



COUNTY OF SAN BERNARDINO'S PIVOTAL MOMENT

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County of San Bernardino's Pivotal Moment

Executive Summary

For generations, San Bernardino County has been a beacon of growth and opportunity, a trend that came to a screeching halt with the Great Recession. To some, this suggested that the County, along with much of the exurban areas around the country, was doomed to perpetual stagnation and ever-increasing poverty. The Inland Region in general has been further stigmatized, by groups such as Smart Growth America, for being the “most sprawling region” in the country.¹

Yet the idea that the region's dispersed multi-polar urban form has doomed its future ability to recover seems somewhat misplaced. Despite the pain caused by the recession, the entire Inland Region is showing sure signs of recovery, with job and economic growth since 2010 outpacing that of the Southern California coastal counties, particularly Los Angeles.

This is not to say that this recovery has been sufficient to turn the region around, as many jobs that were lost in higher-wage professions, such as construction and manufacturing, have not fully recovered. And there remains a very high level of poverty, one of the highest in all of California.

But there are some signs of better times ahead. Many long under-represented sectors of the County economy, notably technology and advanced business services, have shown considerable gains. The area may still lag behind national and California levels in these industries, but recently growth has been steady and appears to be accelerating in the county more than in many other regions.

The future of these industries will be determined by demographics. Like much of interior California, San Bernardino County's growth was powered largely by the migration of blue collar workers, increasingly minorities, seeking affordable housing. Yet many of the industries, including some in the rebounding logistics sector, are not growing quickly enough to sustain prosperity.

However, there are signs that migration patterns are changing. As housing prices have risen to astronomical levels along the coast, more educated workers have been heading east. This pattern of millennial migration to less expensive areas, seen nationwide, provides some hope that the area can make a gradual transition towards more technology and information-based employment.

Ultimately this requires cooperation from the state as well as bold local initiatives. Current state policy, which is tilted against single family homes and greenfield development, threatens to remove the region's greatest allure: family-friendly, lower density housing. Lack of supply and often onerous regulations tend to both depress construction employment and raise relative housing prices. If the gap between the Inland Empire prices and those of competitive locales in places like Arizona, Texas, Utah and Nevada continues to expand, the region will continue to lose jobs and families.

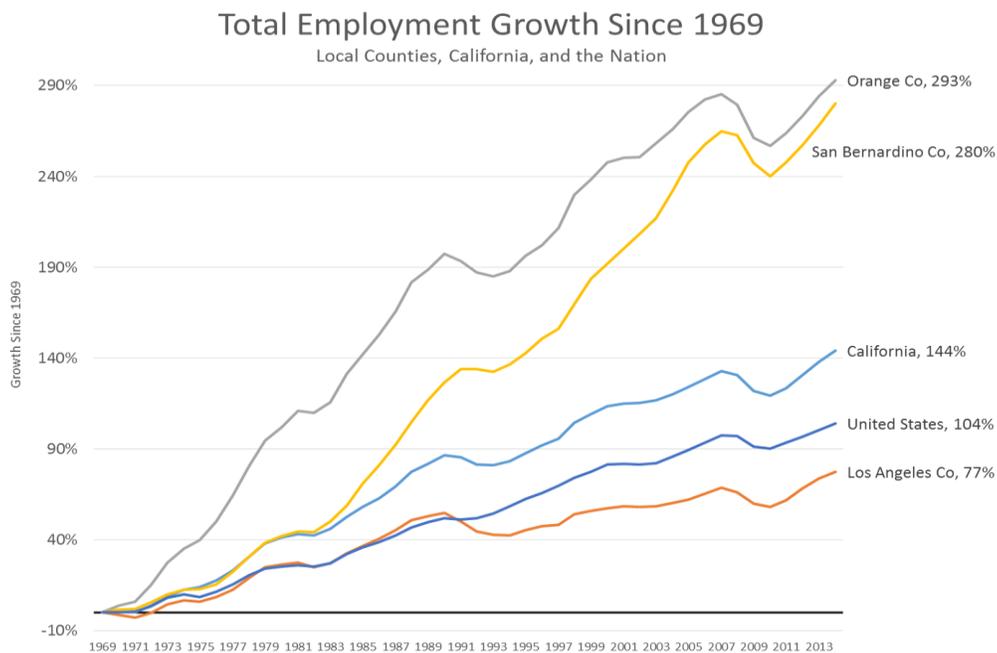
At the same time, local leaders need to focus on making their cities and towns more appealing for employers. Already the vast majority of San Bernardino County residents work in the County or elsewhere in the Inland Empire; this percentage needs to expand, given the inefficiency of commuting to the coast and the limited job opportunities there.

This will require a broader view of development. Affordable single family housing remains the primary calling card of the region, and talk of forced densification simply undermines this appeal. Yet at the same time, the region has room, for example in older, often underused industrial, warehouse and retail space, to develop new, more urban environments that might appeal to younger people, singles and childless couples. The key here is not to favor one form or the other, but to produce environments, paced by the right infrastructure improvements, that can appeal to a more diverse marketplace.

It is here, with a mixture of vision and pragmatism, that San Bernardino County can fully recover its momentum and find a way to a new future in the information age.

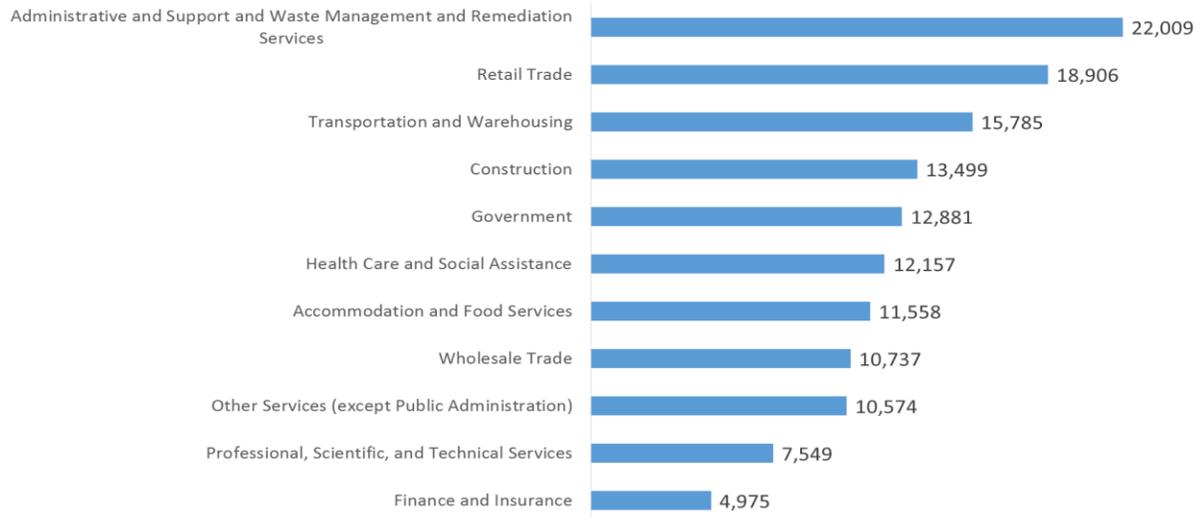
Section Two: The Economic Prospect

For most of the past three decades, San Bernardino County and the rest of the Inland Empire has been one of the great economic growth stories. In the period that ended in 2007, the area experienced very rapid job growth, sparked not only by the growth of population, but expansion of industries from the coast, notably manufacturing, logistics and construction.



Growth Drivers

San Bernardino County Job Growth, 2001-2007



Despite the relocation of some industries, much of the region's workforce labored in the coastal counties of Los Angeles and Orange. This dependency worked well as the coastal economies were booming. But when the California economy declined in 2008, the Inland areas, as has been the case in the past, suffered more than most regions. The period from 2008 to 2011 was a particularly difficult one for the County, which also saw the bankruptcy of its largest city, San Bernardino. Even today, the city of approximately 215,000 remains plagued with extreme levels of poverty - second worst in the country after Detroit - with one third of its population living below the poverty line.ⁱⁱ

The severity of the recession reflected some uncomfortable trends in the County economy. For one thing, the dependency on the coastal counties turned very negative, as employers reduced their workforce, including many in the inland region. At the same time, many of the industries critical to the country's growth, notably construction and manufacturing, shrank dramatically. Unlike the San Francisco Bay area, parts of west Los Angeles, and Orange County, the area had little in the way of technology or high end service industries to fill in the gap.

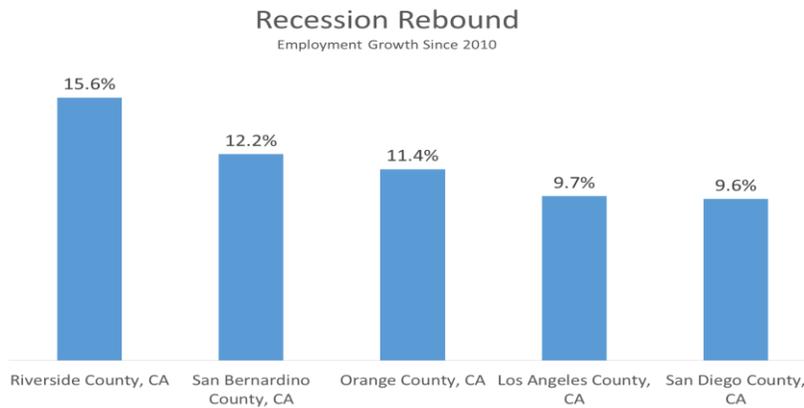
The Recovery: A Slow, Steady Improvement

The severe recession, touched off by the collapse of the housing bubble, led many observers to assert that areas like San Bernardino, located in the periphery of a huge metropolitan region, faced a miserable future. Distant from employers and dependent on its allure to middle class families, places like San Bernardino were widely predicted to be rehearsing for new roles as the "future slums" of greater Los Angeles. Even when the Inland Empire was showing clear signs of recovery, the fervently anti-suburban media, such as The New York Times, continued to characterize the region as a center of "hardship" and fallen dreams.ⁱⁱⁱ

Yet when the economy did begin to recover, the job picture in San Bernardino County brightened far more than many expected. Indeed since 2010, the area has experienced a faster level of employment growth than most of the rest of Southern California, and, statewide, lags only the tech-rich San Francisco

and San Jose areas.^{iv} Over the past two years, the County’s fiscal situation has improved as employment, income, property valuations and sales tax revenues have all rebounded.^v

Instead of under-performing, the County is out-performing its regional counterparts, with the exception of neighboring Riverside. Nor is this anomalous; since 2010, according to Brookings demographer William Frey, affordable regions on the outskirts of large metropolitan centers have outstripped areas closer to the urban core in overall growth.^{vi} Overall, according to a 2015 Brookings survey, the Inland Empire, along with San Jose, were the only American cities on the list of the 100 largest Asia-Pacific cited in terms of economic growth.^{vii}



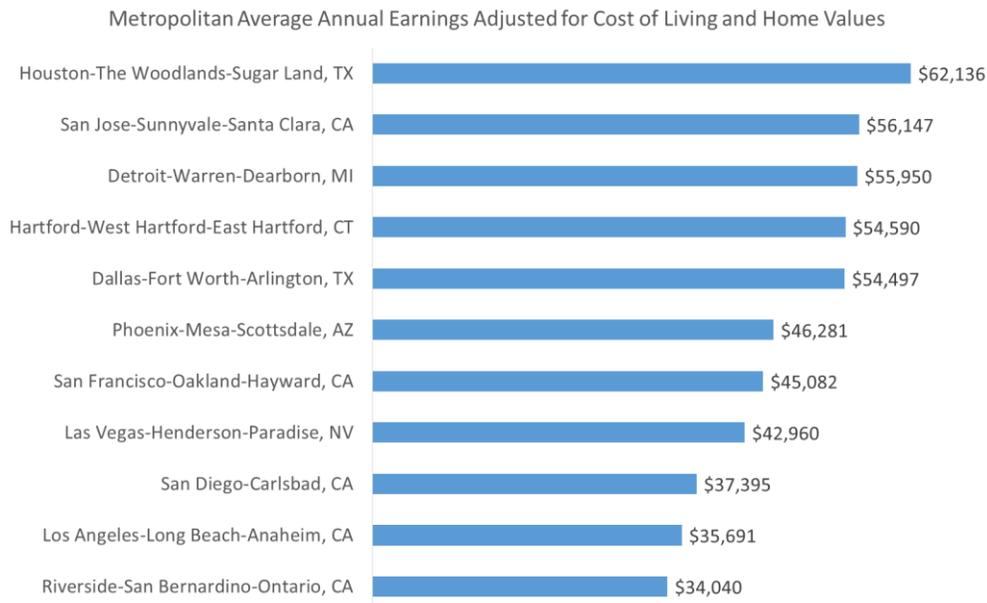
As has occurred in many regions, the key drivers of new job growth have tended to be in medical services, hospitality and retail.^{viii} Many of these jobs are lower-wage, and are predominately oriented to serving the local population. Given the high cost of living, particularly housing, the current trajectory of job creation may not prove sufficient to maintaining, much less growing, the area’s middle class population.

