (29)
- Ventura (30)
- Dublin (30)

You will need a 30 to 50 percent increase in salary to move from Bakersfield to:

- Los Angeles (30)
- Yorba Linda (31)
- Burbank (35)
- Thousand Oaks (36)
- Oakland (36)
- Glendale (41)
- Costa Mesa (42)
- Freemont (47)
- Walnut Creek (47)
- Irvine (47)
- Monterey (50)

Moving to any of the following cities requires a salary adjustment of 50 to 70 percent:

- Huntington Beach (52)
- Pasadena (54)
- San Francisco (58)
- Berkeley (61)
- Pleasanton (65)
- San Jose (66)
- Redwood City (68)

You would need an extra 70 to 100 percent of income to sustain your living standard in:

- New Port Beach (73)
- San Rafael (74)
- Santa Cruz (74)
- Santa Barbara (76)
- Sunnyvale (77)
- Laguna Beach (79)
- Menlo Park (93)

If you consider moving to any one of the following cities, you must have at least an additional 100 percent of income to stay financially well off:

(Continued on page 7)

Cost of Livings *(Continued from page 6)*

- Del Mar (103)
- Palo Alto (118)
- La Jolla (127)
- Carmel (129)

These salary differences, which take into account cost of living variations, have important implications for individual persons and business firms. Bakersfield, like most cities in the Central Valley, offers affordable living conditions for workers and businesses making relocation decisions. In my case, for example, transferring to another institution in the California State University System, like San Jose State, is not a "rational" decision since the System's salary schedule could not accommodate me with the required 66 percent salary increase. I will justify moving to San Jose University if I perceive my non-economic benefits outweigh my economic costs. On the other hand, I would be slightly better off if I were to transfer to Fresno State University. However, I must ask for my moving expense and settle-down cost, and a large enough relocation incentive that covers my *psychic cost* (e.g., loss of satisfcation from doubling the distance from Los Angeles: Mecca of the Persian community in exile). I will consider moving to Fresno if I perceive my economic benefits outweigh my non-economic costs.

In making informed relocation decisions, it is more accurate to compare average salaries of cities with similar size and social and environmental conditions. Bakersfield is the only city of the Central Valley among the top 10 medium size cities (population of 125,000 to 250,000) with an average household income less than $45,000:

1. Fullerton
2. Hayward
3. Oxnard
4. Santa Rosa
5. Salinas
6. Oceanside
7. Pasadena
8. Ontario
9. Glendale
10. Bakersfield

In this category, Bakersfield has the most affordable housing with an average price of $116,000 for 3 bedroom homes:

1. Bakersfield
2. Stockton
3. Modesto
4. Salinas

Of these cities, Stockton records the highest crime index, whereas Bakersfield the lowest. However, Bakersfield has the warmest and driest climate. Nevertheless, Bakersfield residents can take advantage of its close proximity to the coastal areas of southern and central California such as Ventura, Santa Barbara, and Pismo Beach.

The city's report card indicates that Bakersfield is a livable community with a reasonable cost of living and well-developed education and health care infrastructure. If you do not mind its arid climate, Bakersfield offers a decent medium-city lifestyle.

Population	230,000
Median Household Income	$34,000
Cost of Living Index (U.S. average = 100)	99.4
Average Home Price (3-bedroom house)	$116,000
Average Rent (2-bedroom apartment)	$576
Property Tax Rate (percent)	1.25
Sales Tax Rate (percent; state & local)	7.25
Unemployment Rate (percent)	8.2
Crime Index	92
Student-Teacher Ratio	25/1
Expenditures per Pupil	$5,030
Hospitals	6
Physicians	790
Winter Temperature Range	39/69
Spring Temperature Range	50/92
Summer Temperature Range	64/99
Fall Temperature Range	38/81
Annual Precipitation (inch)	5

Source: homefair.com

MEDIA IN THE NEW MILLENIUM

GAYLEN YOUNG, BUSINESS ANCHOR, KETV-TV 17

Recently, I moved a little closer to that half-century mark we all seem to dread. But it caused me to reflect on my life a bit, and the vast changes we have before us in this rapidly changing world.

I grew up with television. I was the first generation to succumb to its temptations. I watched Howdy Doody, Captain Kangaroo, Pinky Lee, even Arthur Godfrey. It wasn't that I was so much entertained by the medium as I was enthralled by it. I was captivated that this simple glowing tube in my living room could actually bring pictures of things far away to my home.

In the 1950s, television was live. Things were spontaneous. It was almost magical. I quickly found someone at one of my local TV stations that knew my Dad, and they gave me a tour of the station. I saw a live booth announcer, TV camera people in the studio, a boom microphone operator, lights that were bright and very hot and of course performers in front of the camera, and directors and crew people behind the scenes pushing all the buttons. I knew I had to be part of this wonderful world.

Technology was rapidly changing even then. Videotape quickly came into vogue in the early 1960s. Then local color TV caught on. Again, the cameras changed to allow for all the new red, blue and green tubes inside that combined the images into a series of dots on our screens at home. In the 1970s film was soon replaced at local stations with portable videotape and mini-cams. Then, live microwavable pictures were the rage. In the 1980s the trend for local TV was to use Beta-Cam's (a smaller yet clearer version of the mini-cam) all self contained in one camera and deck unit. In the 1990s those units got smaller and smaller. Which just about brings us up to the present time.

Well, technology is changing again. In fact the past six months has been like an overhaul for those of us in the TV business. Satellite reception and transmission, computers, and the Internet have combined to pretty much change the TV universe, as we once knew it.

And don't be deceived. Bakersfield is on the cutting edge of some of this technology! In February, our station embarked on a revolution for local TV. An automation system known as Parker Vision has replaced technical directors, audio engineers, and studio camera people as in most TV operations. One very savvy person who not only functions as a director pilots it, but also as a computer programmer, graphic arts director and for all those other positions I mentioned. One person, doing it all!

We were the first commercial station in the country to begin using this system. And it did and still does have its flaws, but appears to be the wave of the future, especially for smaller, local television operations.

As we shoot our stories in the field for use on the evening news programs, the stories are photographed on digital videotape. The tape is edited on non-linear computer systems and soon, the tape will be downloaded into a central computer server where the computer will be given a few editing commands and the stories will be called up like a CD ROM, and eventually stored there permanently to be recalled for future reference.

So far, local news seems to still have the viewers' attention. But that attention may be waning as more people get their news from the Internet.

Hugh Downs, veteran TV anchorman told a broadcast group in Las Vegas recently he believes the Internet is on the verge of taking over as *the* source for information and entertainment.

He may be right! Look at the Internet today and you'll find not only national news from wire services, sports, entertainment and business news but you can find local news from your local newspaper on the Internet. Who needs to subscribe if it's on the net? But look again and now you'll also find your local TV news on the Internet just like the newspaper. Right now, TV has an advantage with moving video and audio, but with streaming and flash technologies rapidly advancing it won't be long before you find both sources providing moving pictures with sound. And such convergence will make it difficult to tell where your computer leaves off and your television set begin.

