The 53rd edition of the High Desert Report is dedicated to the memory of Ira Norris.

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The Bradco Companies

High Desert Report

An economic overview of the High Desert region affiliated with The Bradco Companies, a commercial real estate group

Inside This Issue

I wish to welcome our current, future and long-standing subscribers and sponsors to the 53rd edition of the Bradco High Desert Report, the first and only economic overview of the High Desert region, covering the Northern portion of San Bernardino County and the Inland Empire.

As a part of our history, it was in late 1992 when Ms. Cele Underwood, then an associate with The Keith Companies, a company that we shared office space with, suggested that, with all the developer bus tours that we had completed and seminars in Southern California, we create a newsletter. Having no knowledge of how to do a newsletter, I contacted long time mentor and friend, Dr. Alfred Gobar, the then Chairman of Alfred Gobar Associates (Brea).

With Dr. Gobar's continued encouragement to take a leading role within the High Desert region, we moved forward with the first newsletter that ever covered the High Desert region, the Cities of Adelanto, Apple Valley, Barstow, Hesperia and Victorville; the first one to properly portray its economy, and its great assets.

Since then, Dr. Gobar has continually supplied some of the greatest articles to the Bradco High Desert Report since its inception in May of 1993. He has contributed articles to the 52nd edition, and due to his recent bout with cancer, was unable to prepare an article in his normal manner.

What he did was something that I have never seen and, if you know Dr. Gobar and if you heard him speak, not only does he have great humor, he is one of the most intelligent people I have ever had a chance to work with. He sent us up a speech that he gave to a group called Lambda Alpha, Orange County Chapter.

Lambda Alpha is an honorary society for the advancement of land economics. LAI provides a forum for the study and advancement of land economics where the "winnowing and sifting" of ideas takes place in an atmosphere of mutual respect.

I am honored that I am the only commercial broker in the Inland Empire that has ever been inducted into this group. One of my sponsors was Dr. Gobar.

I have heard Dr. Gobar speak over 75 times. When we spoke about his pending cancer, and his desire to continue to write, he did suggest that he had a speech that he gave that was very special to him, and it was even more special that he gave it to Lambda Alpha in Orange County and that he actually prepared this speech (I very seldom ever saw him bring notes into a speech because of his ability to remember numbers, etc.). With this speech someone in the audience decided to record this speech and they transcribed it as they felt that many of the items that Dr. Gobar discussed (this was nearly 21 years ago) would eventually come true. Ironically (not ironically for me) it didn't come true.

What is most interesting about this, if you read his speech and the questions and answers, is how many things have happened that he predicted when he wrote this nearly 21 years ago in 1993.

I hope that you enjoy how we have readjusted this edition of the newsletter to include one of Dr. Gobar's speeches.

On a sad note, and during this past February, we lost a dear friend to the High Desert. One of the nation's most renowned homebuilders, a gentleman who put the

continued on page 39

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Our Economy in 1993 - Remarks Before the Orange County Chapter of Lambda Alpha, an International Land Economics Society

By Dr. Alfred J. Gobar, Chairman, Alfred Gobar Associates

This is the talk I gave to Lambda Alpha a little over 21 years ago. Because our speakers are usually dull, I tried to present a humorous discussion to make people laugh. To my surprise some of the audience took notes throughout, someone recorded the talk, transcribed it, and allowed me to edit for accuracy – which I did. It's scary how topical this charade turned out to be some 21 years later. The question and answer was not part of the humorous presentation but followed immediately after.

I define some of our most pressing economic/political problems as being related to education, law enforcement, budget deficits, and health care. These problems are manifest in what many perceive as overly high taxes, over concentration of power in the hands of government at too high a level, and an unfavorable regulatory environment. The most effective economic tools to address these issues would mobilize the market system and the initiative of individual consumers and businessmen to create more constructive output and less "heat" with less input. To that end I will outline several hypothetical policies that I think deserve consideration even if expressed in a light-hearted and humorous form, some of which deal with local economic policy and others of which deal with policy formation at the national level. A brief tongue-in-cheek discussion of some of the more salient of these is as follows:

Deterioration of the schools has led to consequent enthusiasm for a voucher system to create competition between private and public schools, therefore stimulating public schools to improve. A voucher system, however, may not be easily achieved because of the entrenched strength of teacher unions and other advocates of the monopolistic public education industry. A local option policy that could address this issue as well as the law enforcement issue is as follows:

1. Decriminalize the sale of narcotics- especially marijuana and cocaine - and make this a regulated industry within the free market system.