San Bernardino County Employment by Sector, 2007-2015

| Description | 2007 - 2015 Change | 2007 - 2015 % Change | Current Wages, Salaries, & Proprietor Earnings |
|--|--------------------|----------------------|--|
| Health Care & Social Assistance | 30,269 | 43% | \$43,520 |
| Transportation & Warehousing | 15,426 | 32% | \$43,361 |
| Accommodation & Food Services | 7,538 | 14% | \$16,332 |
| Professional, Scientific, & Technical Services | 4,625 | 18% | \$51,166 |
| Educational Services | 2,690 | 22% | \$34,105 |
| Wholesale Trade | 2,467 | 7% | \$53,086 |
| Unclassified Industry | 1,683 | 572% | \$29,736 |
| Arts, Entertainment, & Recreation | 1,332 | 17% | \$17,894 |
| Government | 429 | 0% | \$52,949 |
| Mining, Quarrying, & Oil & Gas Extraction | 272 | 43% | \$74,295 |
| Utilities | 68 | 2% | \$92,583 |
| Management of Companies & Enterprises | (511) | (8%) | \$68,772 |
| Finance & Insurance | (1,245) | (6%) | \$54,989 |
| Crop & Animal Production | (1,316) | (35%) | \$27,287 |
| Administrative & Support & Waste Management & Remediation Services | (1,679) | (3%) | \$26,566 |
| Information | (2,822) | (34%) | \$55,487 |
| Real Estate & Rental & Leasing | (3,795) | (27%) | \$35,005 |
| Retail Trade | (4,647) | (5%) | \$29,020 |
| Other Services (except Public Administration) | (10,846) | (24%) | \$24,895 |
| Manufacturing | (13,003) | (20%) | \$48,592 |
| Construction | (13,584) | (23%) | \$43,647 |
| All Sectors | 13,354 | 2% | \$40,436 |

Potential Sources of Middle Class Job Growth

Increasingly the critical issue for the County is not so much the quantity of jobs but their quality. Workers in San Bernardino may not face the super-high housing prices and rents that bedevil their coastal counterparts, but housing affordability remains considerably worse than in nearby Las Vegas and Phoenix. They cannot be expected to achieve a middle-class standard of living while earning low wages and salaries. In fact, of the 53 largest metropolitan areas in the country, the Inland Empire suffers among the lowest “returns” of income in the nation.



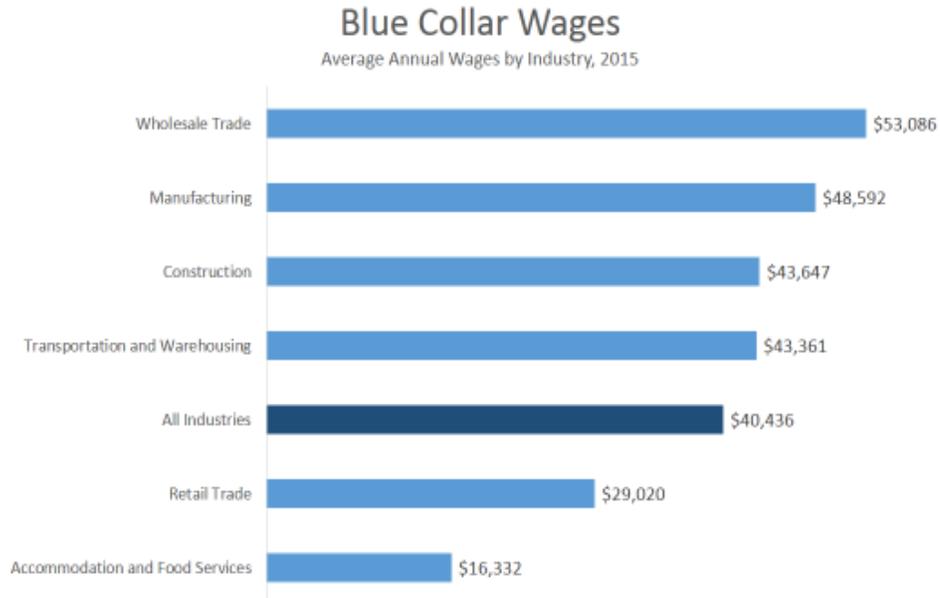
Fundamentally, to recover more middle-income jobs the County must do two things: expand its historical economic base, and accelerate moves to expand other higher paying employment. The need to do this is imperative, as poverty rates, even for those employed, are now among the highest in the state of California, which already suffers the highest poverty levels of any state.

To recover a larger quantity of higher paid jobs, the County needs to figure out in which areas it already has comparative advantage and those where for demographic and cost reasons, it could thrive in the future. There should be no false choice between embracing past strengths while developing new ones. For the County to perform as an opportunity region, emphasis has to be placed on both strategies.

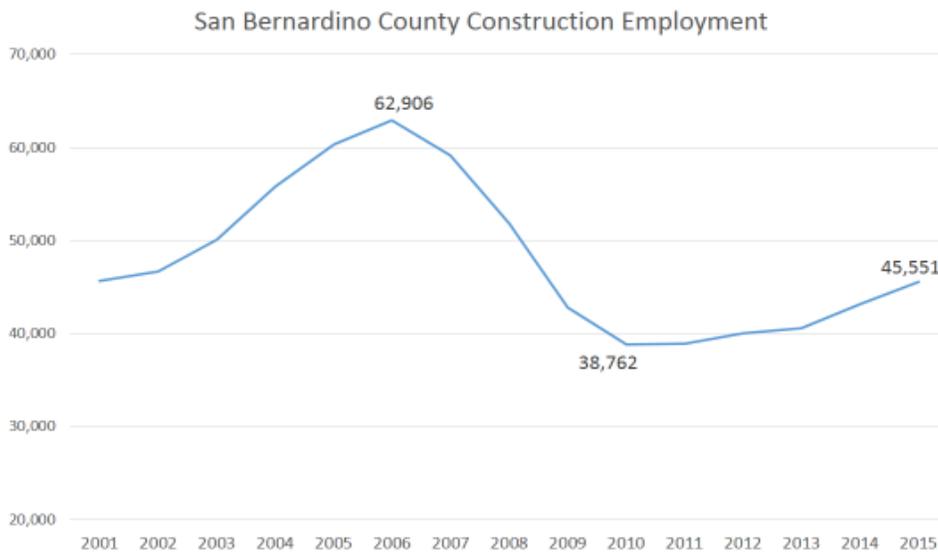
Recovering the Blue Collar Base

Given the comparatively low education level of the San Bernardino County workforce, which we will address later, it would be foolish to dismiss the traditional sources of higher wage blue collar growth: construction, manufacturing and logistics. All these industries pay higher than hospitality, retail and other lower-end services, which make their resurgence critical to restoring prosperity to many of the region’s

residents. This growth has been further accelerated by the expansion of electronic commerce, which is based on efficient distribution from a central point.^{ix}



Historically, construction has been a linchpin of the County’s middle income employment. This employment was based both on the rapid growth of the region as well as the export of workers to the coast. In the early 2000’s construction employment in the region grew by double digits, only to fall even harder in the recession. As the economy has recovered, construction employment has begun to resurge, but remains far below the peak levels experience in 2007, and the numbers of new jobs remain well below that of the early 2000’s.^x



Yet there are reasons to suspect that construction employment may never again ascend to its peak level. For one thing, housing construction in the region, although stronger than during the recession, remains considerably below historic levels. Indeed, according to an analysis of permit data since 2010, the region is producing housing, on a per capita basis, well below the national average.

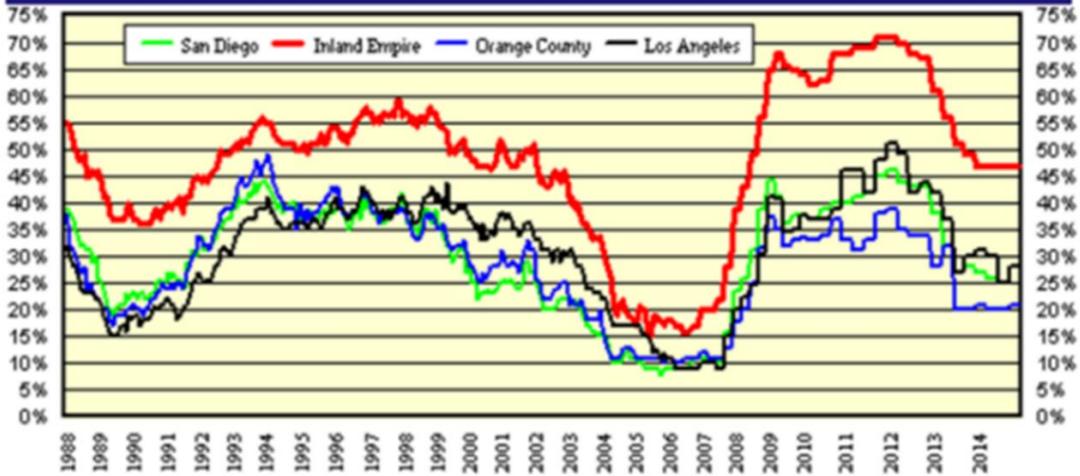
The reasons for this shortfall are not difficult to locate: a tough regulatory climate and still poor income growth. Nor is this merely a reflection of the area's long-time emphasis on single family housing; the region is also under-producing multi-family housing as well. Nor can workers from the area expect much relief from coastal area growth; these areas are, if anything, having the same problem in terms of producing housing, per capita, of all kinds, compared to past levels.

The shortage of new housing everywhere else in Southern California suggests that the Inland region will continue to be price competitive with the coastal counties. Although median prices have risen from a low of \$142,000 in 2010, the present price of \$254,000 is well below the bubble high of \$373,000 seen in 2007. The area remains much more in the range of potential homebuyers; although affordability has dropped from a high of 70 percent in 2010 to 50 percent. This is much better than in Los Angeles and Orange, where affordability is roughly half as high.^{xi}



Source: Dataquick - Quarterly Data

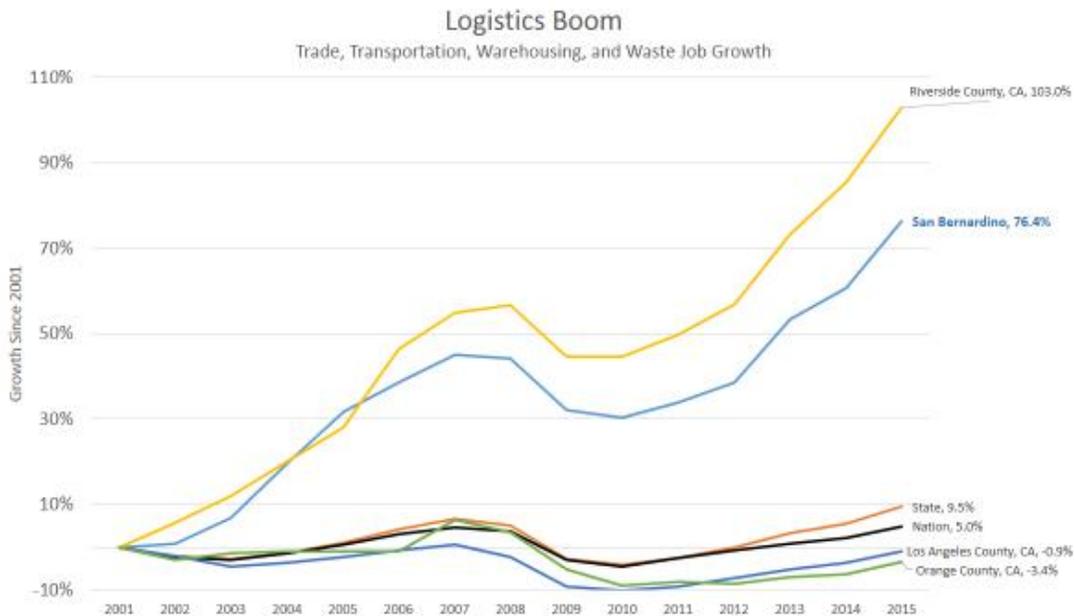
Affordability to Median Income Household