We've truly come a long way from those early days of my youth when the medium was the message for me. Now, we have information overload and we have to find sources we can trust to narrow down all that infor-

(Continued on page 19)

Strategies of Commercialization of Technology in Kern County

Donavan Ropp, Director, Business Research and Education Center

Background

The so-called Great Revolution has ended. We are now experiencing the evolutionary process of the new Technology Age. It is not only alive and well, the fact is that it is expanding and progressing at an exponential rate. The future has arrived.

And we are going through this transformation as described by a myriad of fascinating terms: The Space Age, The Information Age, The Info-Techno Sphere, The Electronic ERA, and The Global Village.

Learning and experience curves are going wild. They are no longer the gradual horizontally rising types that go on for years, but, instead, they are now vertical. That is: intense and fast. To stay with the times requires lifelong learning and continuous action on the part of business and industry.

What does this mean? For starters, it means that the FAX machine is yesterday's state-of-the-art technology and television, as we have known it for 50 years, is becoming a relic of antiquity. It means that we normal citizens use the Internet, e-mail, cell phones, and pagers as part of our everyday lives. It means that we are eagerly waiting for and anticipating the next generation of technology that ironically and factually is always a few months away and may drastically change the way we do things.

This driving technology force is having a dramatic influence and impact on how we learn, play, work, interact with each other, and, specifically, on how we do business. Economics talks about the efficient allocation of scarce resources. The scarce resources of today include:

- Knowledge and wisdom (not data and information)
- Creating added value
- Promoting, accepting and knowing how to handle innovation
- Enhancing competencies and installed capacity
- Exploiting and commercializing new technology
- Sustaining competitive advantage

Where is this taking us?

Yes, technology is a moving target. Technology is also an extremely important factor in addressing regional economic expansion. Key issues include:

1. "Technology" has become an extremely important tool of economic development (though this fact is often overlooked).

2. "Technology" is helping to level the playing field for small and medium business enterprises (SMEs). SMEs now compete successfully with larger businesses as never before. Regional growth in taking place with SMEs, not the Fortune 500. Entrepreneurship, innovation, flexibility, and being able to act immediately (can do attitude) is on the side of the SME.

3. SMEs can now market directly to very specific customers and efficiently meet their needs and solve their problems in very special ways in a timely fashion. Larger businesses usually do not have that luxury.

4. On a level playing field, SMEs are able to take advantage of opportunities as never before in providing niche products and services for large business enterprises and government agencies that are down-sizing, outsourcing, and using more efficient and effective techniques within their own supply chain.

5. Technology is transforming the way the world does business. Through networking and various electronic media and linkages we can receive answers via the internet to questions about almost anything from around-the-world in an hour that use to take days, weeks, months, or even years to obtain. Such networking, more than ever, is a key component in transacting business deals within a single community or throughout the entire world. Again, SMEs are able to compete quite effectively through strategic networking.

SMEs now have the opportunity of directly participating in the global economy as a major player. Yes, it does take ingenuity, tenacity, some adventure, and a desire to succeed, but the fact is – it works.

(Continued on page 13)

Kern County—Winning the Supply Chain Competition

Joseph E. Drew, President, International Trade and Transportation Center

California's population is growing rapidly every year. Population estimates suggest that, by the year 2010, California will be home to approximately 40 million people. As the population grows, so does the demand for goods and services. Domestic providers are working hard to find the most efficient and effective means of delivering a full range of necessities and luxury goods. Our quality of life depends upon providers meeting our needs. Increasingly, American companies are concluding that the most efficient location to serve all of California's population is from Kern County.

Located roughly 230 miles from San Diego and 270 miles from the San Francisco Bay, Kern County is becoming a location of choice to employ a centralized supply chain management strategy. Simply stated, supply chain management assesses the full cost of delivering goods and services, from initial development, through all intermediate-handling points, to final point of delivery.

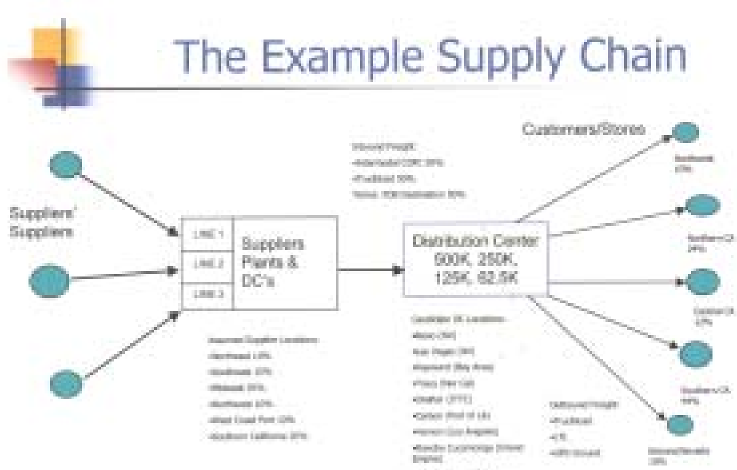
Several decades ago, companies seldom thought of Kern County in this manner. The Central Valley population was insignificant compared to that of the major north and south urban centers. Now, population dynamics have changed and will continue to change. This puts added pressure on all points in the supply chain. This pressure forces companies to rethink how they accomplish their strategic business goals, and remain competitive.

The International Trade and Transportation Center (ITTC), a project of The Allen Group, was created with a vision of anticipating these fundamental changes in the supply chain, and providing a quality location where companies could locate to employ the centralized distribution strategy in California. An important by-product of achieving our vision at the ITTC is the creation of hundreds of new and well-paying jobs for our citizens in the coming years.

To validate our strategic thinking for the project, we retained CGR Management Consultants, one of the country's most capable logistics management consulting firms. CGR has assisted hundreds of the country's most successful companies with their locational analysis. Our mutual task was to establish a set of assumptions which would permit CGR to compare and contrast the ITTC with a number of other locations in California and Nevada (typically competitor sites), and determine the total supply chain cost based upon those assumptions. The model used was comprehensive, taking into account all costs to run a facility including rent, labor, utilities, and inbound/outbound transportation costs.

The model employed in the CGR logistics evaluation is shown below. Because large warehouse and manufacturing operations typically draw materials and products from across the United States, our model as-

(Continued on page 11)



Winning *(Continued from page 10)*

sumed a similar *inbound* materials strategy. Once materials arrive at these facilities, there may be other value added processes employed before they are sent out to the final markets. Again, the *outbound* delivery locations for a typical large distribution facility serving the West would include delivery points in Northern and Southern California, as well as Nevada, and our model also took that into consideration.

An important variable in the model was the size of the facility. As can be seen in the figure above, four different sizes of facility were compared and contrasted.