2. Allow local agencies to establish a tax rate on dope sales that occur within their jurisdictions and commit tax revenues generated from this industry to the support of local education with no reduction in subventions from state agencies to local schools as a result; i.e., create public sector competition.

This policy would have several benefits, some of which are as follows:

1. It would free law enforcement agencies from a good deal of their commitment to the enforcement of the war on drugs and permit them to concentrate on important factors such as seat belt law enforcement, motorcycle helmet laws, and parking violations.

2. It would reduce state expenditures to maintain prisons - about one third of incarcerated persons in California are there for dope-related reasons.

3. It would allow local communities to compete with one another in terms of the quality of schools subject to their willingness to devise tax policies that are optimal in terms of generating maximum revenue - taxes high enough to generate revenue but not so high as to discourage dope sales within the community. In essence, the communities would have to compete with one another in terms of tax structure and eventually in terms of the quality of their schools, the improvement of which would be derivative of the availability of additional funds from the local option dope tax.

4. As was the case before the Serrano decision, the result would be increase in home sales and, therefore, stepped-up property tax values for housing in the communities that prospered under this system.

5. It would also provide entry-level jobs for young people who are now criminals and would introduce them to the concept of competition on some basis other than brute force.

6. It would also contribute to amelioration of one of our national problems - support of the agriculture industry - by encouraging farmers to grow marijuana as a cash crop.

A similar local option alternative with regard to prostitution would be desirable in terms of providing police with more time to devote to real crime - seat belt and

continued on page 3

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Our Economy in 1993

Continued

motorcycle helmet enforcement. A similar taxing structure could be implemented producing the following benefits:

1. Noncompetitive motels constructed during the boom in hotel/motel construction could be converted to a more profitable use, generating increased property taxes.

2. The spread of various and sundry sex-related diseases could be controlled by periodic health inspections by the bordello staff.

3. Competition could be established on the basis of quality rather than the size and the strength of pimps - a lesson in market economics for young people who would otherwise be thugs.

4. It would provide entry-level jobs for young ladies who might otherwise be reduced to similar efforts to be rewarded by aid to dependent children.

Another statewide recommendation along the same general line would be to establish a "strip" of casinos and related businesses ten miles north of Yermo, stimulating local employment in the High Desert where there is a deficit of jobs, capturing revenues that would otherwise flow to Nevada, enhancing property values in San Bernardino county ;minimizing air pollution through reduced automobile traffic to Las Vegas, providing entry-level jobs for young people who would otherwise be criminals, and just generally kicking the daylights out of Las Vegas' strong economy.

Another tax policy that would have an effect on the educational field and, therefore, on local level government constraints, would be a surtax for households with children. Regardless of whether a household is on welfare or not, I propose a 2.0 % surtax over the basic income tax (federal and state) for households with one child, an additional 5.0 percent for a second child, and additional 10.0 percent surtax for the third child. These tax rates would be doubled if the children happen to be illegitimate. This would tend to discourage production of children and, therefore, pressure on schools. It would also generate revenues to help compensate for the short-falls in income related to "dead beat dads." I expect it would also have a beneficial impact on the budget for aid to dependent children. A variation on this theme would be a similar surtax (the rates not yet determined) on divorced people who have not remarried. Disaggregation of households tends to be economically inefficient and create a dependency class.

In order to control demand for college education at the state universities, junior colleges, and the University of California, establish a similar surtax at about a 5.0 % rate over the combined federal and state tax for individuals or members of families in which one or more individuals hold degrees or have been significantly educated by one of the public institutions defined. This tax would have the finite life determined by aggregate collections that will eventually match the cost of the education plus interest on the unrecovered balance until fully paid off. Beneficial results of this policy would include:

1. it would reduce pressure of demand on what is essentially now a free service. This will result in a reduction in state budgets for higher education, as well as for levels of funding at the local level for junior colleges.

2. It would encourage graduates of public institutions in California to move somewhere else to work and, therefore, graduates of schools elsewhere in the country to move to California, creating a turnover of residential real estate assets and continually stepping up the property tax base without having to set aside the constraints of proposition 13.