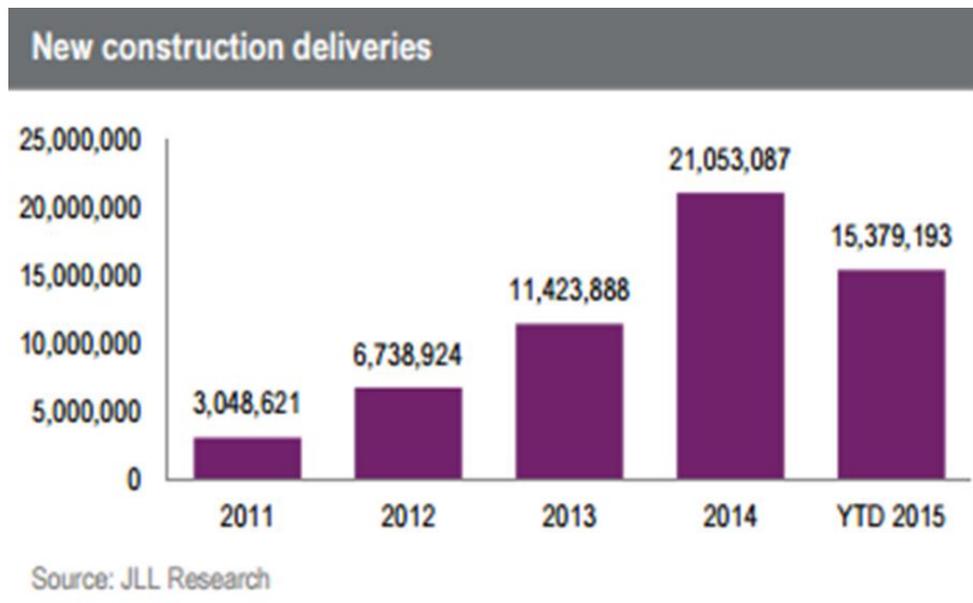
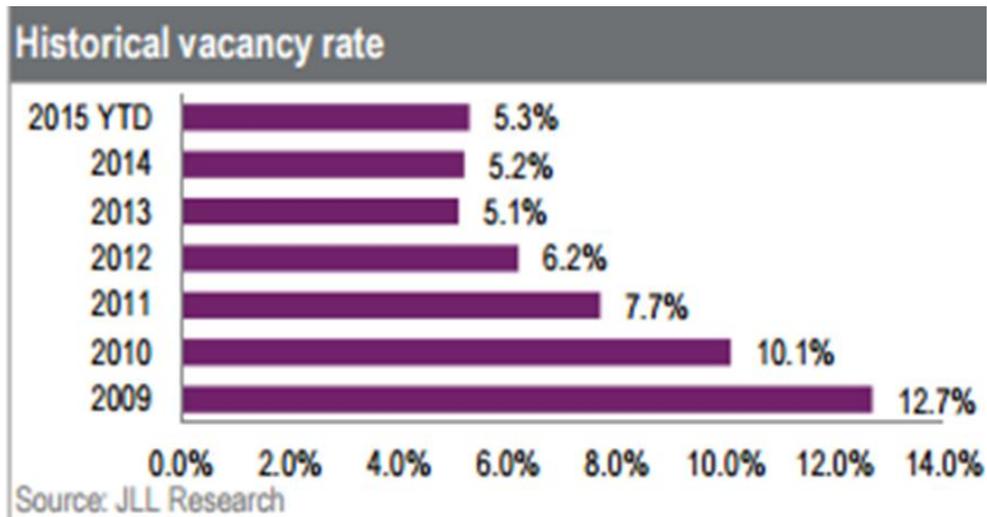
Source: CA Association of Realtors

Logistics: A Key to the Economic Future

Perhaps more promising may be the logistics industry, which continues to see a steady stream of new projects. Although not always high-paying, logistics has the advantage of benefiting from locational advantages tied to the Ports of Los Angeles and Long Beach. Already some 80 percent of all goods that arrive at the ports end up transiting through the Inland Empire.^{xii} Overall growth in the Inland counties in this field is easily out-pacing that of surrounding counties.



As older warehouses closer to the coast become less competitive, those in the Inland areas, including San Bernardino, are becoming more attractive. In fact, the area has seen a significant jump in building these kinds of facilities, with more than 10 million square feet under construction, the largest number of any region in the country.^{xiii} Between 2012 and 2014 the region added some 8000 jobs in this field.^{xiv} Overall since 2012, the industrial vacancy rate, notes CBRE, has dropped from nearly 7 percent to 3.8 percent. One sign of industry confidence: 57 buildings under construction totaling over 20.7 million square feet, of which 4.4 million square feet is pre-leased.^{xv}



Logistics is one area where the County continues to outperform the national average. Job growth in the logistics industry grew 18 percent in San Bernardino County compared to just four percent nationally.^{xvi} The area continues to absorb warehouse space at a rapid rate, with some estimates for the

last year upwards of nine million square feet, which would be “all time record for the region.”^{xvii} Notes Fran Inman, Senior Vice President at Majestic Realty:

I think this area is the future for many jobs connected to this. It needs to be seen as something unique. One size does not fit all. The growth potential is there and we need the jobs. But it’s not going to be Silicon Beach, but something else.

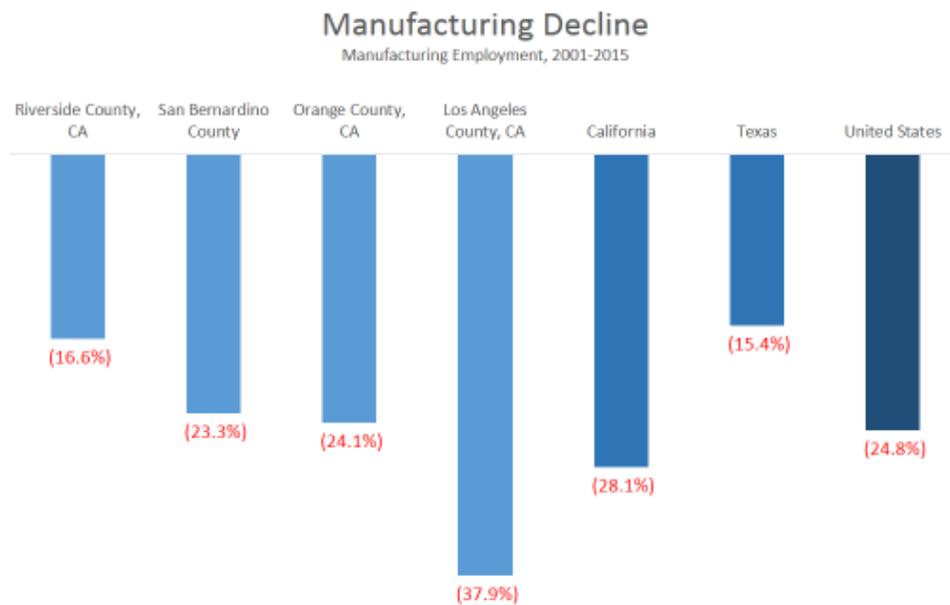


In the future, this logistics economy could expand even further, as the Inland Empire counties take control of Ontario airport.^{xviii} For years, this facility has suffered under the indifference of Los Angeles, and not developed to its full extent. But with the Inland counties now in control, notes long-time local economic development expert Steve PonTell, this takes the airport from authorities who treated it as a secondary or tertiary concern, and hands it to local authorities for whom its success is a priority. “Growth of Ontario Airport,” he suggests, “is the fundamental opportunity that we have as a region.”^{xix}

The logistics industry could expand with potential to move into more higher-end business services as more operations consolidate around the airport.

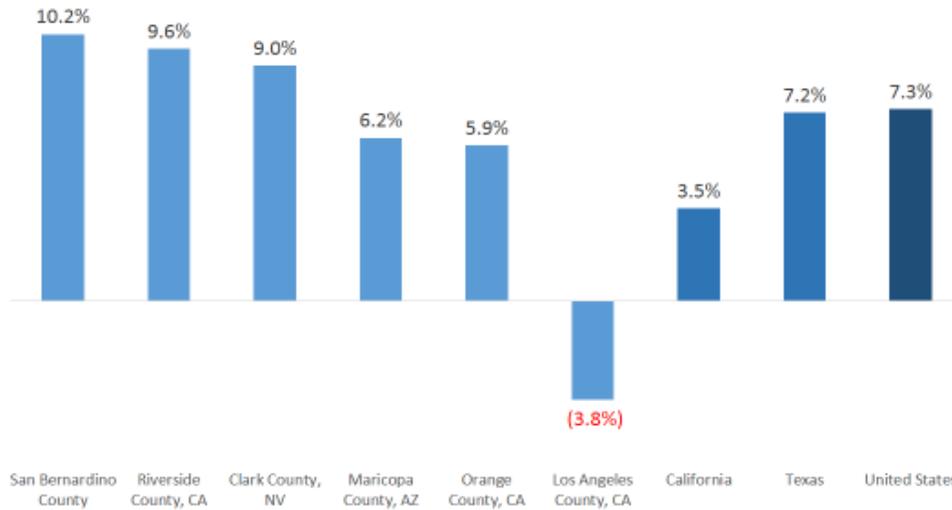
Manufacturing

Over the past decade California manufacturing - including in the Inland Empire - has faced tremendous challenges, as it has across the country. Ever cascading regulations have prevented the state from participating in the national manufacturing resurgence, which now appears to be slowing down as a result of weaker economic conditions and a strong dollar. Over the past decade, San Bernardino's industrial employment growth has tracked below that of the nation, although declines in the County are less than in California as a whole and, in particular, Los Angeles County.



Manufacturing in the Inland Empire does retain some competitive advantages. The area still has lower costs, and a plentiful industrial workforce. Indeed, rather than decline since 2010, the County has actually picked up some manufacturing employment, although total industrial job levels remain well below historic levels. Companies that have run out of affordable options along the coast, but still want to be near the large population centers and the port complex continue to look at the area as ideal.^{xx} Most encouraging has been the expansion of high value manufacturing since 2007. Growth in this group of manufacturing sectors – those averaging more than \$45,000 in earnings - has outstripped the coastal counties, although lagging the national average.