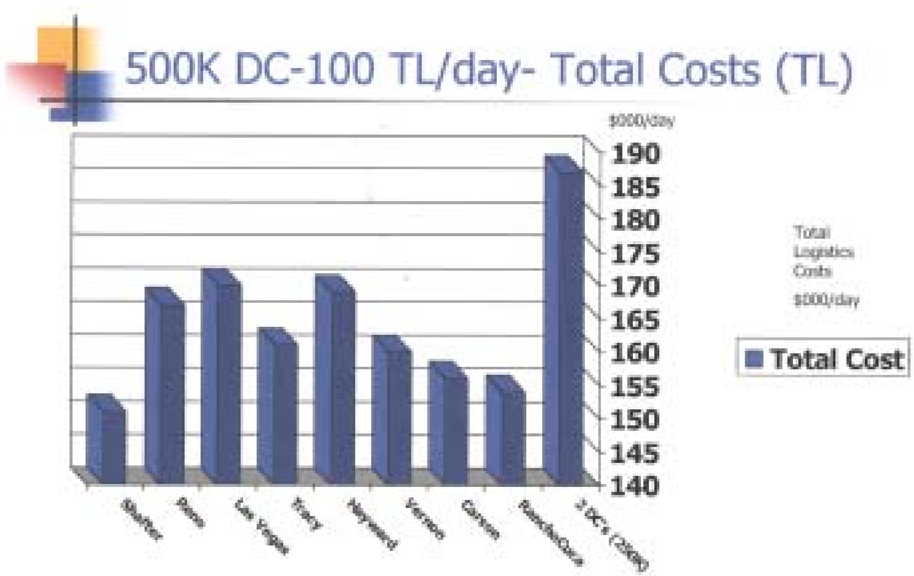
I would like to make one final point on the model. It was important to verify the assumption that there would be a significant savings for a company to consolidate existing Northern and Southern California distribution sites into one site at the ITTC. <u>In all cases where there was a general balance in a company's markets north and south, the consolidated DC at the ITTC was a clear economic winner</u>.

The figure at the right shows the results of the modeling for a 500,000 sq. ft. manufacturing or distribution facility. Note that Shafter (the home of the ITTC) is the most economic alternative when compared with other competitor locations, and is significantly more cost effective as a location for a consolidated facility when compared with a strategy that had one facility in Northern California, and another in the south.

One might ask: "Is it important that we win the supply chain competition as a 'location of choice' in Kern County?" I and many others believe the answer is yes. Kern's future economic health is measured by many factors, but essential among those factors is <u>job creation</u> to meet the requirements of our growing population. Kern has traditionally had two significant economic "anchors": agriculture, and the oil industry. Growing jobs in manufacturing and distribution helps to diversify that job base, providing greater stability, and more opportunity for our generations to come. Concentrating that new job growth in large, quality industrial settings will contribute to more managed growth, optimizing the use of the land, and ensuring the orderly development of essential infrastructure to efficiently support growth.

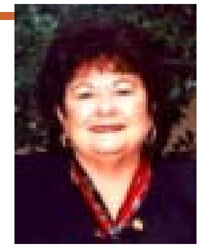
It is important to create more certainty in the creation of new, well paying jobs in Kern County. Fortunately, the important recognition we are receiving among America's most successful companies as a location of choice for their manufacturing and distribution facilities, because companies can achieve superior economic results by locating in Kern County, comes at the right time to reinforce the high quality of life we have always enjoyed here.

Logistics study and graphics are work products of CGR Management Consultants



WELFARE REFORM AND CALWORKS IN KERN COUNTY

KATHLEEN IRVINE, DIRECTOR, *KERN COUNTY DEPARTMENT OF HUMAN SERVICES*



Spurred on by the passage of landmark welfare reform legislation, counties have made tremendous progress toward the goal of moving families from welfare-to-work. More families are entering employment and caseloads are decreasing.

In Kern County, the California Work Opportunity and Responsibility to Kids (CalWORKs) service delivery model was designed to utilize the strength and expertise of multiple agencies, collectively referred to as the Kern Works Partnership. This partnership comprises the Department of Human Services, the Employment Development Department, the Department of Mental Health, Employers' Training Resource, Community Connection for Child Care, and Curtis & Associates.

CalWORKs families participating in welfare to work activities must participate at a minimum of 32 hours per week. The required participation rate for federal fiscal year 2000 is 40 percent. Kern County has exceeded the requirement with a monthly average of 55 percent. Through the collaborative efforts of the Kern Works Partnership, Kern County Department of Human Services has earned a total of 23 million dollars in fiscal incentives for the following outcomes performed January 1998 through March 2000.

Employment Entries	16, 117
Grant Reductions	11,837
Grant Terminations	4,684
Diversion from TANF/Cash Assistance	14

Other outcomes achieved during the above period:

CalWORKs Enrollment	17,754
Caseload Decrease	3,017
Grant Savings	$20.5 million
Average Wage Earned	$6.54 per hour
Top Five Employing Industries:	
Retail	18%
Food Service	13
Agriculture	12
Office	10
Health Service	9

Participant Demographics: Gender	Female: 79%
Single Head of Household	63%
Two Parent Household	37%
Age	79% Between 20-39
High School Graduate/GED Equivalency	47%
Education Level of Non High School Graduates:	67%
11 or 12th Grade	19
9 or 10th Grade	12
Less than 9th Grade	
Ethnicity:	
White/Non Hispanic	40%
Hispanic	43
Black/Non Hispanic	14
Asian or Pacific Islander	1
American Indian/Alaskan	1
Native Filipino	1
Primary Language:	
English	90%
Spanish	10

The CalWORKs program has given the Department of Human Services new opportunities through earned incentive monies to reinvest in the community. Incentive money may be utilized to develop and implement strategic projects and approaches that remove families from a cycle of dependency on public assistance by addressing workforce development and self-sufficiency issues. Highlighted programs include the following.

- This year, the Department of Human Services entered into an agreement with Golden Empire Transit to provide expanded hour services Monday through Friday. Implementation of the expanded hour services was coordinated with the effective date of the new Sunday services in Mid-January 2000. As Kern emphasizes a work first philosophy, projects such as the contract with Golden Empire Transit are pivotal in providing a resolution to barriers. Additionally, expanded transportation service allows greater flexibility for CalWORKs participants, as well as the general community, to secure employment during non-traditional work hours. With night ridership increasing to an excess of 97,000, we consider this a tremendous success for our participants and the community. Monthly ridership numbers are as follows:

Welfare Reform (Continued from page 12)

Month	Total Night Ridership
January	9,057
February	17,140
March	21,144
April	24,035
May	26,383

- The Kern County Department of Human Services solicited proposals for the CalWORKs grant program from more than 650 community-based organizations, school districts, faith-based organizations, County agencies, and others. The Department received 51 proposals.

The *CalWORKs Grant Program* was designed to complement and enhance the Kern County CalWORKs service delivery model and address some of the systemic, organizational, and neighborhood issues that ultimately affect the people we serve. Additionally, funding for agency proposals was based on the project's ability to meet the four TANF[1] funding objectives intended to:

- Provide assistance to needy families
- End dependence of needy families by promoting job preparation, work, and marriage
- Prevent and reduce out-of-wedlock pregnancies
- Encourage the formation and maintenance of two parent families

[1]Temporary Assistance for Needy Families

Technology (Continued from page 9)

The trick is knowing how to use technology and technology commercialization and its applications to enhance the quality of our lives, **not** to be controlled by technology

Kern County

Supervisors Jon McQuiston and Steve Perez of the Kern County Board of Supervisors addressed the many technology issues, discussed above, as being pertinent to the future of Kern County. An added incentive in considering technology policy for the county is the fact that three notable National Laboratories are located within the boundaries of Kern County: Naval Air Warfare Center, Weapons Division at China Lake; NASA, Dryden at Edwards; and Edwards Air Force Base/Air Force Research Lab. Additionally, technology from these local facilities is readily available for commercialization by Kern County businesses, a feature unique and advantageous to Kern County simply because of location and easy access to laboratory personnel.