3. I think this alternative is significantly better than some type of forced public service such as that being recommended by Slick Willie. In fact, I am a little surprised he had the courage to recommend a civilian draft when he took such strenuous steps to avoid the military draft.

There is a good deal of general resentment to the high pay scale and excellent benefits accorded public sector employees. As a result, we recommend several policies that would bear on this issue. Among them are the following:

1. Reduce public sector pay scales to a level such that when a public sector job becomes available, no more then ten qualified applicants show up. The long lines of applicants for new fireman positions attest to the likelihood we are over-paying for this type of position.

2. Immediately allow private firms to compete directly with the post office and require the post office to not only be self funding in terms of revenues but also to pay a shadow property tax in order to create a level playing field. This may result in increasing postal rates which would in turn induce more effective use of electronic mail, maximizing the use of our electronic infrastructure and reducing the use of our physical infrastructure to distribute hard copies of various types of materials. The side benefit of this would be an increased number of jobs for high tech people who were made redundant because of the cessation of the cold war.

3. I would also impose a surtax, calculated as a percentage of the combined federal and state income taxes on retired employees of public agencies, based on the differential between their retirement income and other cumulative benefits and the average benefits of retired people form the private sector. This would encourage public sector employees to save for the future, which would address another of our persistent economic problems – inadequate savings levels. It would also make much of the general public substantially happier than they are currently. The surtax, by the way, should be higher for those public sector retirees who are double dipping, enjoying wallowing in more than one public trough.

By raising the registration fees on older cars, we would, in essence, destroy their value, making it more feasible for industrial polluters to purchase old cars and destroy them in order to meet pollution targets. It would also take a lot of poor people who have no insurance out of cars and put them in public transportation, which currently is highly subsidized and achieves sub-optimal ridership. This is, in essence, a tax on poverty and irresponsibility, which should reduce poverty and make people more responsible while at the same time reducing pollution inexpensively and aiding our public transportation investment to better perform.

In addition to the benefits to the healthcare industry derivative of dope users living a more normal life and, therefore, being less subject to disease, specific policies that address the high cost of providing medical service to all include the following:

continued on page 4

Our Economy in 1993

Continued

1. Establish a two-tier medical industry, the lower tier of which would be staffed by qualified professionals who do not meet California medical bar standards but who could qualify in another country in order to provide medical service to indigents, illegal immigrants, and others who now put substantial pressure on medical resources, demanding the same quality of service as provided more affluent sick people. Dr. Kwan can only do so many open-heart surgeries a day. If Dr. Gonzales were to do a few (albeit not quite as well), more people would get surgery and the cost of this procedure would be reduced. We now have a two-tiered demand system – those with insurance who all want the "best" medical attention and those who are excluded from any medical care.

2. Specific facilities would have to be developed either here or in nearby locations in Mexico to accommodate the second-tier medical market.

3. Staffing for the second-tier medical market could also be generated by lowering professional standards – i.e., a more liberal level medical bar for people who can't pass licensing requirements as they now exist. These practitioners would be restricted to the second tier of the consumer population, i.e., make the supply subject to variation in quality to match the variable quality and capacity of demand.

4. Two-tiered service levels are not unique. Recently, the airlines went to a two-tier pay scale for pilots and other crucial professionals because of the competitive impact of deregulation. If we deregulate the medical industry to some degree, we might also be able to enjoy wider distribution of a broader quality spectrum of services at a range of costs. Specific diploma mill medical schools could be created to train second-tier professionals, if necessary. My grandfather was a respected physician in North Orange county for over thirty-five years on the basis of what amounted to about two years of medical training at Rush Medical College in Chicago before the turn of the century.

I would immediately, of course, allow for full deductibility of the purchase of productive assets. Machinery purchases, construction of new facilities, etc., for manufacturing firms and all businesses would be written off in the year in which they were incurred, causing a short-term reduction in taxes because of the accelerated depreciation but also contributing significantly to the development of new infrastructure and facilities, as well as stimulating the capital goods industry.

In order to encourage savings and reinvestment, we should eliminate any income tax (federal and state) on interest income or dividend income, as well as income generated as a result of working more than 40 hours a week – a special benefit to entrepreneurs (I am preparing this on a Sunday). As a matter of fact, I am not getting paid very much today, either.

