



California Center for Regional Leadership

Inland Empire Regional Economic Vitality Conversation

The Historic Mission Inn, Riverside California

November 4, 2004

Meeting Minutes

Welcome

Paul Hiller, President & CEO, *Inland Empire Economic Partnership*

Delighted to have two Cabinet Secretaries here with us. Grateful to have a voice in the future of economic development for the inland empire.

Sunne Wright McPeak, Secretary, Business, Transportation & Housing Agency (all comments from Cabinet leaders in italics)

Joining Fred Aguiar to "listen" to the best thinkers and doers in the state to understand what the major challenges and solutions taking place on the ground. To tap the energy and resources of people throughout the state. The Cabinet has embarked on Economic Vitality Conversations throughout the state. Larry Grable is here from the Governor's Regional Office along with Barry Sedlik and others. We are at the one year point in the Administration, having inherited a host of problems, and working to craft a vision and set of programs for the future of California.

Today's date is important not only for timing reasons, the election showed us where voters stand, but now the Governor can look ahead twenty years in California to shape and describe how we are going to grow, have a prosperous economy, and how we will foster an environment that allows capital investment to flow. The government does not create jobs, but the actions that the state takes creates an environment in which business can function. The Governor is committed to a quality environment and social equity so that more people can participate in the workforce of the economy. How do we connect the dots among all of the resources in the state? Thank you to everyone for "doing their homework" in filling out the questions ahead of time in writing. The Governor's office now has an incredible record for an agenda for the state for moving forward. Thanks to the group for your input.

Fred Aguiar is well prepared for his job because he has served at local government, county government, and has maintained a no nonsense business sense to his work and the entire administration.

Fred Aguiar, Secretary, State Consumer Affairs Department

Honored to represent the Governor and eager to listen. Governor

Schwarzenegger is an action figure who demands that things get done quickly.

History of Governor Wilson was well known, but this Governor does not have a



background and he gets up to speed by listening carefully. The Cabinet is here today to listen on behalf of the Governor.

Christopher Allen, Market Director for Investments, *Bank of America*
Honored to sponsor this event. Oversees investment activity for BofA in San Bernardino and Riverside County. To stimulate the economy is a privilege. Today's group represents critical stakeholders in the future of the Inland Empire. Barbara Lyon could not be here and is sorry.

Today's session is about a robust dialogue about short term economic development issues, and long term competitiveness. The Inland Empire is the fastest growing region in the state. 27k acres. Growing at the rate of 80k people per year. The economic trends for the region will be explored by economist John Husing. Intent of the following presentation is to partner local government and the discipline of local government to the state.

Economist Perspective: A Perspective on the San Diego Region

John Husing, PhD, Vice President, *Economics & Politics, Inc.*

To understand the way the Inland Empire economy works is to understand the way the Los Angeles economy works and can be summarized by "following the dirt" which began in 1978. Phases of this migration are:

1. Affordable Housing and Population Serving Jobs
 - a. At first, developers go to areas like the Victor Valley to build houses, but a second tier of developers come 5-7 years later and build industrial and light manufacturing sites.
 - b. Industrial Projects and Blue Collar Jobs
 - c. Expensive Houses
2. Local Jobs change, 900,000 jobs created and 40% of these jobs are created in the Inland Empire, but the Inland Empire is not creating jobs not fast enough.
3. Population as a "State"
 - a. Total population of the Inland Empire has 3.6 million people.
 - b. The 11 fastest growing states: First three are California, Texas, and Florida. The Inland Empire would be the 4th fastest growing state in a ranking.
 - c. Total income of the region is 84 billion and more income/economic power than 24 states.
4. Why is the region growing?
 - a. Dirt: population growing and population serving job growth.