The Supervisors' goal was to initiate a major project that would integrate cutting edge "technology" based elements into a comprehensive community action program, as an expansion of the economic development process within Kern County. Their desire was to help create additional opportunities for technically oriented businesses.

The Kern County Technology Transfer Group

Following detailed discussions with the Supervisors and support from Bank of America, PacBell, and Kern County, the Business Research and Education Center, School of Business and Public Administration, CSUB, instituted the Kern County Technology Transfer Group (KCTTG). The KCTTG is a proactive, dynamic public and private alliance that brings together local, state, and federal government agencies, businesses, universities and colleges, economic development organizations, and the media working together to facilitate the commercialization of technology within the Kern County region. The activities of the Group are strategically structured into a cohesive framework that provides the essentials for motivating members to independently progress and compete technically in a technical world. The commercialization of technology" is the mission of the group. It is a wise investment for the future since technology is the future. The simple truth is that those who embrace this new technology world will replace those who don't. Today, regional growth demands it.

Part II of this article will discuss the structure, function, and operation of the KCTTG, including the membership, networking features, service providers, tools, marketing, and internship programs.

Import Substitution Industrialization in Kern County: An Impact Study in the Construction Industry

Frank Falero, Professor of Economics and Finance

In the previous issue of the journal, I presented the case for using the "import substitution industrialization" strategy of economic development and the income and employment multipliers that are applicable to Kern County. Now, I will present the effects of the case study of a local construction company.

Case Study

The modular division of JTS Construction, Inc., is the unit charged with constructing modular manufactured buildings at their Bakersfield manufacturing site. The company on an un-audited basis provided specific information pertaining to this type of activity. This information forms the basis for this analysis. Table 1 presents the per dollar breakdown of the cost components which enter into the cost of a modular manufactured building[1].

Effect of Creating Additional Production Facilities

In the event that the existing manufacturing facilities within the county are insufficient to produce all of the necessary units, an expansion of these facilities would have to be undertaken. This expansion would be, in itself, another primary sector increase in economic activity. For example, if there were an expansion in facilities costing $1million, then the income multiplier would operate on that $1 million generating an additional $2.5 million in increased income for the county residents, additional sales tax revenues of nearly $500,000, and increased property tax revenues for the county of as much as $15,000. All of these figures are based on new $1 million facility.

Impact of Kern County

Approximately 200 re-locatable manufactured classrooms will be purchased by Kern County school districts for use by the students in their charge[2]. These units, whether purchased locally from an in-county provider or purchased from an outside provider, cost about $45,000 each. There are some specification differences between various manufacturers of these units as well as some relatively minor price differences. This analysis is based on the assumption that each of the units, whether purchased from an external (outside Kern County) manufacturer or from an internal (within Kern County) manufacturer is of comparable quality and workmanship and meet or exceed the specifications laid down by the purchasing school district and relevant state of California agency. In other words, the comparison being made is between apples and apples with the only difference being where the apple is grown.

With that in mind, it is necessary to make two sets of calculations. The

(Continued on page 15)

Table 1: Cost Components (Per Dollar basis)	
Locally purchased building materials	$0.58
Sales tax on the local purchases	0.04
Non local purchases of materials	0.04
Sales tax on the non-local purchases	0.01
Direct labor and supervision	0.26
Overhead	0.04
After tax profit	0.02
Income taxes	0.01

[1]JTS Construction, Inc., Modular Division, ***Unit Sales Breakdown*** (internal unaudited proprietary documents), 2000
[2]*Ibid.*

Import Substitution (Continued from page 14)

first set is based on the impact on the local economy from the purchase by the various school districts of 200 units with a total value of approximately $9 million from a manufacturer, which is located entirely outside county boundaries. The second set is based on the impact on the local economy from the purchase by various school districts of 200 units with a total value of approximately $9 million from a manufacturer, which is located entirely inside county boundaries.

As Table 2 illustrates, all of the benefits from the purchase of these units go to the political jurisdiction where the manufacturer is located. Yes, the purchasing jurisdiction gets the building for which it has paid, but all benefits go to the jurisdiction where the unit was built. This includes all 400 jobs, the 120 created in the manufacturing process and the 280 secondary, tertiary, and quaternary sectors, all of the initial purchase price for the units of $9 million plus all of the secondary, tertiary, and quaternary income that is generated as a result of the manufacturing activity, some additional $22.5 million dollars. Of course, from a state wide perspective, it makes no difference where the manufacturing is located since Californians get all of the 400 jobs and Californians enjoy all of the additional $31.5 million income. To the state it makes no difference. But to the individual county it makes all the difference in the world.

If you are the county where the manufacturing and the purchase takes place, then not only do you get the 200 manufactured portable classrooms worth $9 million, you also get 400 additional jobs generating nearly $8 million in additional annual payrolls, more than $23 million in additional sales and other purchases, and, perhaps most important from the county perspective, the county will get back slightly more than $5 million in returned sales tax revenues, to say nothing of any other returned revenue which the state might provide the county. Perhaps an example would be in order here. The increased nearly $23 million in sales would include new and used auto purchases, new home construction, increased real estate activity, new and used RV purchases, as well as more groceries and more rental movies and more new TVs etc[3].

On the other hand, if you are the county where only the purchase of the units takes place, then you have exchanged the $9 million in cash for $9 million in school buildings. All of the other benefits, including all of the primary, secondary, tertiary, and quaternary benefits, accrue to another political jurisdiction, perhaps Los Angeles, or Fresno, or whichever, but not to you.

<u>Import Substitution Industrialization</u>

The essence of import substitution strategy is that a given political jurisdiction should substitute a locally manufactured product for a non-local product whenever and wherever it can, subject, of course, to quality and specification constraints. There is no doubt at all that if the same manufactured item is available from a local manufacturer and a “foreign” manufacturer, the local economy is clearly and significantly better off if it buys locally. This is not to say that everyone should buy locally regardless of the product. Clearly that is not going to increase one’s economic well being. But it is to say that if the products are of comparable quality and meet the requisite specifications, then buying locally clearly improves the local economy well beyond the limits of just the price of the purchase.

Table 2: Distribution of Benefits

	State of California	County: due to Manufacture	County: due to Purchase
Initial Impact Dollars	$9,000,000	$9,000,000	$0
Initial Impact New Jobs	120 new jobs	120 new jobs	zero new jobs
Non-Direct Income	$22,500,000	$22,500,000	$0
Sales Taxes Generated	$5,040,000	$5,040,000	$0
Non-Direct New Jobs	280 new jobs	280 new jobs	zero new jobs
Returned Tax Revenue*	$0	$5,040,000	$0

*As noted earlier, very nearly 100% of the sales tax revenues collected by the state in a given jurisdiction are returned to that jurisdiction as the Franchise Tax Board charges only a very small administrative fee.

[3]For instance, for every 4 new jobs created in our economy, three new or used autos are purchased.