Growth of High-Value Manufacturing Industries, 2010-2015



Increasingly the area’s industrial growth will depend on playing a critical role in a larger supply chain. Companies in San Bernardino can take advantage of their existing supplier base and the large industrial workforce available in the region. Notes Mark Mahboubi, President at R&B Machine in Upland:

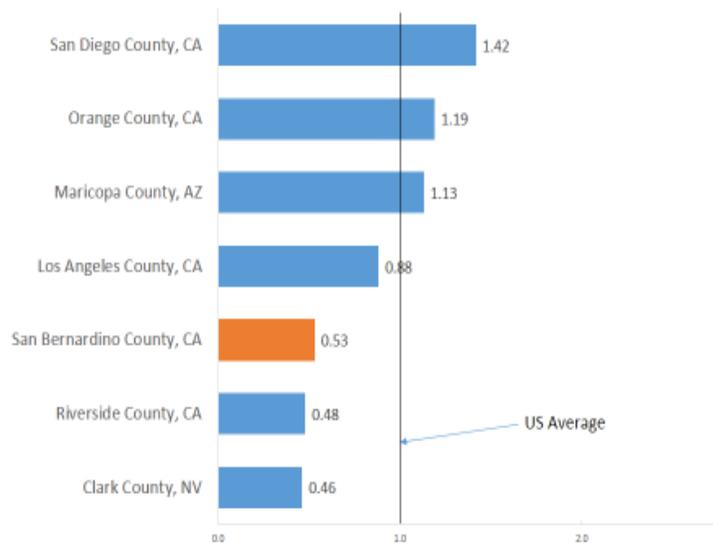
San Bernardino County is in a unique position at the heart of Southern California. It’s the right fit for many operations considering its close proximity to a broad supply chain, its unparalleled customer base, availability of skilled employees, reasonable operating cost and an attractive area for employees given lower priced housing, great nature, and a nice life style with numerous activities to fill in the leisure time.^{xxi}

Yet despite these advantages, it is dubious that manufacturing employment will be able to grow sufficiently to fill the employment needs of the area, whether in the country as a whole or here in California. Data from national economic modeling firm EMSI projects manufacturing employment to be flat nationally over the next decade and down 4% in San Bernardino County over the same period.^{xxii}

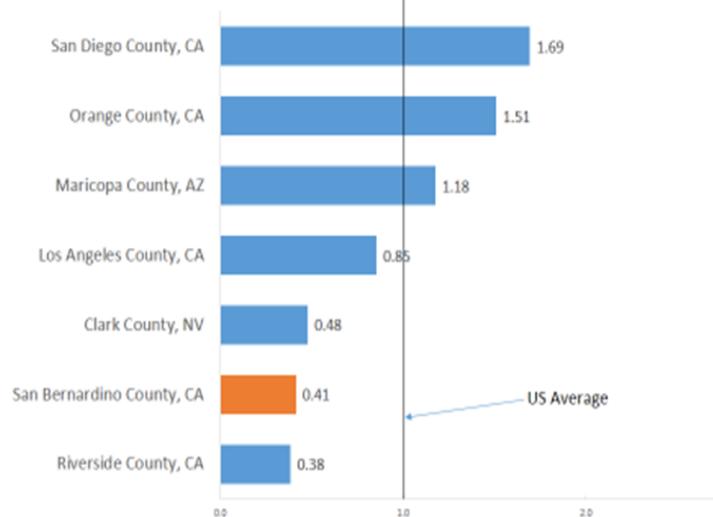
Embracing the Information Economy

Given the general trajectory of the economy, particularly in California, it is critical that the County generate jobs in two key high wage sectors - professional business services and technology. This may constitute a major challenge for the region, which has long been behind in both. Historically, the Inland areas have thrived by capturing the blue collar sectors no longer compatible with the coastal economy.

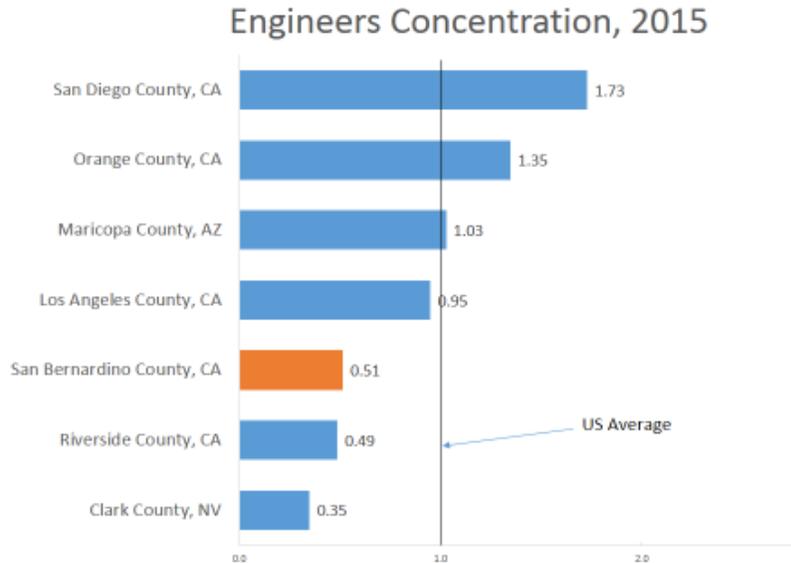
STEM Jobs: 2015 Concentration



High Tech Industry Concentration 49 Technology Industries, 2015

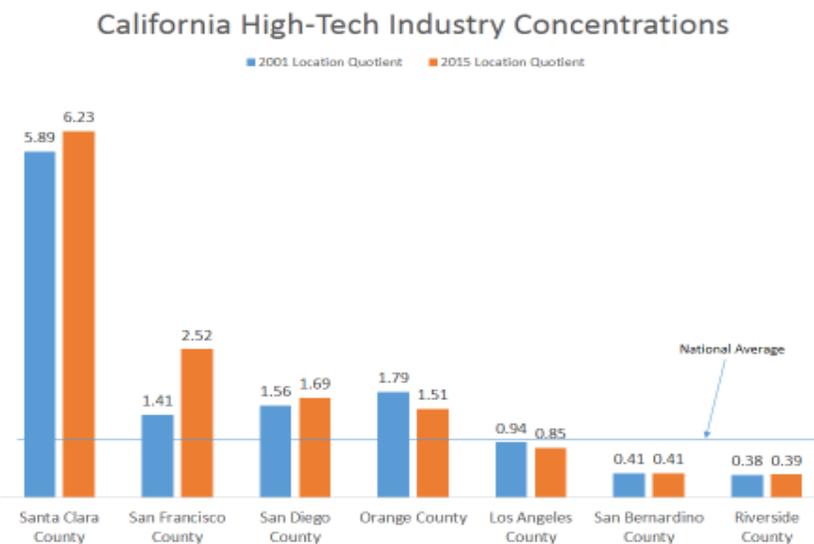


One critical problem has been a shortage of workers skilled in these fields. Overall, San Bernardino has trailed behind in such critical human assets as engineers. The area has also lagged in technical degrees such as are produced by community colleges and trade schools.



The Technology Imperative

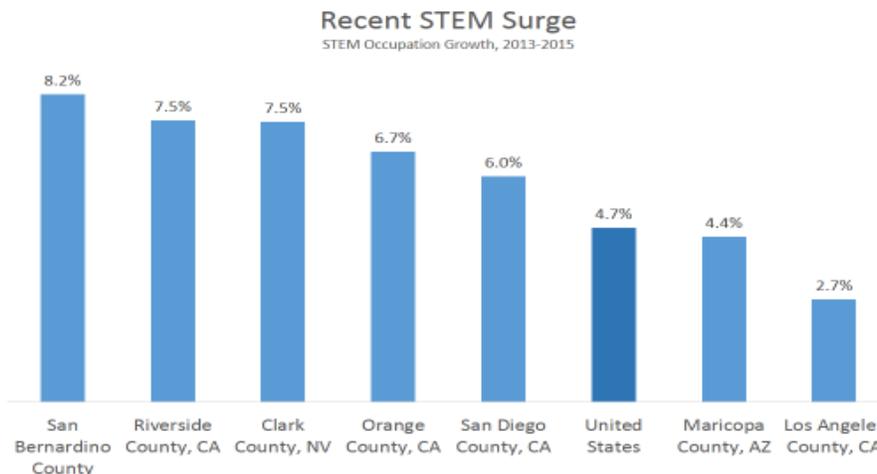
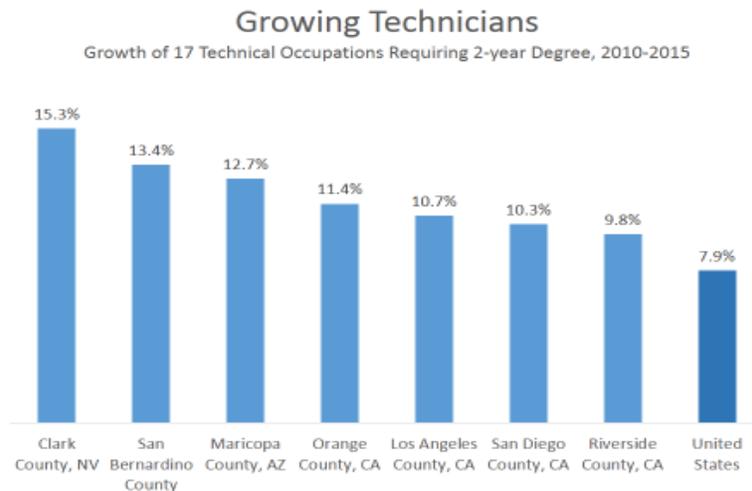
Like much of Southern California, the long-unfolding decline in the aerospace industry has worked to diminish the technology workforce since the 1990s. Even as the Bay Area LQs for tech and STEM employment remain among the nation’s highest, that of all the Southern California counties, including San Bernardino, are well behind the levels experienced during the aerospace boom that occurred before the end of the Cold War.



More recently, as in the case of business services, there has been some encouraging growth of both STEM and tech employment in the County. This has occurred while Los Angeles, the much ballyhooed home of the “Silicon Coast,” has seen its tech and STEM job counts stagnate. The Inland areas may still lag behind, but their trajectory seems more positive than that of the Southern California coastal counties.

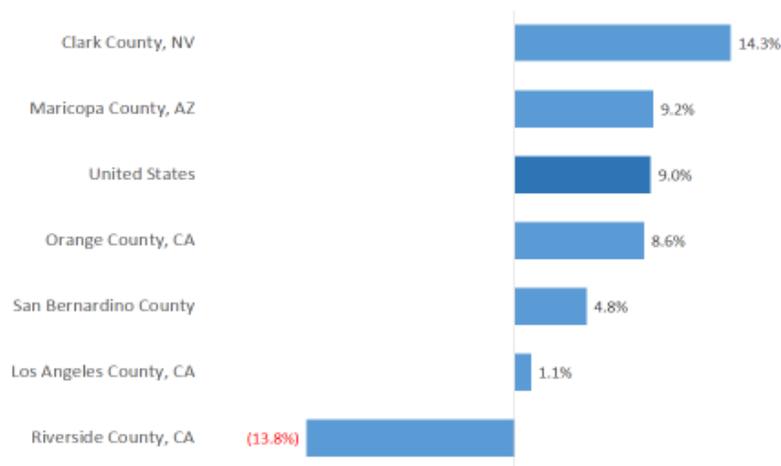
Ultimately it is unlikely that San Bernardino County, or anywhere in the inland areas, will evolve into another Silicon Valley or even Orange County. But as we see the business services, there has been a notable growth in STEM employment - largely outside the high-profile social media and search space - in less expensive parts of the country, notably in Utah, Texas, and Arizona. If San Bernardino can capture some of this growth, it would greatly enhance the diversity and forward trajectory of the region.

Yet there are positive signs that technical work is headed towards San Bernardino. Since 2011, the area’s technology sector has grown, albeit from a small base, faster than surrounding counties, but it trails key out-of-state competitors as Maricopa (Phoenix) and Clark (Las Vegas).