There should be no tax on the proceeds of the sale of a business to its employees in order to foster broader ownership of productive assets (as distinct from homes) and stimulate more intense gut-level awareness of the concepts of entrepreneurship.

Because entitlements, particularly for older people, and for medically impaired people, consume such a large proportion of our gross domestic product, some thought should be given to each of the following potential policies:

1. Instead of using extraordinary efforts to sustain the viability of alcoholics, dope addicts, and others, we should establish country club facilities for those people in which they would have custodial medical care and ample availability of the mind-altering substance of their choice. The effect of this would be to accelerate their demise and, therefore, minimize their drain on society, while at the same time giving them a happy guilt-free life – what little of it they have left.

2. A Kervorkin bonus concept would pay a bonus to hemlock society euthanasia assistors for assistance provided to those who truly wish to cross over. The bonus would be inversely related to the age of the client. Bonuses paid to euthanasia facilities for clients in their sixties would be substantially larger than bonuses paid with regard to services provided to clients in their eighties in order to reduce the number and extent of old people drawing down entitlement funds. Similar bonuses for abortion (less likely to be an issue because of policies described above) would minimize pressure of demand on elementary school facilities, cost of aid to dependent children, etc.

An income tax surtax based on age would also encourage people to live shorter lives partly out of frustration. A sliding scale income tax that increased every year after age sixty-one would be a useful device to encourage people not to live too long. A variation on the surtax that seems to be productive would be an exemption from the surtax for all people regardless of age who are still employed on a day-to-day basis and, therefore, not putting as much pressure on the entitlement system.

Since dividend and interest income are taxable, older people would be encouraged to save for retirement rather than to rely on entitlements subject to a tax and surtax.

No-fault workman's comp in which the beneficiaries would be restricted to access to the second-tier medical system might also be beneficial by putting an overt price on medical service, not in terms of its cost, but in terms of its relative quality.

It could be argued that removal of the concept of depreciation as an income tax consideration, as well as exemption of interest and dividend income from taxation, would reduce public sector revenues. These reductions, however, will be accompanied by a reduction in demand for public services inherent in the policies described above, as well as an increase in revenue from other sources – a dope tax, surtaxes on various sectors, and an expanding economy. Many of these policies exhibit the crystalline logic of reducing demand at the same time as we increase resources – a combination that should improve everybody's standard of living – except for a few public sector retirees and some really old people who don't work, and perhaps some young ladies who don't know how to spell contraception.

My initial thought to addressing some of these problems occurred many years ago in conjunction with my plans to develop an alcoholic retirement home in Mexico in which the guests would sign over their entire estate to the foundation in return for which they would receive an unlimited supply of the beverage of their choice daily along with some type of custodial care to minimize the negative impacts of hangovers. The guests would be considerably happier. Their life span would be significantly reduced. The

continued on page 5

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Our Economy in 1993

Continued

foundation would make a lot of money because of the reduced life span and it would provide jobs for semi-alcoholic doctors during their retirement years.

The concept of allowing employees to purchase businesses and farms with what amounts to tax deductible dollars that do not generate taxable income to the seller establishes a basis for transferring productive assets to the next generation and allows for the possibility of creating 100.0 % inheritance tax; i.e., crucial assets could be transferred essentially tax free and the monetary assets would either be commandeered at death or donated to a private university or college or other charity which would provide an alternative (and more efficient) source of human services. Heirlooms and residential estate assets could probably be excluded from the 100.0 percent estate tax concepts. In addition, the kids could keep us on the payroll so that we could avoid the aged surtax for most of our life.

The litany of benefits derivative from these policies is virtually endless. My energy, however, is not.

Actually, there is a seed of merit in some of these ideas. They represent a reversal of conventional wisdom that the solution of problems is more regulation and more restrictions while, in fact, the solution to most problems comes from mobilizing each individual's energies for his own best self-interest and the use of energy to create solutions rather than to resist or comply with regulation.

Dr. Gobar Also Responded to Specific Questions About our Economy as Follows:

Q. There has been a lot of talk lately that economic summits are popular, and there has been talk of at least two economic summits in this County. Would you share with the people in this room, seriously, what you think an economic summit could do and, if you could wave a wand and make changes, what recommendations would you make to summit attendees about things that need to be changed in this County? Specifically, in the State and in general.