KERN COUNTY'S TOP FARM PRODUCTS

DINYAR PATEL, *STUDENT*, *STANFORD UNIVERSITY*

"This is God's country! The place is rich in future possibilities."

Over one hundred years ago, Colonel Thomas Baker uttered those words as he began to transform the wild swampland of the southern San Joaquin Valley into today's fertile breadbasket. Baker's prediction has come true in a way he probably never could imagine. Over 250 different crops worth more than \$2 billion annually are grown in Kern County. Kern is the fourth most-productive agricultural county in the nation, behind Monterey, Tulare, and Fresno.

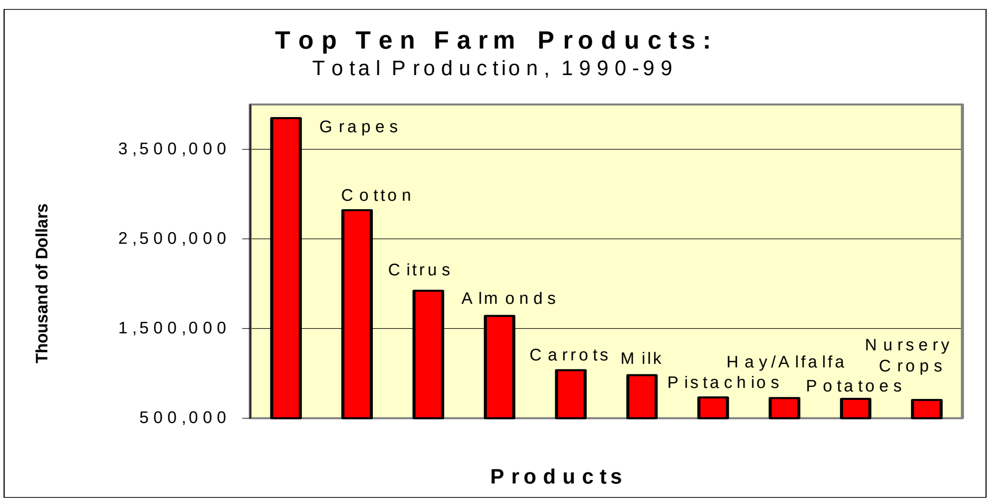
Of all crops grown in local soil, ten key farm products have defined the region's agricultural economy. The following chart illustrates total production of the top ten farm products in Kern County over the past decade: grapes, cotton, citrus products, almonds, carrots, milk, pistachios, hay/alfalfa, potatoes, and nursery crops. The value of these crops averaged over \$1.5 billion annually.

1. Grapes have been an integral part of the Kern County's agriculture since its settlement; surveys from the 1850s reported the abundant grapevines growing in the southern Tehachapi foothills. Grapes total value rose from \$286.7 million in 1990 to \$491.3 million in 1999, which was a 71 percent increase over the time period. The ten-year value for grapes totaled \$3.8 billion.

2. Cotton's importance in the local economy is unquestionable. As the birthplace of both Calcot, Ltd. and the highly productive acala strain, Kern County has been at the center of the cotton industry. Its crop value fluctuated over the past ten years. Both 1991 and 1998 were poor crop years. In particular, the 1998 crop fell to one-half of its previous year value. Overall, cotton production declined from \$352.7 million in the beginning to \$233.5 million at the end of the decade. The ten-year value of this second-most valuable farm product totaled 2.8 billion.

3. As orchards in the Southland and Silicon Valley give way to urban growth, Kern County's citrus industry grows in importance. A devastating freeze took a toll on the citrus crop early in the decade. In 1991, the citrus crop was only worth \$67.5 million, making it the sixth most-

(Continued on page 17)



Grapes	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value (\$1,000)	286,702	252,031	294,961	396,394	385,138	416,397	402,161	496,287	427,447	491,269	3,848,787
Rank	2	1	2	1	1	1	1	1	1	1	1

Cotton	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value (\$1,000)	352,668	231,213	304,761	301,177	312,006	293,315	342,084	300,496	150,775	233,485	2,821,980
Rank	1	2	1	2	2	2	2	3	4	2	2

Regional Identity (Continued from page 16)

valuable farm product in Kern that year. By 1998, however, the citrus value rose to $301.8 million, making it that year's second most-valuable crop. Another devastating freeze cut the citrus crop nearly into half in 1999. The decade's production value of citrus amounted to $1.9 billion.

4. Almonds ranked in production value as the fourth most-valuable farm product in Kern County. It has brought $1.6 billion to the local economy in the 1990s. Its 1999 value was 22 percent greater that of 1990.

5. Despite an overall decline in value, carrots have still contributed an impressive amount to the local economy: $1 billion over the past ten years. Carrots slumped in 1997 when the crop was only worth $51 million, but it rebounded to $107.7 million in 1999.

6. A testament to California's growing clout in the dairy industry, milk catapulted from being the tenth most-valuable Kern farm product in 1990 to the fourth most-valuable in 1999 for an impressive 218 percent increase. The ten-year total value of milk products was $980.6 million.

Kern County Farm Bureau's Executive Director, Mr. Loron Hodge explained why Kern's dairy industry has been growing. "There has been a saturation point reached in other parts of the state [involved in the dairy industry]," Mr. Hodge stated, adding that places like Tulare County have nearly run out of space to construct more dairies. He credits the abundant land available in Kern County for attracting more dairies and encouraging expansions.

7. Production of pistachios ranged from $98.7 million in 1993 to $50.5 million in 1996. Its ten-year value totaled $732 million. Overall, value of the pistachio crop declined by 14 percent from $77.5 in 1990 to $66.5 million in 1999.

(Continued on page 19)

Citrus	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	153,561	67,452	88,464	185,695	231,097	230,828	188,312	300,496	301,847	173,887	1,921,639
Rank	4	6	6	4	3	3	4	2	2	3	3

Almonds	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	117,800	130,184	116,706	199,072	194,904	168,030	202,406	203,452	165,719	143,303	1,641,576
Rank	5	4	3	3	4	4	3	4	3	5	4

Carrots	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	154,835	145,599	104,382	114,988	112,091	64,693	76,753	51,023	104,793	107,711	1,036,868
Rank	3	3	4	5	5	10	7	11	6	6	5

Milk	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	51,515	51,251	62,796	76,818	87,646	101,917	118,481	118,481	147,754	163,985	980,644
Rank	10	10	7	7	6	5	5	5	5	4	6

Pistachios	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	77,484	56,309	88,360	98,745	55,158	67,584	50,459	80,526	90,940	66,575	732,140
Rank	8	9	5	6	11	8	12	7	7	11	7

EFFECT OF OIL PRICE VARIATIONS ON TAXABLE RETAIL SALES

CHERYL HOLSONBAKE, OUTSTANDING GRADUATING SENIOR IN ECNOMICS, 1998-99; PROGRAM ANALYST, COMMUNITY CONNECTION FOR CHILD CARE

Kern County was primarily an agrarian economy prior to the discovery of oil in the late 1800s. But, the opening of Kern River Field changed the economy of southern San Joaquin Valley forever. In 1899, a hand-dug hole led to an oil boom. By 1903, the region was producing 70 percent of California's oil. Soon, the oil industry began to outrank agriculture as the county's major industry. With oil and gas contributing about $10 billion annually to the economy, it is easy to understand why petroleum remains the economic lifeblood of Kern County.