- b. "Build Freeways and they will come"... Don't build freeways and they will also come.
- c. Inland Empire captured 48.8% of the southern California new housing market!
- d. When you are less expensive, like the Inland Empire, people move here!
 - i. Per capita income of the Inland Empire is low.
 - ii. Half of the Inland Empire population has never attended a single college class. SCAG has 46% of population without college education.
 - iii. The people who move here are qualified and need blue collar jobs that provide opportunity for upward social and economic mobility.
 - iv. Industrial space: 32% of Los Angeles County available space is located in the Inland Empire.
 - v. Labor Force savings: people move here over the course of a weekend.
 - vi. Problem: manufacturing sector is disappearing! Upward social mobility is evaporating. Major losers (industrial)
 - vii. Why are these jobs leaving:
 - 1. Energy costs: California is #1 in cost per kilowatt/hour
 - 2. Workers Comp: \$10.80 per \$100 in manufacturing
 - a. Mandatory social policy like family leave hurt California
 - 3. Highest home prices of 138 US Metropolitan Areas, lowest ranking in California and highest nationwide
 - viii. Shipping: Post-Panamax Ship can land in Long Beach, Tacoma, and Seattle. These ships are coming to Long Beach.
 - 1. 17 million containerized cargo are coming in 2010
 - 2. Intermodal issue:
 - a. Grade crossings
 - b. Intermodal yards
 - c. Short Haul Rail
 - i. State needs to HELP to finance this infrastructure with a financing mechanism OTHER than raising local taxes.
 - 3. Cars and Trucks do not belong on the same roads.
 - 4. Airport and Air Cargo. LAX has 78 million passengers. Ontario will play a second tier so cal airport at 30 million passengers per year.
 - a. Air Cargo is EXPLODING at Ontario and the logistics sector pays VERY well, but takes up a lot of LAND.
 - 5. Affordability Index.
 - a. San Diego. 10% affordability (90% of people can't afford to live there.)



- b. Inland Empire is 19% affordability (81% of people can't afford to live here!)
 - i. Inland Empire is pricing future middle class OUT
- 6. Median Incomes
 - a. Chino Hills and other cities have high income - over \$100,000 incomes to move here.
 - b. Willing to work for less?
 - i. YES! (see presentation for survey results)
 - ii. Highly skilled workers who do not want to commute
- 7. Office Market
 - a. Inland Empire has the second lowest vacancy rate in the state
- 8. What does the Inland Empire need?
 - a. The state needs to create jobs and incentives for the region to create better jobs!

Conversation Notes

Sunne Wright McPeak: Information frames effective policy. Working in a region and building off of regional economies is critical, competitive advantage is essential. Do freeways cause or induce growth? Transportation enables development, but market is the primary driver of growth - population causes growth! Conversation should focus around three questions:

- 1. What short term actions should be taken to spur economic activity?*
- 2. What long term actions should be taken to advance competitive advantage? What are the continuing reasons for investment in the Inland Empire? Goal is California is to get the highest return on investment.*
- 3. How do we best structure an effective partnership between the regions and the state around economic strategy?*

Question 1: What state actions will have most immediate impact on California's economic recovery?

Chris Jicha, *Economic Development & Public Services Group, County of San Bernardino*: Appreciates getting the Governor out into other state, but we as a state need to be prepared to respond to competition from other states. Specific recommendations:

- Workers Compensation needs to be addressed.



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- SB 2 needs to be kept off the table.
- Expand the tax incentives for employers hiring people in Enterprise Zones. How about making the entire state an Enterprise Zone?
- How about creating an economic development energy rate that is fair. SB 975, prevailing wage law, is 35% higher.
- Re-create the state's office of permit assistance to help get businesses off the ground.

Norm King, *San Bernardino Associated Governments*: Goods movement has both challenges and opportunities. Port Freight, 4billion in total cost requirements.

- Institutional need to deal with private and public players (shipper affect freeways, trains affect highways). Can the administration bring parties together to talk more honestly with one another? This is a southern California shipping issue not a Long Beach port issue.
- Free trade on the global scale hurts the local economy with regard to costs associated with shipping.

Jamil Dada, *Riverside County Workforce Development Board*: High construction and land costs for doing business in California. The state has limited influence over many issues, but utility and gas taxes hurt local and regional businesses.

Don Averill, *San Bernardino Community College District*: Serves as chair of economic development initiatives in ten distinct areas. Main concern is that the network that has been working well to develop a viable way for the community colleges to interact with and advance economic development throughout the state. The community colleges are requesting a 50 million increase from the state for the upcoming year. Need the support of the state to provide the resources of the community colleges to interact with other state agencies to bring grants for small business manufacturing and other opportunities. Small Business Manufacturing needs employer certification if they are to receive defense contracts.