High-Tech Growth

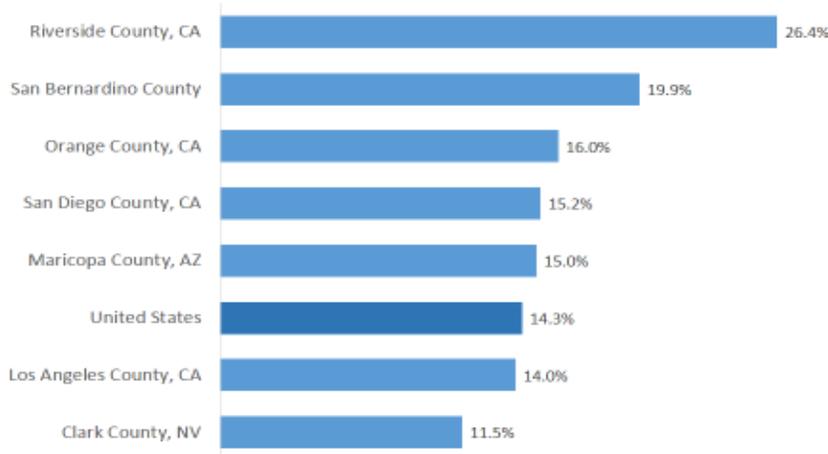
Employment in 49 Technology Sectors, 2011-2015



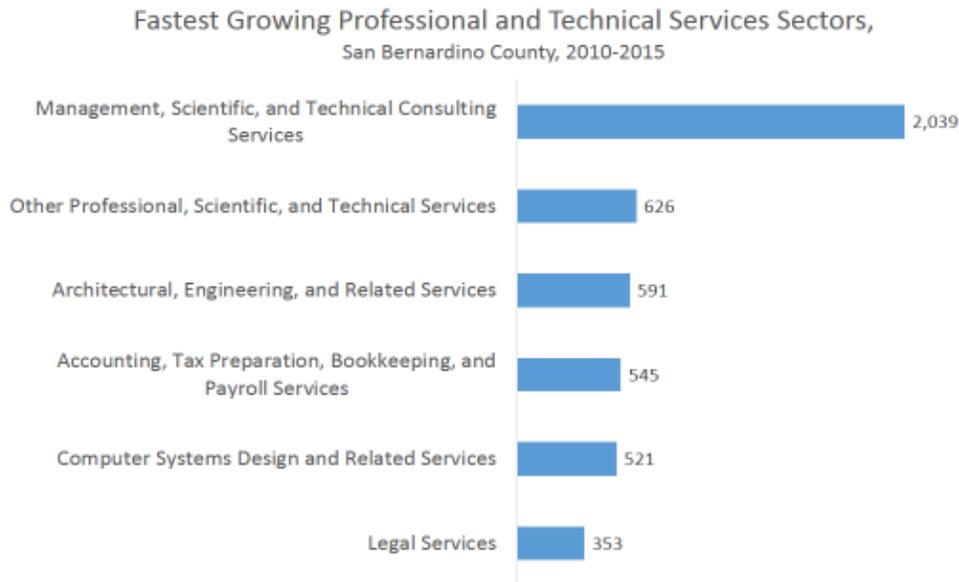
Progress in Business Services

Although still well behind the coastal counties, recent trends suggest that San Bernardino is beginning to pick up some employment in business services. The region's concentration of high-end business services still trails the nation, as local companies are just beginning to catch up by serving functions that historically have been addressed from the coastal regions. One positive sign has been increasing absorption of office space since 2010. Many of the largest new tenants came from finance, insurance and medical fields.^{xxiii}

Growth of Professional, Scientific, and Technical Services, 2010-2015



The best prospects for the region lie in fields such as management consulting and other technical services, where jobs nationally have been moving towards less expensive areas. There is also some strong growth in architectural and engineering-related services, which could be further sparked by the growth of traditional blue collar industries like construction and manufacturing.

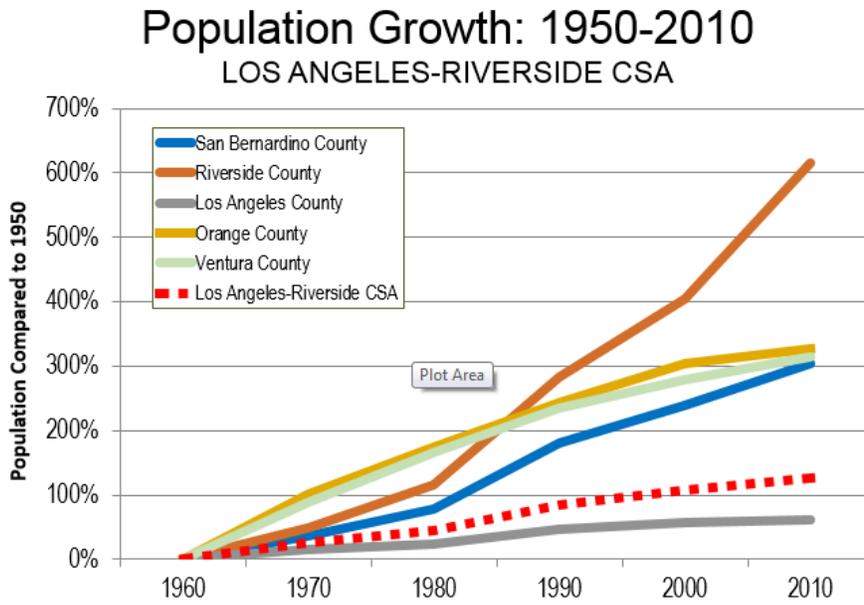


One area which may be particularly promising is trade-related services. This critical sector has historically been located closer to the coast, but with the shift of logistics to the Inland Empire region, there may be a strong opportunity here. The takeover of the Ontario Airport, as well as the expansion of other air hubs, suggest that employment in this conjunction between trade and business services could continue to grow.

Section Three: Demographics and Housing

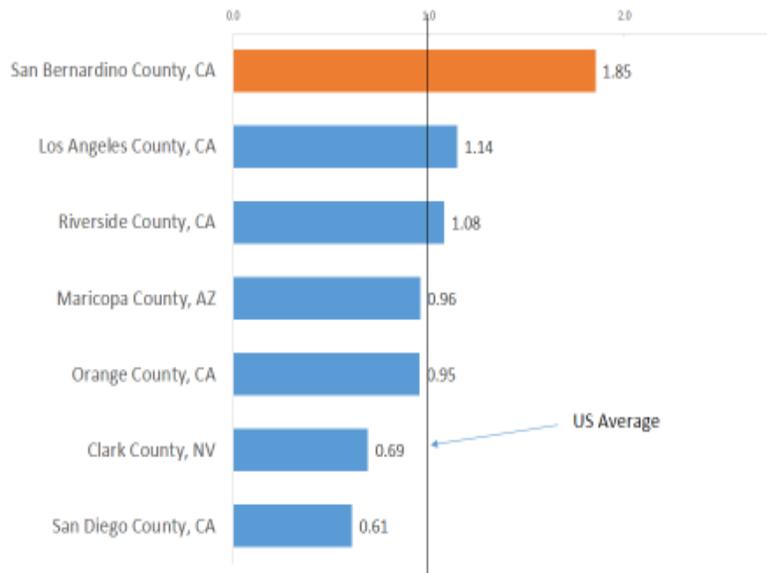
In the past much of San Bernardino County’s growth, and that of the Inland Empire, was generated by rapid population growth. Among the nation’s largest metropolitan regions, the area ranked fifth in growth - a remarkable 420 percent increase between 1960 and 2010; and was the seventh fastest growing major metropolitan area between 2000 and 2010. Much of this growth was stirred as people fleeing high

costs on the coasts headed en masse to the region. Between 1990 and 2006, according to estimates by the Public Policy Institute of California, migration accounted for seventy percent of the region's population growth.^{xxiv}



US Census Bureau data

Trade, Transportation, Warehousing and Waste, 2015 Concentration



But since the last recession, this growth has slowed markedly. By 2010-2013 population growth overall was roughly one-seventh of the rate enjoyed before the recession; migration, the key driver of the County's growth before, has turned slightly negative.

Increasingly, the County's growth comes from natural increase of the already settled population as well as immigration. Since 2000, the County has experienced significant migration from overseas, which is rapidly changing the demographic components of the area. Although it is commonly believed in the media that such outer ring areas like San Bernardino County would begin to depopulate, this is hardly the case, as population growth has begun to start again, albeit with significant breaks with historical pattern.^{xxv}

None of this suggests the area will depopulate, confounding the expectations of much of the media which has insisted that populations were returning to the urban core.^{xxvi} In reality, since 2013, growth nationally has shifted dramatically to outer regions, which are now growing at twice the rate of the core cities.^{xxvii}

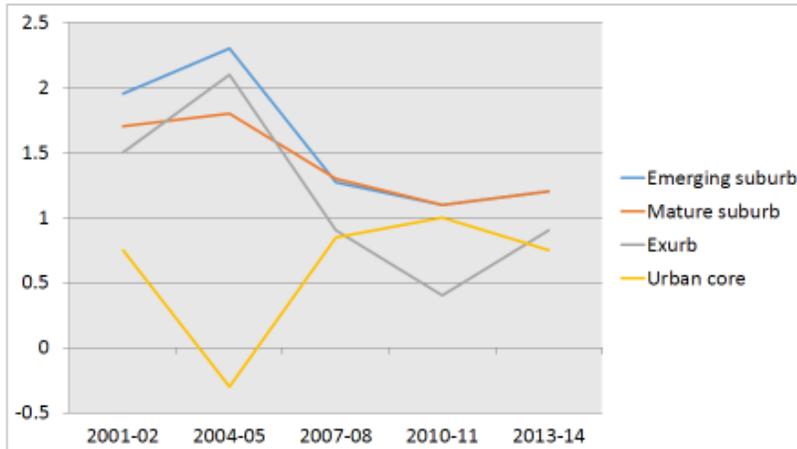
Seizing on these trends, San Bernardino County has substantial potential for population and economic growth, as a result of its still large share of greenfield land. Large parcels can be developed into housing that is affordable to middle income households, especially in the Victor Valley, the Lucerne Valley and the Twenty-Nine Palms – Yucca Valley area. While these areas have a less moderate climate than the coastal areas, their strong growth in recent decades indicates their comparative attractiveness. As younger, middle-income households find the more developed parts of Southern California too costly, these areas can be an alternative to moving to other lower cost parts of the nation, such as in the Intermountain West, South and Midwest.

Millennial Makeover?

Critical to the future of San Bernardino will be attracting, and retaining, younger educated people. In this respect, the County, and the whole Inland area, may be better positioned than many suspect. Overall, San Bernardino County has experienced a stronger rise in millennial population than the coastal counties between 2000 and 2010. Arguably the strongest lure for millennials, particularly as they age, will be finding affordable housing. Despite much writings to the contrary, millennials, according to various surveys, actually prefer single family houses and suburbs by a wide margin when they consider the "ideal" places to settle down. Overall, they remain as committed to home ownership as previous generations.

Much has been made of the concentration of millennials in central business districts, such as downtown Los Angeles. Indeed, their concentration is greater in the downtowns than in other parts of major metropolitan areas. However, their population in the downtowns is a little more than two percent of the total millennial population, while the millennial population in the areas surrounding downtowns is falling far faster than the downtowns increase. Nearly 90 percent of millennials live in the suburbs and exurbs.^{xxviii}

Exurbs are growing faster than urban core again

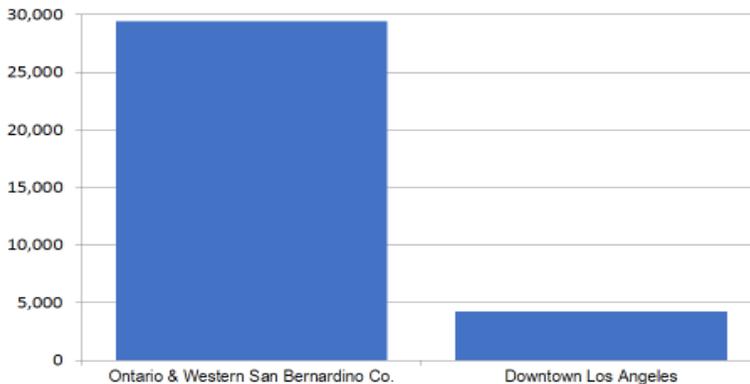


Source: The Brookings Institution, U.S. Census Bureau

For San Bernardino County, this interest in a fundamentally suburban, single family lifestyle could prove a critical advantage in attracting educated workers to the area. This will become even more the case once the bulk of millennials enter their thirties, as will occur later in this decade. At that age, people begin to get married, start families and look for lower-density housing. Given the commitment of the coastal counties, particularly Los Angeles, to high density development and little new middle-class single family product, housing prices are sure to continue rising over time along the coast, forcing young families out into the interior.

Overall, the age 20-29 population is mostly concentrated in the most developed part of the County - from the Los Angeles County line to the west city limits of San Bernardino grew as rapidly as in downtown Los Angeles (both 25%). The actual population growth was much more, because of the relatively small population in downtown Los Angeles.

Change in Age 20-29 Population: 2000-10 WESTERN SAN BERNARDINO COUNTY & DOWNTOWN LA



US Census Bureau data

Figure 67

The Critical Role of Housing

For the better part of a half century, housing, particularly for families, has been a primary lure for people to come to the Inland Empire. In one survey of movers to the Inland Empire between 1995 and 2005, 54 percent cited housing and another 24 percent family as their primary motivation.^{xxix} This was certainly critical in luring a large mostly modest educated population to the region. Even today, the County lags all other southern California counties in terms of percentage of educated workers.