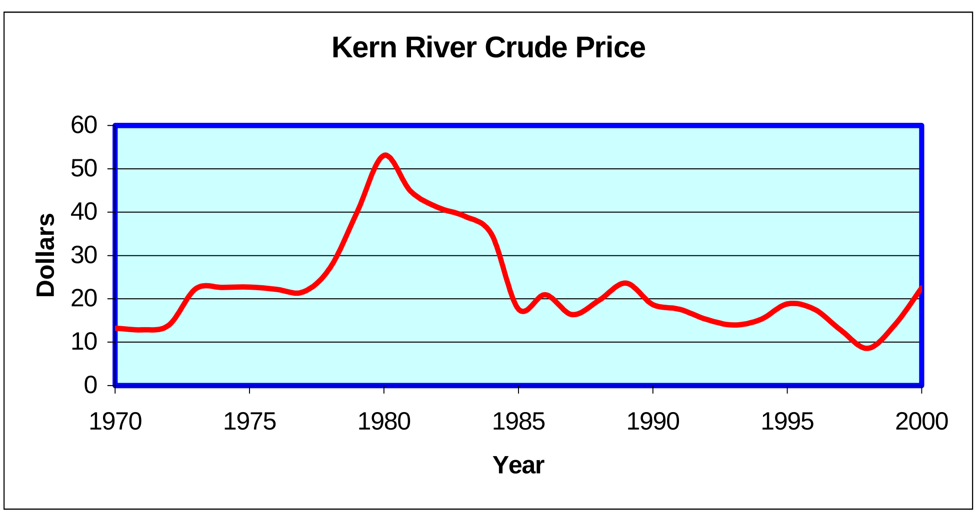
Since the oil boom of the 1970s, Kern's economy has increasingly become dependent on the oil industry for the creation of employment, income, property taxes, and business sales. While this dependency has contributed to the prosperity of the county and state, it introduced elements of economic volatility and vulnerability since oil prices tend to fluctuate widely and frequently.

As illustrated in the following chart, the price of crude oil has been volatile. In 1970-98, the price of Kern River crude averaged $22.11 per barrel. But, it fluctuated from $53.06 in its highest peak in 1980 to $8.59 in its deepest trough in 1997. Its range of $44.47 and standard deviation of $10.56 indicates a rather large degree of variability.

The main reason for this rather large price variability is the structure of the international market for crude oil. By and large, the forces of demand and supply determine the price of crude oil. A glut of oil in the market would force the price down, whereas a shortage of it would push the price upward. Nevertheless, production decisions taken by members of the Organization of Petroleum Exporting Countries (e.g., Saudi Arabia) and independent producers (e.g., Mexico) could dramatically impact the demand and supply balance. The OPEC controls the largest share of the market for crude oil. The OPEC members must agree upon an amount of daily production. The organization then allocates the daily production between its member countries based on a complicated formula that takes into account such factors as the members' volume of oil reserves and population. However, the OPEC may alter its production decision for non-economic reasons. Time and again, the OPEC has influenced international politics by restricting production and increasing prices (e.g., energy crises of the 1970s) or, conversely, by flooding the market with lower prices (e.g., oil glut of the 1980s).

Kern County is vulnerable to volatile oil price changes because it is a high

(Continued on page 19)



Oil Prices (Continued from page 18)

cost producer as compared with countries like Saudi Arabia and Kuwait, where the marginal cost of a barrel of oil is rather nominal. Whenever the crude price falls to a critically low level, many local producers undertake drastic cost cutting measures such as large-scale production shutdowns and massive labor buy-outs and lay-offs. These cost-saving and down-sizing reactions were evident in early and late 1990s, when the price per barrel (in constant dollars) for Kern River 13-gravity crude reached critically low levels so that local production was no longer profitable.

To measure the effect of oil price variations on local economic performance, I modeled Kern County's taxable retail sales as a function of the (1) price of crude oil, (2) value of farm output per capita, and (3) disposable personal income per capita, *all in constant dollars*. Estimation results of this model indicate that these variables accounted for over 80 percent of variations in retail sales.

All being equal and on average, these estimates indicate that a 1 percent change in the price of Kern River crude will affect Kern County's retail sales by one-quarter of 1 percent. For the purpose of illustration, take the taxable retail sales at its 1997 value of \$5.6 billion. My model predicts that a 1 percent drop in the price of oil will cost the county a whopping \$14 million in taxable retail sales. However, economic forces are rather dynamic and interactive such that the offsetting "policy" effects often modify the "direct" effects of an oil price decline. For example, between 1989 and 1993, when the price of Kern River crude fell by over 40 percent from \$23.64 to \$13.98 per barrel, the rate of unemployment rose by 5.5 percent, reaching a thirty-year high of 15.8 percent. As a result, Kern County's taxable retail sale declined by a total of \$330 million, which is nearly \$9 million for each 1 percent decline in the oil price. Nevertheless, the economic effect of this oil price decline was so severe that it aggravated the recession of the early 1990s, which took Kern County nearly four years to slowly recover from it.

Conversely, rising oil prices will bring about economic prosperity creating jobs and incomes and increasing retail sales. Although Kern County must continue to exploit its comparative advantage in crude oil production, it must expand and diversify its industrial base in order to minimize its vulnerability to volatile oil price fluctuations.

Variables in the Model:	Percentage Change in Retail Sale for a One-Percentage Change in a Variable, Other Variables Held Constant
Price of Crude Oil	0.256
Value of Farm Output Per Capita	0.256
Disposable Personal Income Per Capita	0.342

Media (Continued from page 8)

mation into understandable headlines and phrases that fit into our busy schedules. So, perhaps until people become more comfortable with computer driven anchor people, I may still have a job in the near future.

I still yearn for those earlier days when the thrill of doing television was in wondering not if mistakes were going to be made, because it was all live, but in how many mistakes would be made. Hmm. Perhaps we haven't come that far after all, because those are the same fears I have every night doing the news, wondering if the robotic cameras will point toward the green wall or me across the room.

Location Decisions: Learning GIS Applications

***Deloris Morris and Annette White,* Economics Majors, CSUB**

In the Economic Geography course (Economics 395) that I teach, students learn to use TIGER Map Service (TMS), a project sponsored by the United States Bureau of the Census. This service provides a public resource for generating high-quality, detailed maps of anywhere in the country, using public geographic data. I incorporate TMS into the course primarily as a short cut to expose students to Geographic Information Systems (GIS). I find these Web-based interactive map generating lessons to be much easier for students than learning to use a GIS software such as Arc-View within the ten weeks of an academic quarter. In Spring Quarter 2000, one of the course assignments dealt with the analysis of business location:

> *MuchoDinero, Inc. is a firm that sells grocery items consumed primarily by the Hispanic population. The firm is considering opening branches in Bakersfield metropolitan area and in the Lancaster/Palmdale region.*
>
> *Over the last seven weeks you have learned that there are a number of issues governing location decisions. You have also picked up enough GIS jargon to become a dangerous GIS specialist.*
>
> *In this assignment, you must prepare a report to MuchoDinero, Inc. on the potential market for its services in Bakersfield metropolitan area or Lancaster/Palmdale region and also to identify a potential location for a new store.*