A. It's really hard for me to make irresponsible recommendations as I did before, but I think the bulk of the problems we have in Orange County and Southern California's economy that anybody can do anything about would be resolved if we had a regulatory environment that wasn't innately hostile to business, and I think that involves certainly workman's compensation – not only in reality when you're looking at the workman's comp for a roofer being 50% of what he's paid – that raises the cost of a lot of things and makes it difficult to do business, but also in terms of the symbolism (not that I believe that much in symbolism) that basically the employer is a victim and is a giant cow to be milked. I would really lobby hard to get the tort lawyers put where they should be - well maybe not completely where they should, but close - and do something about regulation; and I think that the people that go to a summit tend to be people who are prominent and tend not to want to say things that will come back to haunt them. I no longer have that concern. You need people who are basically not afraid to say, "Screw you, this is basically what is happening." I don't think the business community as a whole, because of our paranoia about regulations, is really willing to come out and be blunt with people about what is wrong with the regulatory system. I think the regulations are much more crucial than a lot of stuff that we talk about, and what I am afraid of is we will have summits, we'll create committees, we'll get a whole bunch of other people to stand around and hold hands and jump up and down and shout about things and write white papers, and that is just incredibly wasteful. I really think instead of building more agencies and committees and groups, we should work at destroying agencies and committees and groups and regulatory things that interfere. That is probably the most significant benefit I could see from a summit. If someone should get through to Willie Brown and whoever that there are a large number of people in California who do listen to Rush Limbaugh and who buy his book and may not agree with him, but really kind of believe in freedom rather than solving problems by increasing regulation. We have had a pretty severe recession and it's concurrent with the restructuring of the economy and most of you haven't heard me talk lately – look up Joseph Schumpeter's book, *Capitalism, Socialism, and Democracy* and read it. During this recession, you know the only category of manufacturing employment that has grown in some parts of Southern California has been apparel manufacturing, which is a third-world industry. If we can have growth in a third-world industry in the environment we have now - what could we have if every business person either had the disdain for regulations or the ability to side-step regulations that are a typical characteristic of apparel manufacturers. By and large, the growth in jobs in apparel acknowledged by the EDD probably represents less than half the true growth in jobs because so many of them are underground. That, I think, is a significant indicator of the underlying strength of Southern California's economy that is being hampered by regulations here, and a lot of us are not physiologically adaptive to conceiving of ourselves as a mixed third-world and first-world economy in one County. We just can't deal with the fact that a larger and larger proportion of our economy is potentially a third-world economy. Hong Kong's got a lot of rich people.

Q. There is some speculation that there is tremendous demand for things like housing and that banks really do have money, but we are not getting those two together. What recommendations would you make in terms of how to get projects financed?

A. I think the banking system (I'll probably insult a few bankers) . . . I think the S&Ls have managed to shoot themselves in the foot, and they will never come back to doing what they did before. I'm on the Board of a fairly good-size S&L, and we haven't made a construction loan in three years and, historically, that's what we did. Now what we do is buy paper discounted from other S&Ls so they can meet their liquidity requirements. We are having record profits, record profit ratios, etc. It's a wonderful business, but we're not doing what we were set up to do. The commercial banks are so thoroughly regulated now that a guy in this room and I were trying to borrow some money. In this case his net worth is insignificant. I called a couple of my banks and said if get a Mickey to sign with me and they said, "Well despite that, we might loan you the money," but the interesting thing to me was the chairman of a bank who I know real well said, "I won't make you a real

continued on page 6

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Our Economy in 1993

Continued

estate loan, Al, but if you'll write me a side letter that guarantees you won't encumber the real estate, I'll make you a personal loan, unsecured." That's frightening! Which to me means that the commercial banks are not really functioning very well in providing construction financing. My doctoral dissertation dealt with the evolution of Small Business Investment Companies, and my conclusion was that it would never amount to anything. As a matter of fact, it really hasn't, but I like to look at the way the financial system changes. I think just like when you get a heart blockage, the system will find a way around the banks and the S&Ls and will begin to direct loanable funds to where there is a high yield. I was talking to a group of homebuilders yesterday morning, and they said, basically, from nontraditional sources their construction loans are costing 18%. A prime rate of 6% in the banks meant you should get a construction loan at about 8% for a pretty good borrower; but, in fact, in the real market, they are paying 18%. I think the money will eventually follow the yield. It will eventually find a way around the over-regulated financial sector, and I expect to see a non-regulated surrogate for the banking system to overcome what Mickey and I talk about a lot from one of the newsletters he forces me to read on the "socialization of credit" that has occurred in the S&Ls and the banks. If we socialize credit, it becomes inefficient. By the way, one of our local Orange County Republicans/Clintonites made that suggestion at the economic summit.