Bachelor's Degrees: Age 25 & Over 2014

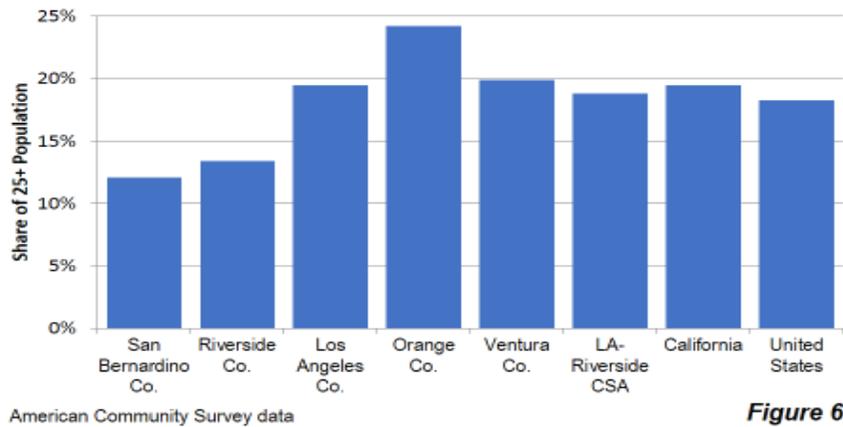


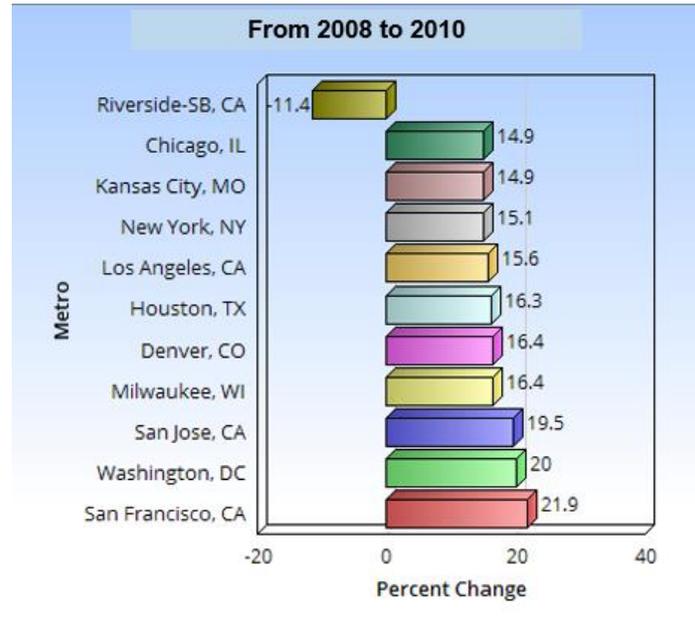
Figure 69

But there are signs, particularly since 2010, which suggest that this pattern may be changing. High housing costs along the coast now don't impact only working class families, but also those solidly in the middle-class. Indeed, in a report we did for the National Core affordable housing group, we found that even well-educated workers increasingly cannot afford such a dwelling in Orange County, but can do so in the interior.

This cost differential may already be effecting migration of educated millennials. This pattern can be seen nationwide, as younger skilled workers head increasingly not to places like New York, San Francisco and Los Angeles, but to more affordable areas like Austin, Dallas, Houston, Nashville and Orlando. Although not growing in appeal as these areas, the Inland Empire has actually done far better in recent years than the rest of California in terms of attracting more educated millennials.

Change in 25- to 34-Year-Olds of Top 40 Metros with Bachelor's or Higher Across Three Economic Eras.

Source: 2000 Census, ACS 3-Year, 2007, 2008, 2010, 2011, 2013

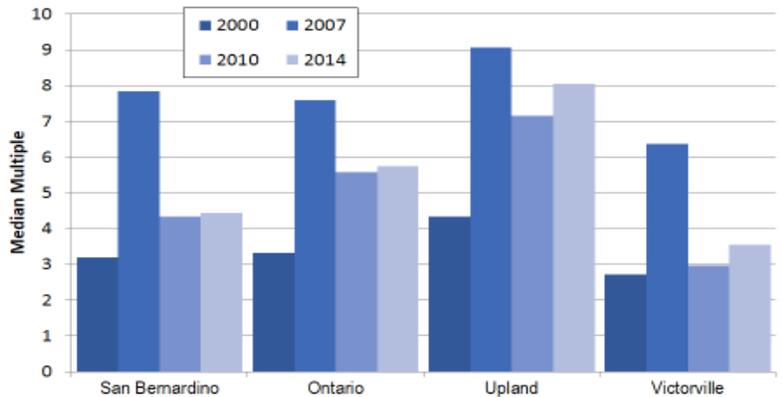


To maintain this advantage, as we will discuss below, the County needs to encourage new home-building, in part to create options for young, childless people but, most critically, for middle-class families. This will cause some considerable conflict with the current planning regime in the state, but

local officials need to make the case that broad-based growth in the region could, among other things, reduce the number of workers who need to commute to the unaffordable coastal regions.

This will include, over time, not only western San Bernardino County, but areas further east and in the high desert, which continue to offer the best prospects for affordable housing, particularly single family homes. Shutting off new housing venues would over time raise prices of homes throughout the County, even without significant income gains.

Housing Affordability: San Bernardino Co. 2000 – 2014 EXAMPLES (CITIES)



US Census Bureau data

Figure 77

Immigrants and Their Offspring

San Bernardino County has a long history of diversity, starting with Mormon settlers, Mexican immigrants and, more recently, a surge of newcomers from Asia. As is the case with millennials, immigrants and their children tend to heavily favor suburban locales, in part due to a greater proclivity to have children. This can be seen in the growing diversity in the suburban rings, as new Americans continually shift to areas that offer affordable and more spacious housing.

This search can be seen in the rising numbers of immigrants and ethnic minorities, notably Latino and Asian, who are coming to the area. Although blue-collar employment may be an important lure, it seems likely that many newcomers are attracted to lower housing prices. This is one reason why ethnic growth may prove more rapid in the County, and Riverside, than along the coast in the years ahead.

Hispanic Population SHARE OF ONE-RACE/ETHNIC POPULATION

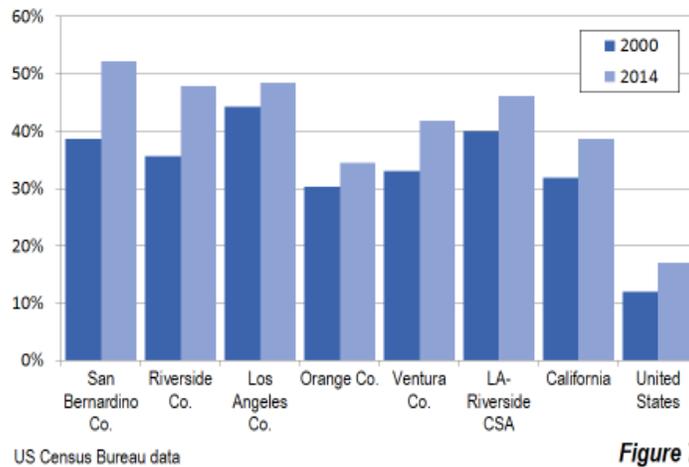


Figure 79

Asian Population SHARE OF ONE-RACE/ETHNIC POPULATION

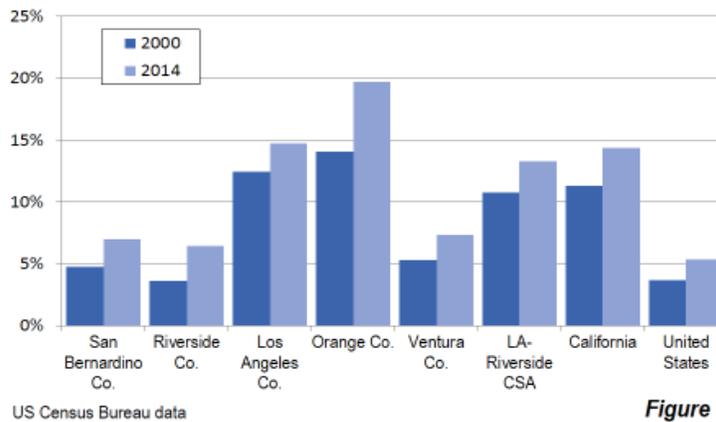


Figure 81

The Western Edge of San Bernardino County

Overall, Asian immigrants have come in particularly large numbers to the western parts of San Bernardino County, closest to the already established Asian communities of the San Gabriel Valley. In the western parts of San Bernardino to the western part of the County (Los Angeles County line to the western city limits of San Bernardino), Asian population grew 70 percent between 2000 and 2010, more than four times the overall population growth of the same area.

Population Growth: Asian & Overall WESTERN SAN BERNARDINO COUNTY: 2000-2010

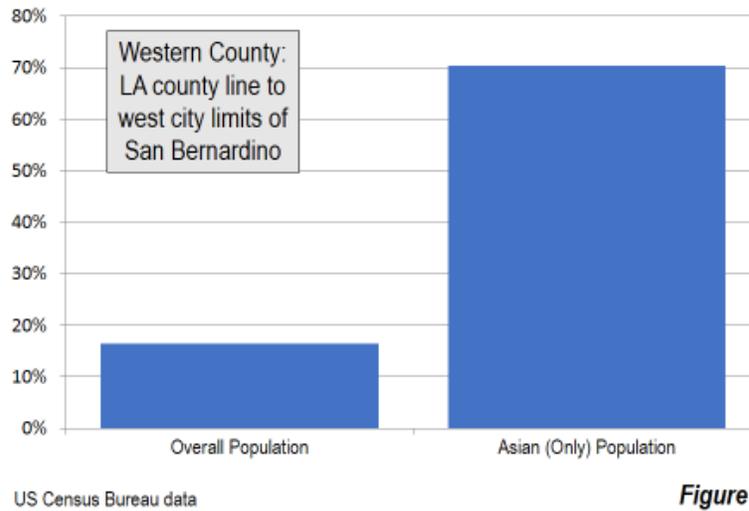


Figure 83

Over time, this migration, particularly from Asia and Latin America, should put San Bernardino County in close touch with many of the world’s fastest growing economies. With the growth of the logistics and trade sectors, particularly with the regional takeover of the Ontario Airport, the County is well-positioned to become a major hub for global trade.

The Persistence of Poverty

Along with positive impacts of immigration and demographic change, there is also a downside. Immigrants, their children and many native-born county people also live in poverty. In fact, the County now suffers among the highest rates of poverty in California, the state with the worst performance in the country on this critical metric. The area suffered particular increases in poverty after the 2008 recession, which devastated much of its blue collar economic base.^{xxx} Once costs, largely housing, are factored in, however, San Bernardino actually does considerably better in this metric than Los Angeles or even Orange County.

California Poverty Measure 2012 (COST OF LIVING ADJUSTED)

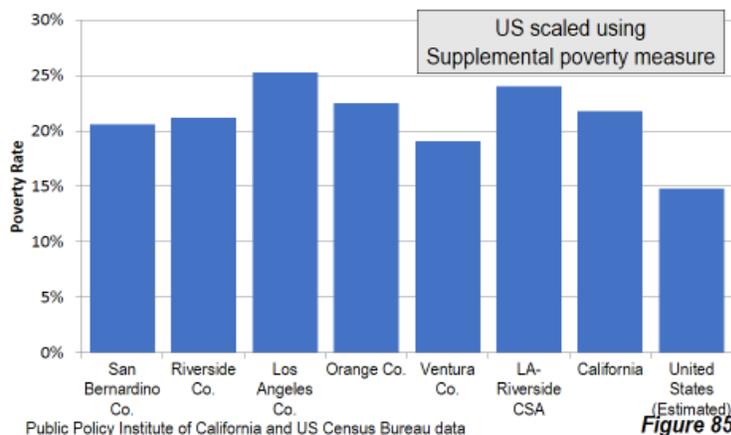
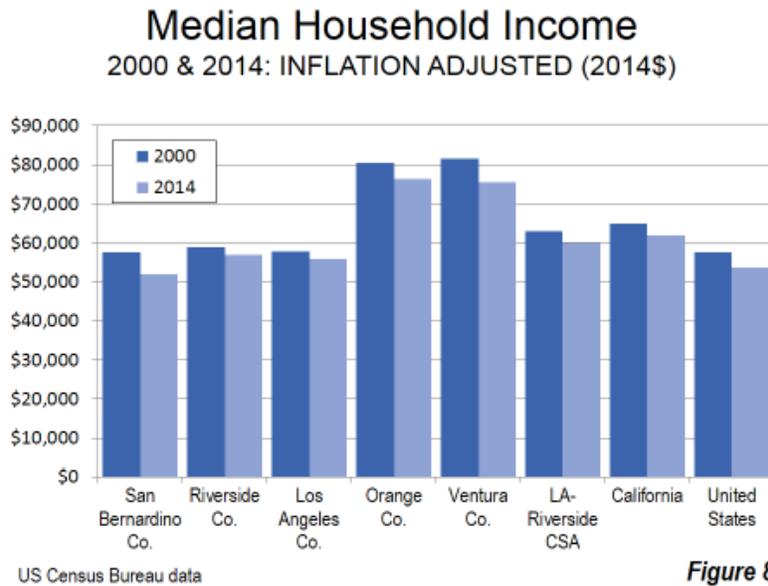


Figure 85

The steady increase in poverty both in California and the County is a product of two factors: weak income growth and rising prices for housing. In contrast, during periods of rapid economic growth and housing expansion during the first six years of the millennium, the poverty level actually dropped.^{xxx1} More recently, San Bernardino County has been plagued with weak household income levels, even worse than that of the country or the rest of the state. This seems clearly tied to the slow recovery from the recession, as well as the fact that much of the employment gains in the past five years have been in professions paying less than \$15 per hour such as material movers, food and beverage workers, retail, health aides, and office support workers.