Steve PonTell, *De Oro Group*: Short-term areas that need to be addressed: academically defensible response to why people come to California to run their businesses? There is an attitude problem among business leaders in California that this is a bad place to do business! Governor needs to keep businesses here FIRST and recruit new business second.

Ann Atkinson, *Center Chevrolet/Mazda of San Bernardino*: Small business perspective is that government is micro-managing small businesses and new regulations and rules require certain sized print for advertising. Avoid micromanaging business! The highest energy and medical costs and worker's compensation costs comes back to laws that need to be revisited. Transportation systems, infrastructure, and education



are critical, but the basics of too many laws make this state a hard place to do business.

Bob Wolf, *Germania Construction Corporation*: To what extent do people from the Inland Empire subsidize the cost of goods (e.g. television set in Iowa)? Poorly packed trucks do more damage than thousands of cars. Measure I is a HUGE success for this region, but the larger problem, national in scale, is congestion: Inland Empire and Chicago. The Inland Empire has a container fee charges one fee and looking for alternative methods of financing increased container ships that are coming to Long Beach. Customs revenue that is increased by higher levels of trade should be used to finance Inland Empire transportation needs!

Patti Aguiar, *San Bernardino County Board of Supervisors ~ 4th District*: Five specific areas - worker's compensation; gas tax reform to dedicate gas tax (or portion) to transportation only; need separate truck lanes and widening of I5; need to bring high tech jobs to the entire state; need results oriented educational programs to advance these issues.

John Husing: Consider triple-trailer dedicated lanes from Nevada to Long Beach. This would provide an enormous profit increase for the truckers! Profits could go to clean up of harbors, compensation of highway patrol, and other needs.

George Schnarre, *George H. Schnarre Inc. Real Estate*: Has not heard a word about aging population and what to do about the housing market. If people cannot afford to live here, people will leave! California laws need to be reformed! Different set of rules for business practices in different parts of the state. Hospitals are also prohibitively expensive and no money left to care for patients. ADA (American Disability Act). Served a law suit from an attorney in San Diego - federal problem!

Marcia McQuern: The expansion of ports in Long Beach is killing us! Railroads are blocking-up our towns and we need to have the trucks finance the truck only lanes in a way that is viable to them. We can no longer share the roads with these trucks! Pollution is another major problem, diesel trucks are now better regulated dirty diesel fuel. Need help from state to set regulation to patrol air quality. Leverage points might be rebuilding of diesel engines are not classified as new when pollution is not decreased.

Ronald Loveridge, *City of Riverside*: This is the century of regions and if southern California was a state, what would be your priorities and your platform? State of the Region report card reveals a VERY LOW grade to transportation. Air quality is an ongoing concern for the people of this region.

Steve Harrington, *Distribution Management Association*: Exodus of the manufacturing sector outside of the ports is what is causing the increased level of goods movement



through the ports! This is hurting the region both in terms of loss of manufacturing jobs and increase of train and truck traffic in the region! Approx. 45% of freight in this state NEVER TOUCHES the ground in California. We need federal funding for what California does for the rest of the country!

Steve PonTell: Governor has the opportunity to have two or three big ideas. It will be easy to get involved with lots of incrementalism. Big ideas for the Governor. We have a pricing problem in southern California and price the transportation system in southern California based on time of day and frequency of use. Water is also a critical issue, not a supply issue, but a subsidy issue and how desalinization might impact 20 - 50 years forward for the state.

Question 2: What state actions will result in the most significant long-term improvement to California's economic competitiveness and comparative advantage?

B.J. Patterson, *National Distribution Centers*: Runs 3000 trucks and 6000 sq feet of warehouse space. Car pool lanes are underutilized 60%- 70% of the day. Truck only lanes are all over the eastern states. Outside the box thinking - truckers don't want pollution either! Ports run 24/7 and efficiency of ports so that traffic can run at night so that trucks don't sit idle at night (when the pollution is caused!).

- Three years ago, 3.75 turns made per night. Now, getting .75 turns per night. 3,500 workers are employed in trucking making a competitive wage.
- Tort reform to reduce worker's compensation.