For those of you who find that interesting, Kathryn Thompson made that recommendation, and I think it was after talking to the good doctor about his white paper on ways in which we can develop some financing opportunities.

Q. It's the first time I ever heard of construction interest being 18%. Capital funding is only so efficient. How can you afford to pay that kind of a premium for the cost of funds and create a product of housing or apartments efficiently? Are they just taking fees, no profits, capitalization?

A. Basically, the way they wind up paying that is they split the profit from the project, which would normally be 10% to 15% of the sales price. They split that with the lender one way or another for credit enhancement and it comes out to be that much or more, and lot prices for people who are doing construction loans now have come down, which gives them a little edge over the poor guy next door who is still trying to recover from the lot price he paid in 1989. So, you have a little room in there to do real well. An interesting thing we see – the projects that are being built on newly acquired lots at "today's market price" are selling very well – Kaufman and Broad had a project in Rancho California next to a project that used to be called Red Hawk, and is now called Dead Hawk, which gives you some idea of what went on down there. Kaufman and Broad opened 55 units of prototypical Moreno Valley housing – 1,300 square feet, $121,000 in today's market and sold 17 homes a week last summer. The reason is you back into their lot price – you know Kaufman and Broad – they didn't pay that much – but I think backing in with my economics, they probably paid about $37,000 or $38,000 a lot and Red Hawk in 1989 was selling you tickets to a barbecue to be told about lots available for $80,000. Other developers are still battering it out on $80,000 lots, trying to unload their inventory. K&B can slide in, underprice them, make a ton of money, and be gone. That's the reason developers can afford high construction interest rates. It's a two-tier situation also.

Q. RTC is offering the balance of the Dead Hawk lots for less.

A. In 1989, we told some of our clients – one of them comes here a lot - he's a former student of mine – that we thought home prices in 1989 would have to come down by 26% to get the market energized again. In 1989 the market hadn't really stopped, but you could see that it was beginning to stop and with the relationship between home prices, which was already high in Southern California relative to income – about twice what it should be nationally – would have taken a 26% reduction in price. Since then, for those people who are still working and who are not in the real estate business, household incomes have edged up and lot and home prices have edged down – not as much as people would like to have you believe because they talk about individual instances. In 1990 in Southern California, we had 5,887,000 occupied units (of which 826,000 were in Orange County). If we had the same ratio of jobs to housing occupancy in 1990 as it was nationally, we would have had 800,000 more occupied units because we'd need fewer jobs per unit. If we had the same ratio of housing ownership as was typical of the rest of the country, even at 5,887,000 units, we would have had 600,000 more homeowners than we had. What has kept the for-sale market going for the last three or four years is the kind of a half-life of this reservoir of potential first-time homebuyers who get into the system and then, through the food chain, let somebody sell a house at the far end. So there is demand for housing (not for apartments) right at the moment. We have seen apartment prices in Orange County come down by $20,000 a unit off of $80,000 which, by the way, is almost exactly 25%, which is kind of consistent with our theory. I don't think they have come down quite enough yet because we are sill having this lack of ability to have transactions. If the buyer who has the cash to qualify for the loan wants a return on his cash (unique in apartment investing), the seller who bought

continued on page 7

Our Economy in 1993
Continued

the thing on a zero cash flow with a 7% cap doesn't want to admit that he made such a giant blunder kind of tilted situation. We have gone from over 100 deals a year in apartments in Orange County down into the mid-20 deals a year because the market is not working smoothly because we are still in denial phases regarding the value that is supportable by rent incomes.

Q. We are being told regularly that businesses are leaving California in droves – particularly manufacturing businesses. Is that true?