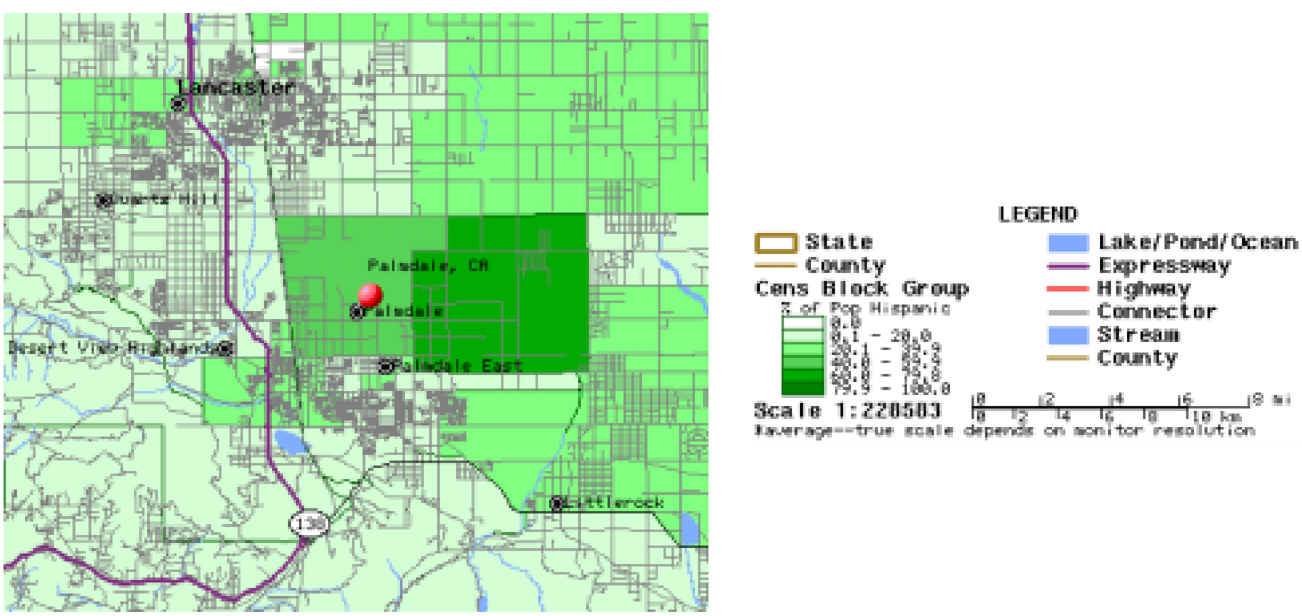
The following article is an edited version of two reports prepared by my students, Deloris Morris and Annette White, who are majoring in Economics at our Antelope Valley program.

Sriram Krishnamurthy

The first step in identifying a site for MuchoDinero, Inc. would be to map the percentage of Hispanic population in the Palmdale area, at the block group level. An equal-interval classification was chosen in order to easily depict high density of the Hispanics population (data are from the 1990 census)

The map below shows that the Hispanic population is located in East Palmdale as identified by the "darkest green" area on the map. The map also shows census tracts, streets and expressways. The red pushpin represents the center of Palmdale, specifically Palmdale Boulevard, which is the main the artery through the town that connects with the expressway. This is important in that our location needs to be on a main artery so that customers will have access via bus, foot, or car.

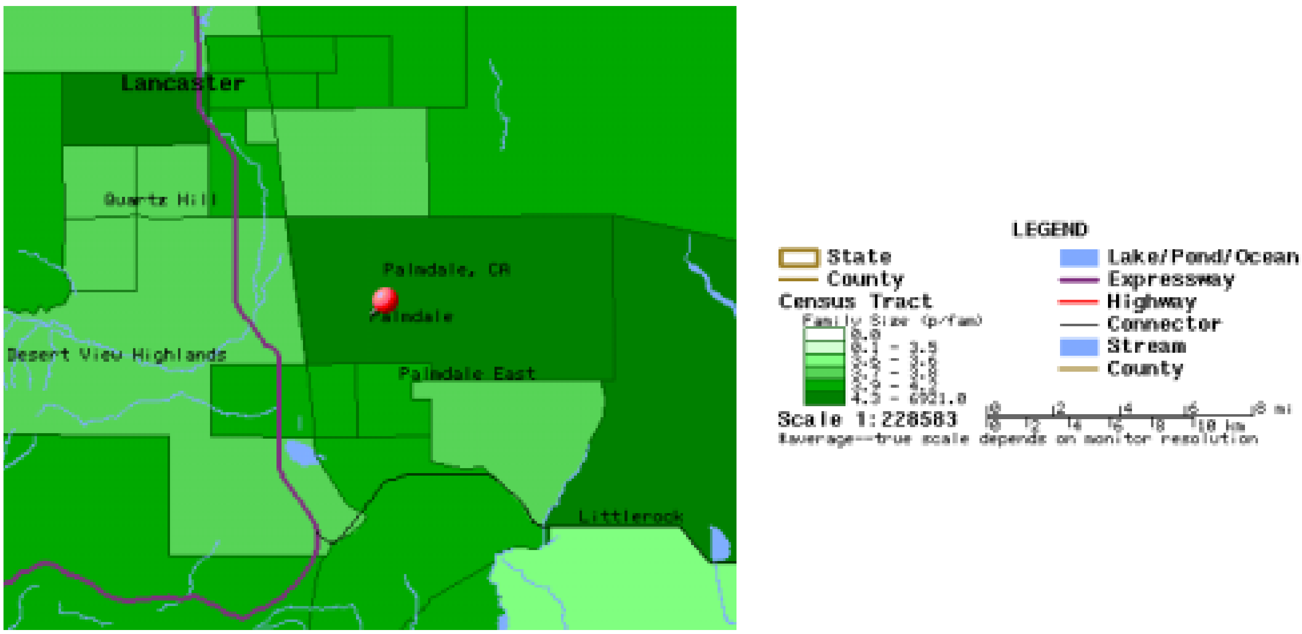
(Continued on page 21)

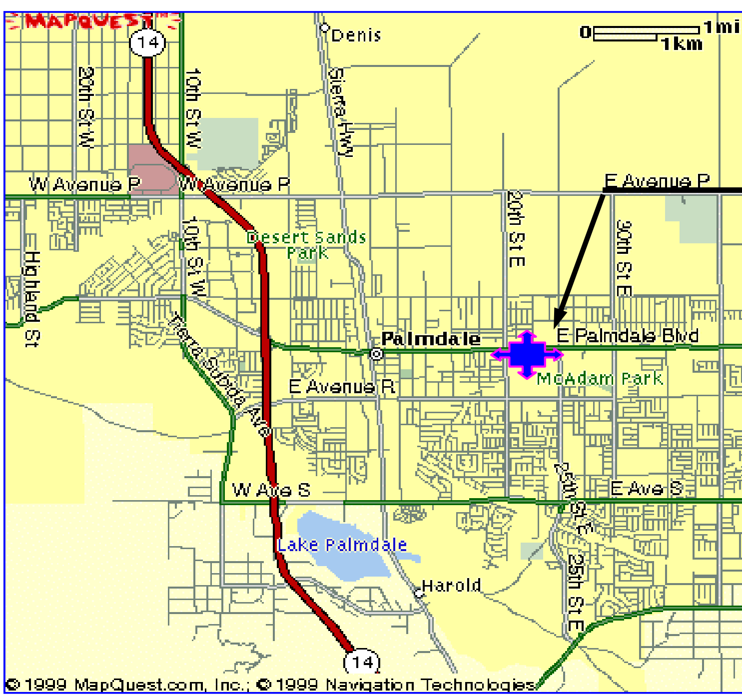


Location Decisions *(Continued from page 20)*
Groceries purchased are also dependent on the size of the household. The map below shows that generally all of Palmdale, including the previously identified East Palmdale (the "darkest green" area) has the largest family size of 4.3 to 6.9 persons per household.