John Husing:

1. Neither house of the legislators has economic information to make good decisions.
2. Prop 62, reapportionment, to have the center heard in this state to get politics back to the judiciary.
3. Upward social mobility is key; logistics industry is a 550k employee sector and a way for people to make more money. Peripheral canal was good, but the Governor should facilitate the development of international trade in so cal to help blue collar workers by building improved transportation hubs, etc. \$61 million spent in the state on leg races and no changes were seen!

Jeff Sceranka, *Enterprise Funding Corporation*: The stages of a small business begin with loans from family and credit cards. There is a big whole between personal loans and the next phase of growth. Financing mechanisms are for people in the second tier of development. Businesses often fail because they are overloaded in debt. The state needs to find a solid source of financing for the 5k - 50k range of loans. Each segment of that financing need must be met. There is 100k - 300k ranges are being met, but start-up financing mechanisms are not in place for the economy to work.



Long-term, there needs to be data base that satisfies requirements such as infrastructure needs of the region! How do we take action on these long-term issues? There needs to be credibility about the information, such as transportation infrastructure and water, and we need to come up with an implementation plan regardless of which party is in power. Planning - if suburbs do not increase their density they will not work. The _ acre, single family lot is no longer viable for young and old. The state has got to provide a leadership role in how to increase densities in suburban areas!

Jack Wyatt, *Strategic Connections, Inc.*: Problems caused by solutions - government! The biggest growth industry in the Inland Empire is government. Each layer of government needs to avoid overlap, e.g. filing permits that are streamlined. Committee to improve government and make it more effective. 85% of every tax dollar has already been allocated based on legislation and executive decisions. If legislature could reassess the entitlement programs and various department to reprioritize what the role of government is today!

Truck lane expansion, transition concept used in the 84 Olympics, when certain roadways are dedicated to truck lanes and lane shifting to accommodate more roads during particular times of the day.

Norm King: The state needs a more rational system for infrastructure planning. The state currently has four different estimates of energy use: UC, PUC, CalTrans, etc. Requires a restructuring of the state, although consolidation is not what he recommends, a performance based system that is driven by user fees and not general allocations. User fees are NOT taxes if these funds are used appropriately. The poor are hurt by user fees is the traditional response to user feeds.

Janice Rutherford, *City of Fontana/Board of Equalization*: California Performance Review suggests that business attraction could be accomplished by streamlining our tax agencies and have elected officials oversee this tax consolidation idea. Local government has been treated as an ATM machine by the state. Local government needs to be able to roll back prevailing wage when necessary. Redevelopment should not be on the table for the state to remove if they so chose. Prop 1A went in the right direction, but the disease was not a cure!

Jane Block, *Riverside Land Conservancy*: The elimination of the Cuchilla Valley Conservancy is a bad idea and we need these groups to maintain conservation in this region. Regional planning and conversation are good for business - incentives to make conservation and good planning good for everyone - the Riverside County Integrated Project is a great example.

Tony Mize, *Native Building Corporation*: Regarding housing, people live in condos, single family homes, and apartments, but the cost of housing is creating a bad



situation. Density zoning laws is pushing the traffic problem in California. The legislature needs to create some sort of housing trust fund for people who can not afford them! Real estate transfer tax at the end of someone's ownership to contribute to this fund.

Expedite fees are not a tax if it is specific to the activity. Prevailing wage is so bad that bond allocation funding is not used by developers.

Ron Loveridge: In the last two years, the areas that lost the most jobs were government and manufacturing. Southern California has the lowest per capita income of the 16 lowest regions in the state. Social mobility may be achieved through an expansion of the logistics and housing construction business. In addition to blue collar jobs, higher paying jobs are driven by higher education programs that advance the connection between new economy and industry. 23 colleges and universities in the region that are a real asset that must be leveraged.

Ramon Alvarez, *Alvarez Lincoln Mercury/Jaguar*: The Governor truly cares about the state of California and cares about the business climate. If the ports were open 24/7 there would be a 25% reduction of traffic. Open the ports at all hours! Between 12am - 8am there are not people on the roads!

MOU to have Baja California and California do business! The relationships are built and it is a mechanism that should be focused on!

Question 3: How do we best structure an effective partnership between the regional and the state around economic strategy?

Larry Sharp, *Arrowhead Credit Union*: Be careful not to undo the things that make the business climate welcoming. The people in the assembly and senate do not understand business.