A. I think that's a crock.

Q. How do you really feel about it?

A. That's an economic term. The Business Round Table did a survey a few years ago. It was a mail survey. They got back a response that indicated a whole bunch of manufacturers fully intended to move out of state, and that this was evidence of the fact that we are shooting ourselves in the foot. As I said earlier, we do have severe regulatory problems, but the regulations are such that if we really force somebody to move, we've really got to be onerous. What they do is tend to keep people from coming in or tend to keep people from expanding. I remembered seeing something in one of the ULI letters that come out every month which I thumb through to look for a number I could use in a speech – about a survey of manufacturers all over the United States and how many of them intended to move in a certain timeframe and how many of them were going to move out of the city where they are located. The numbers from the national survey were much higher than the numbers from the Business Round Table survey, and the Business Round Table survey was a mail survey, which would automatically create a biased response from people who are upset about something. Because of the concern, I took the County business patterns and sat down and made a list of all the manufacturers (all the employers) in Orange County that employed over 500 people – not by company, but by type of company – the newspapers aren't going to move, the hotels aren't going to move, Disneyland's not going to move, Knottsberry Farm's not going to move, the hospitals are not going to move, major retailers are not going to move – you get down the list, we identified - I've forgotten how many firms – but I think 5% to 10% were likely candidates to move. They were people who made aluminum castings or people in the trucking business who needed larger, low-cost sites, but you are not going to see Kimberly Clark pick up and move because of the huge cost of relocating all of that heavy equipment which is already pretty well written off. They don't have a high tax environment. I don't really share the belief that we have droves of people moving out. What we don't have is people moving in to offset the ones that would ordinarily be moving out. When I worked for Beckman Instruments and the Deutsch Co. and Microdot, we opened plants in other places. At Beckman, we had plants in New Jersey because we were looking for the technology and not much of anything else. This was a time when California was paradise, and Beckman was headquartered here, but we still opened plants out of state because it made good business sense. The Deutsch Co. didn't because Alex Deutsch couldn't find a place he could fly to in an hour out of state.

Q. Are you suggesting that the economic strategy of this County ought to be to viciously get rid of regulation and disincentives and then concentrate on attracting new people to come in because of the new environment.

A. I don't even think you have to do the second one. I think if you could really create a less stringently regulated environment, the information would get out that this is not a hostile political environment and is, in fact, a positive environment and you wouldn't really have to go the other way. In 1964, which is a little out of date now, I identified 18,000 major openings in the United States with over some number of employees (a reasonable number) and then I identified the number of local state economic development agencies, and it was basically about five agencies per major plant. That said if you were a really efficient or average efficient local development agency, you would make a home run maybe every five years. Some are going to be a lot more efficient than others, but I think there is an incredible amount of wasted effort that goes into the local promotion to cause job growth when the market system will cause it to happen if you get out of the way and let the market system do it.

Q. Just confirming – get rid of the regulatory environment and this other will take care of itself, then we are back to Willie Brown, the EPA. In other words, we come back to the polls again, don't we?

A. Well, we come back to politics. It's a basic political message – a basic political feeling that business is the cow that they get the money from and they are the taxing agency. You tax the business, the business has to pass it on to the consumer, the consumer doesn't get mad because they don't understand the message, and so the consumer continues to vote for the person who is making the business pay the taxes when, in fact, the business can't survive without making a profit - so if they can't pass it along, they go out of business. That basic set of economics has never been taught to people in high school. It should be.

Q. Do you put any credibility in some of the articles where they are talking about the administration making a deal with the Federal Reserve? In other words, when you lower the deficit, the Federal Reserve kicks down interest rates? Do you think that could possibly happen?

A. I don't have as much confidence as Jim Doti in the ability of the Federal Reserve to control interest rates. They can ration credit, in essence, have created a system now through the banking system where it's more productive as a banker to get the money from low-cost deposits or to get it from the discount window and put it into T-bills than it is to make loans to you and me. The bank doesn't have to make the same capital requirements for that kind of investment as it does to make loans. The Fed has not so much driven interest rates down in the real market (credit card interest rates are still 18% or 19%), and we talked about construction loan interest rates. What we have done is take the measuring stick and say "Look-it, we really got rates low on the measuring stick." The problem is that measuring stick doesn't measure the credit economy anymore because society has had to go around the formal financial system. I don't believe that Federal Reserve policies can sustain at the same time low interest