East Palmdale is also the location of families with less than 30,000 dollars of disposable income as compared with other areas of the city where residents make between 30,000 and 60,000 dollars. Although all families need grocery items, but lower income and more populated families spend a larger proportion their of disposable income on consumer goods.

Groceries are low-order goods, and as such have low thresholds. This means that the *range* of the goods (i.e., the distance that the customer will travel) is short. In order to maximize sales, it would be wise for MuchoDinero to locate the store within walking distances for those customers who do not own automobiles. Therefore, we recommend that a store to be located in the darkest green area noted on the map for the Hispanic population, and the potential site, as identified on the following map, to be near the intersection of East Palmdale Boulevard and 20th Street East.





Potential site for MuchoDinero, Inc.

Strategies for Capital Financing in San Joaquin Valley

Abbas P. Grammy, Professor and Chair of Economics

In the previous issue I reported on strategies for creating a "regional identity" as an attempt to overcome Barriers to Job Creation in the San Joaquin Valley, a project undertaken by the Central California Futures Institute. In spring of 1998, I helped the Institute form *action research teams* of volunteer public and private leaders from the valley communities to develop strategies for overcoming such barriers. An action research team consisting of three community leaders worked together over a three-month period to develop strategies that help overcome a serious barrier to job creation, ***lack of access to capital financing.*** Team members were

Rassoul Yazdipour
Professor, School of Business
California State University, Fresno

James Oakley
Job Training Program Manager
Tulare County Private Industry Council, Visalia

Harlan Westenberg
Business Analyst
City of Modesto, Modesto

I summarized their report in the following format.

The ability to build warehousing facilities in anticipation of need is limited by access to capital and financing, and still further complicated by political decisions being made at the local level. Businesses that have to wait for space often choose to locate elsewhere.

Policy Recommendations:

Establish a Regional Venture Capital Networking Organization

Like any other place in the nation, local entrepreneurs and innovators need adequate funding to either start businesses or expand the existing ones, thereby creating wealth and jobs in their respective communities. These ventures require access to potential equity investors who are extremely hard, if not impossible, to find. Given the very dominant role of agriculture in the San Joaquin Valley, an added problem for local entrepreneurs is their uphill battle of selling non-agricultural related business opportunities and assets to investors who have made money either in agriculture or real estate. To overcome this barrier, we recommend building upon the experiences of such local organizations as the CSU, Fresno-based Venture Institute of Central California and the Modesto-based Innovation Expo to provide for the needed entrepreneur-investor networking. Local Economic Development Corporations could play an active role in rising one-time, unrestricted private donations of $50,000 as seed money to lunch a valley-wide capital networking project.

Create a Regional Small Business Loan Funds Organization

Many business owners and entrepreneurs do not qualify for bank lending. To solve problem, the Kern County Small Business Loan Fund can be used as a model. The fund basically borrows money from participating banks and lends to qualified entrepreneurs with less onerous restrictions. A key point in the plan is that 20 percent of the loans are guaranteed by sponsoring area businesses. Use of the funds through the California Economic Development Lending Initiative should also be explored and marketed to the business community.

Encourage Local Private Investors to Invest in Local Entrepreneurial Companies and Start-ups

Given the Valley's specialization in farming, non-agricultural projects receive little attention. This neglect happens despite the fact that diversification is a requirement for a stable, non-seasonal, and high-paying employment base in the community. To alleviate this shortcoming, we recommend the proposed valley-wide capital-networking project to or-

(Continued on page 23)

Capital Financing (Continued from page 22)
ganize special meetings and workshops to facilitate locally financed small business lending.

Establish a Valley-based Venture Capital Fund

Given insufficient deal flows in the Valley, no venture capital firm has shown interest in relocating in the area. Unfortunately, this may be a catch 22 dilemma: investment money needs deals and deals need investment money. Besides, the existing Fresno-based Small Business Investment Company of the San Joaquin Investment Group, which is partly funded by tax-payers' money has kept an extremely low profile in the area. To resolve this issue, we recommend to

- Revitalize the San Joaquin Investment Group
- Nurture and support appealing entrepreneurial opportunities in the region that can help create attractive deal flows
- Support the formation of a regional venture capital fund

Concluding Remarks:

We believe in order to have a substantial and sustainable level of economic development in the Valley; interested parties have to significantly help to create, nurture, and expand home-grown industries and ventures. Adopting such an inward-looking approach can create more wealth in the region and provide high-paying and dependable jobs for our communities.

(Continued from page 17)
8. Production of hay and alfalfa totaled over $725 million over the last decade. Like pistachios, hay/alfalfa production fluctuated with a declining trend.

9. Kern County potatoes continue to play a vital role in the local economy decades after Chinese immigrant Leong Yen Ming made his fortune on the crop. The potato crop, which experienced a huge decline in 1997, totaled over $715 million in the 1990s.

10. Nursery crops (trees, turf, plants, and flowers) have slowly but steadily risen in value. Their ten-year total was $702.4 million. A significant amount of the crop value derived from roses. In 1996, roses alone had a crop value of over $31 million from the nearly 25 million plants grown on Kern soil.

While the annual value of Kern crops topped $2 billion annually in the 1990s, Mr. Hodge stated that the past decade was "so-so" for local agriculture. "With foreign competition, it is hard to be optimistic," he stated, adding that competition from other states has also put a dent in revenue. He expressed cautious optimism about Kern's agriculture in the next decade. Although, our conducive climate and productive soil will continue to provide agriculture with a competitive advantage, access to advanced technology should further aid the local industry.

Hay, Alfalfa	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	86,848	66,321	51,369	60,963	79,851	65,302	69,389	82,528	80,392	82,396	725,359
Rank	7	7	9	9	7	9	10	6	10	9	8

Potatoes	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	93,308	88,060	42,240	68,879	79,070	61,692	83,995	46,932	74,960	76,295	715,431
Rank	6	5	11	8	8	11	6	6	11	10	9

Nursery crops	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Value ($1,000)	57,197	62,128	58,191	59,536	62,891	68,710	72,383	79,629	82,636	99,129	702,430
Rank	9	8	8	8	9	7	9	8	8	7	10

Source: Hodge, Loron. Executive Director, Kern County Farm Bureau. Telephone interview, Bakersfield. July 17, 2000.
Songs of our Soil. Bakersfield: Bakersfield Country, 1997.
www.kernag.com