The other major factor leading to increased poverty has been persistently high housing costs. Although the price of houses does not directly impact the poor, it does have a direct impact on rents.^{xxxii} The soaring price of rents means that 58 percent of renters of San Bernardino County are paying 30 percent or more in housing costs, compared to a national average of 48 percent among renters. Without addressing housing costs and income growth, there is little hope that poverty will not persist as a major challenge for the region.

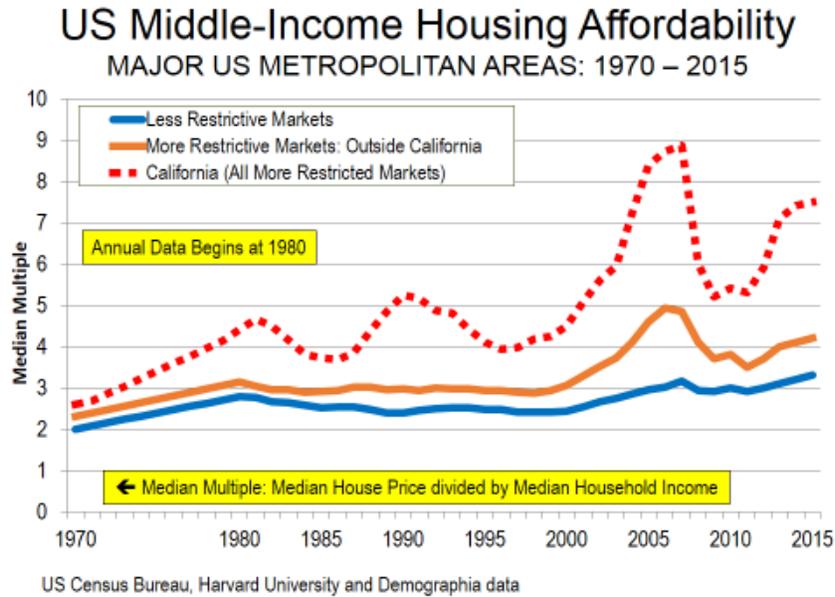
Section Four: Policy Recommendations

San Bernardino County faces many complex challenges: growing poverty, soaring housing costs, a lack of good-paying jobs and a historically under-educated workforce. All these factors, of course, impact each other, and need to be addressed simultaneously. The stakes could well be the choice between becoming, as some have suggested, a far-flung slum, or restoring a role as an incubator of growth and upward mobility.

Below are a series of policy recommendations that address these key, and commingled, issues. Some of these issues can be addressed by local and county government, but some are tied up with state policies. Yet we believe that without some change in state policy, particularly regarding housing, the County's progress may be much slower than otherwise.

Policy Recommendation #1: Revise Housing Regulation

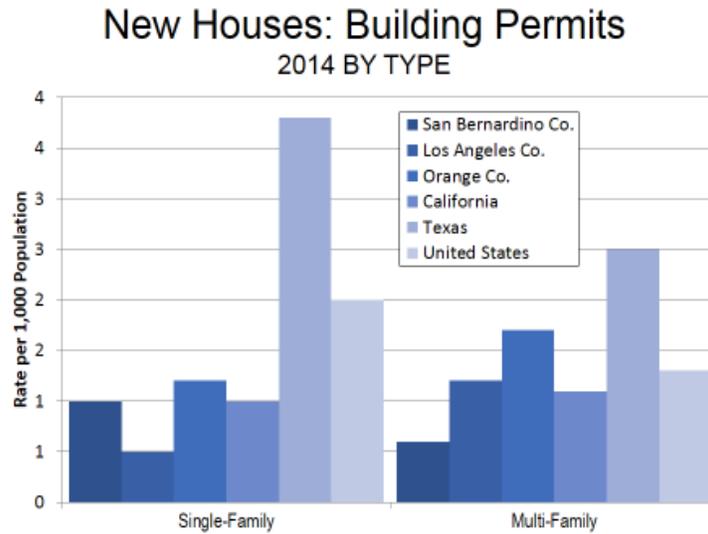
The biggest obstacle to future growth in the County lies with housing. Simply put, California regulations have pushed the price of housing to levels that most cannot afford. This has been done largely by restricting supply. As a result, California housing prices are now two and sometimes three times higher compared to income to the levels of other competitive markets.



Despite a notable recovery in housing production, Southern California, in particular, continues to lag in developing new residential units. Since 2010, permits for new units in Los Angeles-Orange was a mere 2.0, ranking it 41st out of the 53 largest metropolitan areas while the Inland Empire did somewhat better, with 2.5 percent growth for 34th on the list. Once a housing growth leader, San Bernardino County since 2010 has grown its permits not only less than Texas and other sunbelt leaders, but even older Midwestern cities such as Kansas City, Minneapolis and Grand Rapids.

Production has improved from the 2010 nadir, but remains far less than optimal. Rather than build new housing to meet an expanding population, the Los Angeles region, including the Inland Empire, is building new units at 40% less than its 2000 level. The fall has been even steeper in San Bernardino County, with per capita permits plummeting from 3.8 per 1000 residents in 2000 to 1.6 in

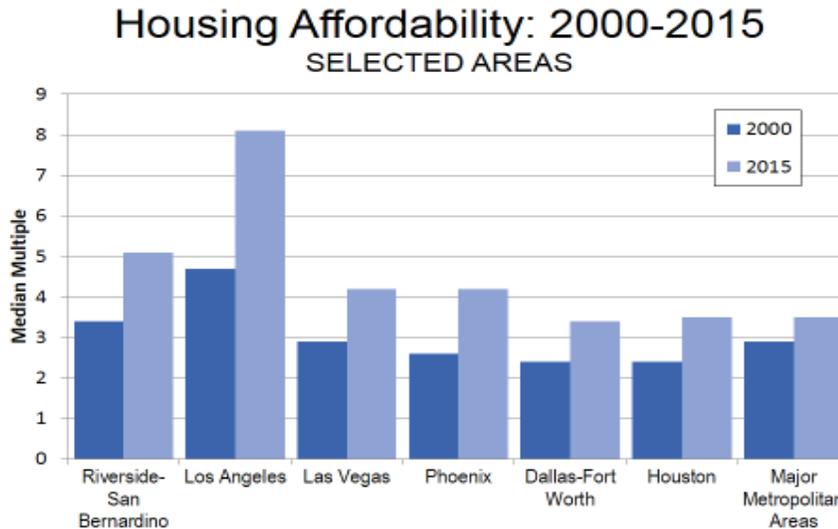
2014, a 60 percent drop. This is occurring despite the ample land supply in the nation's largest county - nearly as large as Croatia - with only 3.2 percent of its land in urban use.^{xxxiii}



US Census Bureau data

Figure 93

The results of this underproduction are as one would expect. Although far from the heady levels of the coastal areas, prices in San Bernardino County and other inland locales continue to climb, as buyers and renters seek affordable prices. But these prices are also well above those of key competitor regions, such as Phoenix, Las Vegas, as well as the Texas cities, which have become primary attractors of migrants from California.



Data from Harvard University & Demographia

Figure 91

Policy Recommendation #2: Embrace Urban Pluralism

Another problem facing a full housing recovery lies with resistance to perceived attempts to force densification of the region. The state of California and regional agencies such as SCAG push an agenda that threatens the single family home and seeks to overturn the preferred lifestyle of the vast majority of Californians. In the current regulatory regime, with its enormous opportunities for litigants, even the best thought out developments, such as Valencia, frequently are blocked.^{xxxiv}

State policy, notes veteran area developer Randall Lewis, is forcing the hand away from market preferences to schema that satisfy the state's planning vision. In some cases, this means developers must create product so dense - up to 20 units per acre - that they barely satisfy the privacy needs or preferences of the very middle class families the region needs to attract. Yet the market for high density housing, he suggests, is about 15 percent of the demand. "We would want to have the free market work and developers pick what they can sell a diversity of housing."^{xxxv}

Concerns of Lewis and other developers have been delays in approvals, and requirements that have boosted prices but have not produced more housing. This has been very damaging to the production of single family units. Indeed since 2000, San Bernardino County's production of single family housing has fallen from 3.4 per 1000 to barely 1.0 while multi-family production has grown only a small amount. Overall the story is very slow housing growth. "What works in Santa Monica does not work so well in Ontario," Lewis notes.

At the same time, the state's densification strategy, notes Rancho Cucamonga City Manager John Gillison, has intensified opposition to new production of multi-family units as residents complain that their suburban lifestyles are being targeted. "It's made it a lot tougher to push density," he notes.^{xxxvi}

Yet rather than choose between densification and simply maintaining current housing, Gillison suggests the region adopt what the urban historian Robert Fishman once described as "urban pluralism," that is, a policy that fosters the development of housing irrespective of type, and reflects largely market forces. Rather than a "failed model" as sometimes expressed, the dominance of lower-density housing has not in fact slowed, much less terminated the area's growth.^{xxxvii} What is needed, Gillison notes, are reforms of state planning rules which is not only hurting single family but also can block even modest "infill" projects.

There is clearly a market, as Gillison suggests, for the dense urban function which H.G. Wells once described as a "bazaar, a great gallery of shops, and places of concourse and rendezvous."^{xxxviii} This can be seen in the strong market around places like Victoria Gardens in Rancho Cucamonga, as well as downtown Riverside, and by plans in various cities to enhance their central cores.^{xxxix}

If regulations were more flexible, we may well see, as is occurring in less heavily regulated markets such as Dallas-Fort Worth, Houston and Phoenix, a more rapid growth of both single family and multi-family units, with significantly lower prices. There is no reason why San Bernardino County cannot continue to attract single family development, and middle class families, while allowing for higher-density, more urban alternatives in designated parts of the County. This is a classic case of a rising tide

lifting all boats; after all, when the single family market tanked in 2008, the local condominium market dropped even more.^{x1} Notes developer Lewis:

The markets are there - the customers are there. The developers are there. What the regulations do is drive up the cost beyond what the customer can afford.