Jeff Sceranka, *Enterprise Funding Corporation*: Critical for the state to work locally, there have been dozens of meetings on these issues, but specific achievable goals have not yet been articulated. The administration needs to use organizations like Inland Empire Economic Partnership (IEEP) to disseminate the information to the regions so that effective information can be shared with groups like IEEP, liaisons established, information shared and action taken. International trade issue is impacting the region and needs to be dealt with, how Inland Empire is paying the cost of the transporting goods, and is a high priority.

John Husing: Governor has appointed a list of economic advisors. The Governor needs a regional body of economic advisors. There needs to be an institutional structure to provide information, on an ongoing basis, to the regions.



Kit MacNee, *The Community Foundation*: A partnership between the state and region is the role of the non-profit community that provides health care, mental health, educational services. As the population in this region explodes, the non-profit sector is being hit harder and harder. Child care issue in particular and the number of hours spent in the classroom is diminishing. Why is this happening? The quality of life issue plays a role in whether the families will stay here once they were raised here. Kids are leaving in droves for the coasts, because child care, jobs, and infrastructure are not here. In particular, low income families are in great need.

Paul Hiller: Tort reform will send a message to businesses that we are hoping to make the state a business friendly place.

Bob Wolf: Land use and transportation is being driven by Sunne's vision and the best way to structure this partnership between the state and regions is to increase housing stock.

Cheryl Dye, *City of Riverside*: Partnerships could be advance be saving 4 EDD jobs for CA Tech, Trade and Commerce. Structuring some sort of entity that is on board with other state agencies across a broad range of issues, but Tech Trade and Commerce is not by the phone to help businesses remain in California in a functional way? A clear and simply message for the state to use for all economic development activities would greatly help the integration of regional and state needs. Use CALED to advance the state-regional partnership.

Don Averill: First 5 Commission helps children and all of these Conversations are set up to support the family - commute time reduces the amount of time people can spend with their families. Try to come up with a way the state can reduce commute time - what is ONE thing we can do to make some progress and have some success?

Don Larkin: Reinforcing a regional asset of the Inland Empire - the educational network. Improving the college attendance rate, up 40% in past three years, is representative of an effective partnership between schools, labor, etc.

Steve PonTell: Plan to leverage California's international presence to use the Governor to improve our international trade deficit.

Ann Atkinson: Workforce experience is key for students and school credit should be given to get young people who get into businesses early. What if we could market our state by regional assets?

John Husing: Requesting an annual conversation between the state and the regions -- just like this one!

Secretary Aguiar: Thanks to the attendees! Governor requesting radical ideas.



Secretary McPeak: Eager to come back in one year with an update. The Cabinet is working on these issues, and the next steps include a record of the Conversation that is bipartisan and the leadership of the state of California by region will be highlighted in the public record. The understanding of what is happening, dynamically, in each region of the state, compliments what is happening at the Economic Strategies Panel. This information will be made public by the end of the year. Bold recommendations, and expectations for the new year and the Governor's vision, include the following:

- 1. Reform proposals will happen SOON and will be announced at the state of the state.*
- 2. Housing in the right place and that is sufficient for the whole population. Each region better take care of its own housing and an improved proposition for the investment of public dollars for infrastructure and transportation. Rewriting land use planning laws because they do not currently work. Adoption of these laws will not happen until review by public is made possible.*
- 3. Aggressive action will be made on transportation. Slashing transportation dollars is not good for growing the economy and the Governor is committed to delivering projects faster: customer fees, goods movement corridors, trains movement and grade separation, harnessing market forces in water, energy, and congestion and variable pricing for transportation.*
- 4. Institutionalization. The Governor's Cabinet is struggling to figure out an institutional arrangement for goods movement - can not tolerate the congestion that comes from goods movement, but can not accept additional regulations that hamstring the industry.
 - a. CPR, to be revisited tomorrow, is moving forward on streamlining energy forecasts for both supply and demand for next year and moving forward into the future.*
 - b. CalBis and Economic Development - a working unit of economic development that transcends these two agencies to use internal administration resources. International Trade will be moving forward next year without legislative authority and mobilization of civic leaders will be critical. Decentralization of authority must provide the vision for the grouping of local governments that advance regional economic growth.**