Policy Recommendation #3: Build a Broadly-Based Economy

Cutting housing costs, and offering a greater array of housing choices, relates directly to the other key consideration: building a vibrant, broadly-based economy. Lower costs for rent and housing purchases are increasingly a key factor in corporate relocations. A recent Southern Methodist University study found high housing prices to be the biggest reason why Toyota left Torrance to move to the Dallas-Fort Worth area.^{xii}

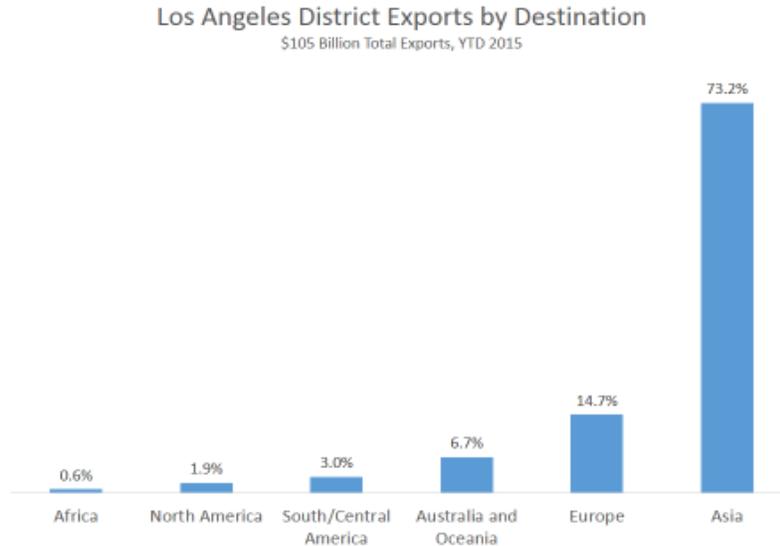
Such relocations in the key business service require a strong appeal to middle income workers. As millennials enter their 30's, they should be able to look at San Bernardino County as an alternative to relocating to Arizona, Utah, Nevada, Texas or even the Pacific Northwest. With its milder climate, often spectacular scenery, and location near one of the world's great urban areas, San Bernardino County needs to compete for firms who are now headed out of state.^{xiii}

This includes technology-related business which, as we have shown, has begun to rebound in the area. The policy here needs to be flexible; if young, unmarried and childless workers desire more urban environments, cities and towns should be willing to develop such environments, if the market does indeed exist to support them. As researchers from the University of California at Riverside have correctly pointed out, educated millennials are not likely to find their career goals in logistics, where many jobs are temporary or relatively low paid.^{xiiii}

Yet at the same time, the region cannot turn its back on its goods-related sectors. The area's population, which remains less well-educated than surrounding areas, requires the continued development of blue collar opportunities. This will entail, as in the housing area, some reform of state policies, which, among other things, have driven California energy costs well beyond those found in competitive regions.

Policy Recommendation #4: Seize the Global Opportunity

In competition with other locations, San Bernardino County needs to leverage its geographic assets. The region's location next to the largest port complex in North America has generated an enormous and expanding logistics industry. This reflects the critical nature of Asia-related trade, which dominates American international business. West coast ports together represent roughly half of all imported goods coming into the country. The location amidst the country's second largest consumer market also presents opportunities.



Two other factors could augment this advantage. First, the development of Ontario Airport, as well as the strengthening of transportation networks connected to it, offers the opportunity for San Bernardino County to become a major figure in international as well as domestic trade. Airports, notes visionary urban analyst John Kasarda, are to today's metropolis what ports and railways were in the past, hubs and generators of growth. Kasarda specifically looks at Ontario as having the potential to emerge as a "fast-evolving aerropolis" connected to the wider global economy.^{xliv}

The second lies with the growth of the immigrant population. For example, San Bernardino County is experiencing a large influx of Asian residents, both from overseas and other parts of California. These new residents create human linkages to both other parts of the state and the country's major trade partners. As occurred in earlier decades, when Los Angeles developed its infrastructure and multi-cultural profile, San Bernardino County could emerge as an important player in global commerce.

To achieve the goal there needs to be a greater emphasis placed on infrastructure, particularly on the major east-west highways, such as Interstate 10 and Interstate 15.^{xlv} Expansion of road and rail freight would further enhance the role of Ontario Airport in shaping the region's global future. It would enhance hotel and other services that could find new customers, foreign and domestic, and could spark the evolution of a more complex trade-related business service sector.^{xlvi}

Policy Recommendation #5: Enhance Worker Training

To move beyond its current trajectory, and take advantage of favorable trends, the County needs to greatly enhance the skill level of its workforce. Today, as we have shown before, the area lags well behind in engineers or people with college degrees. This could prove a problem given that research from Georgetown's Center on Education and the Workforce suggests that 65% of all new jobs will require at least a postsecondary credential, if not a higher-level degree.^{xlvii} Notes long term regional economist John Husing:

A key issue holding back the growth of the Inland Empire's economy is its low adult educational attainment level. If the area's standard of living is going to rise significantly, it will take an enormous educational effort aimed at both children and adults.^{xlviii}

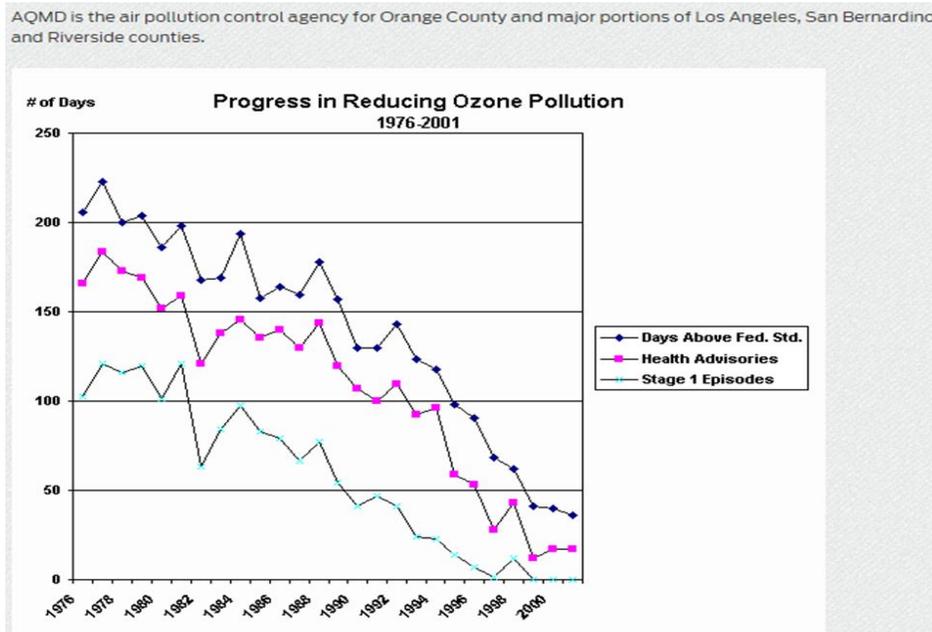
Given the current realities, perhaps the best strategy would be to enhance worker training among local residents. Such programs have been used to effect in many localities with relatively low education outcomes such as Georgia's Quick Start program, Louisiana's FastStart, Alabama's Industrial Development Training, and South Carolina's ReadySC.^{xlix} As in the Inland Empire, these areas require an upgrading of their workforce. At least initially, much of the focus needs to be outside four year colleges as the area is expected to remain well below the state average in college graduates for the foreseeable future.^l

Programs by such groups as the San Bernardino Workforce Investment Board and The Inland Empire SlingShot Initiative are already working with many logistics, manufacturing and medical companies to supply trained labor for companies. Various county and local programs working with such historically hard to place groups as former inmates in the correctional system and residents in low-income housing programs.

With the cost of living much lower than on the coast, and a generally welcoming business attitude in the County, the area can turn its large workforce, particularly its rapidly expanding millennial population, into an asset to lure new employers as well as expansions of already existing firms.^{li}

Section Five: Conclusion: Restoring Promise

When the early settlers came to San Bernardino, they recognized a geography of great attractions: good soil, adequate water, a mild climate and a spectacular topography. One local author described the area around Rancho Cucamonga and Ontario “a garden-spot on the earth.”ⁱⁱⁱ Today, many of these characteristics remain, and with cleaner air, are arguably more true today than a decade ago.



Yet no amount of promise makes a region prosper. That takes a strong direction by leaders and widespread buy-in by the public. The County needs to both develop a strong vision, and then unite around it enough to challenge those state and federal policies which threaten its trajectory. If individual communities feel they can stand up to the regulatory onslaught by themselves, they may find themselves greatly mistaken.

The promise of the Inland Empire, and the County remains, but the question lies largely in how its opportunities can be addressed. Given the price inflation on the coast, and the increased congestion in the area, there remains compelling reasons for companies, and workers, including young educated millennials, to continue moving to the region. But to do so, there has been a commitment to improving basic business conditions and improving amenities.

San Bernardino County has ample grounds for optimism. The validity of this perspective will be tested, however, by how the region meets its most severe challenges in the years ahead. This is clearly the County’s pivotal moment; hopefully it will also prove a decisive turning point towards a better future.

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- ⁱⁱ Joe Mozingo, “San Bernardino: Broken City,” *Los Angeles Times*, June 14, 2015, <http://graphics.latimes.com/san-bernardino/>; Frank Shafroth and Mike Lawson, “San Bernardino Executive Summary,” George Mason University, Center for State and Local Government Leadership, 2013, http://s3.amazonaws.com/chssweb/documents/12789/original/GMU_San_Bernardino_9.13.pdf?1379560583.
- ⁱⁱⁱ Jennifer Medina, “Hardship Makes a New Home in the Suburbs,” *The New York Times*, May 9, 2014, http://www.nytimes.com/2014/05/10/us/hardship-makes-a-new-home-in-the-suburbs.html?_r=0.
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- ^v “Rating Agency Presentation: 2015-2016 Tax and Revenue Appreciation Notes,” San Bernardino County, May 15, 2015.
- ^{vi} Teresa Wiltz, “Returning to the Exurbs: Rural Counties are Fastest Growing,” *The Pew Charitable Trusts*, April 15, 2015, <http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2015/4/15/returning-to-the-exurb-rural-counties-are-fastest-growing>.
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- ^x “Major Forces.”
- ^{xi} “Rating Agency Presentation: 2015-2016 Tax and Revenue Appreciation Notes,” San Bernardino County, May 15, 2015.
- ^{xii} “Will a Regional iHub Create Future Success for San Bernardino County,” *Industryweek.com*, December 3, 2014, <http://www.sbcountyadvantage.com/News-Media/News/Will-a-Regional-iHub-Create-Future-Success-for-San.aspx>.
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- ^{xiv} “Major Forces.”
- ^{xv} Bryce Mordoff and Teresa Petrosyan, “Inland Empire Industrial, Q3 2015: Sustainable growth brings more players to IE,” *Jones Lang LaSalle*, 2015, <http://www.us.jll.com/united-states/en>

[us/Research/US-Inland-Empire-Industrial-Insight-Q3-2015-JLL.pdf?5ac2b219-9855-45cc-a862-176b8520e966](http://www.setontariofree.com/Research/US-Inland-Empire-Industrial-Insight-Q3-2015-JLL.pdf?5ac2b219-9855-45cc-a862-176b8520e966).

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^{xvi} “In California’s Inland Empire.”

^{xvii} “In California’s Inland Empire.”

^{xviii} “OIAA Approves Nomination of Kelly J. Fredericks, P.E., A.A.E., to Lead ONT,” *Ontario International Airport Authority*, January 20, 2016, <http://www.setontariofree.com/>.

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<http://www.planningreport.com/2015/08/28/pontell-ontario-airport-agreement-bodes-well-inland-empire-economic-growth>.

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[One-Aerospace-Supplier-Gets-a-Boost-359113-1.html](http://www.globest.com/news/12_1137/inlandempire/countyofofsanbernardino/How-One-Aerospace-Supplier-Gets-a-Boost-359113-1.html).

^{xxii} Author’s analysis of EMSI 2015.3 data.

^{xxiii} Inland Empire Office, Q3 2015

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^{xxvii} Jed Kolko, “No, Suburbs Aren’t All the Same. The Suburbiest Ones Are Growing Fastest,” *CityLab*, February 5, 2015, <http://www.citylab.com/housing/2015/02/no-suburbs-arent-all-the-same-the-suburbiest-ones-are-growing-fastest/385183/>.

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^{xxix} Johnson, Reed, Hayes, “The Inland Empire in 2015,” 37.

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^{xxx}_{iii} Data from US Census Bureau.

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^{xxx}_v Interview with Joel Kotkin.

^{xxx}_{vi} Interview with Joel Kotkin.

^{xxx}_{vii} Scott Gold, “Paying Price of Growth in Inland Empire,” *Los Angeles Times*, November 25, 2001, <http://articles.latimes.com/2001/nov/25/news/mn-8157>.

^{xxx}_{viii} H.G. Wells, *Anticipations of the Reaction of Mechanical and Scientific Progress Upon Human Life and Thought* (Dover Publications: Mineola, NY, 1999), 32.

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^{xlii} Joseph Vranich, “California Companies Head for Greatness – Outside of California,” *New Geography*, November 9, 2015, <http://www.newgeography.com/content/005093-california-companies-head-greatness-outside-california>.

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