continued on page 8

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Our Economy in 1993
Continued

rates, low inflation, and an expansionary monetary policy and the kind of fiscal policy we have had. I have been amazed that rates have stayed as low as they have, given the fiscal policy that we have here. We complain about rates being too high. One of the most instructive things to read on a regular basis is The Economist. The only thing you have to read is the last two pages. Every two weeks, they list international interest rates and growth rates and so forth. For a good part of the last year, we have either had the lowest or the second lowest interest rates anywhere in the industrialized world. I am amazed there hasn't been more hot money going to the Deutsch Bank or someplace like that. I don't think that we really have the ability to manipulate the system the way we used to. An economist by the name of Keynes, who wrote a book in the 1930s about how you use these techniques to manipulate the economy, referred to a concept called the "monetary illusion" which basically says the consumer is a dumb guy; if you give him more money, but it buys less, he thinks he's better off. I think in 1968 we lost our innocence in this country, and the monetary illusion no longer works. We know if they give us more money, but if it buys less we're worse off; and now I don't think we have the ability to manipulate the credit markets nearly to the degree that an economist like me likes to think we should.

Q. Do you see them loosening the regulations on the banking system in this country? That is one of the things that came out of the Round Table that looked like it was attractive.

A. The question was did I think they were going to loosen the banking regulations. I really think they have to. I have a friend who is president of a bank and has been my banker for 20+ years. He is in his 50s and he says, "Yeah, I have been president of a bank somewhere for 20 to 25 years and never before in my life did I turn over the running of a bank to a 28-year-old regulator who told me what I could do everyday." When I had to make a swing loan of about two months, I had the money in the bank to do it, but it was locked up in a CD. It was better to borrow the money than to cash a CD for accounting purposes, also. My banker told me that the file on that loan was two inches thick by the time he got through, and he said, "You know, when you first started dealing with me, you could come in and ask for a loan of the same magnitude, I would give it to you without going to a loan committee and all I had to add in there was a note with your signature on it. Now, I have to have a file, we have to have credit reports on you, we have to verify stuff. It's prohibitive to make loans." So, this bank is very heavily into passive investments and not making many loans. It's a small bank for businessmen. That's the kind of bank that the small business guy deals with, and it's a pain in the neck for them to make loans. I think the regulators are going to have to get off their backs. Now, we've got some kid, who'd probably get a C in my finance class, who is telling us "you've got to do this and you've got to do that."

Q. How do you re-regulate rather than de-regulate. In other words, we don't want to go back to a mid-age, so where do we want to go with bank regulations?

A. What I think will happen is we'll back off a little on bank regulations for political reasons because Kathryn Thompson and people like her who advise Clinton are saying, "Hey, you've got a lot of business people upset at the banking system." But, I think what will happen is that we'll set up a new set of institutions that are unregulated and do business that way. I have a friend in Las Vegas who builds homes whom I asked about how he got his construction financing. He said, "I can get a loan funded in less than 24 hours from a non-traditional lender, and if I pay it off on time, they let my wife and kids out. It works. They trust him; he trusts them; there's not 45 lbs. of paper. When an institution in a capitalist or market driven economy fails to function, I think that the economy goes around it. I gave a speech to a group in Hacienda Heights; and when I was talking about it afterwards to a young Chinese lady, she said that she delivered over 60% of the business within five miles of where we were, didn't have a business license, didn't pay any income taxes, and just ignored the regulations because they say, "Well, I didn't understand this stuff, we didn't have to do this in Taiwan." That, I think, happens. You read about Italy. Forty percent of the gross domestic product was underground, and I think a very large proportion of our economy is moving underground. We've seen a sharp decrease in taxable sales with this recession, and I think part of that decrease is real; but I also think an awful lot of it is swap meets and unreported sales tax. An example I use is the merchant works all day, sells $100 worth of stuff, pays the rent, labor, and so forth. He winds up with $6 or $8. In his other drawer there's $8 that has to go to the government, and he stands there and thinks, "You know, I could double my profit by a simple process of not filing a piece of paper, and that's a lot easier than sweating it out here all day to make $6. I can make $14 by not writing this thing on this piece of paper." Now, I think there are probably massive amounts of under-reporting, non-reporting, since the penalties are not all that severe. One of my cousins used to be Chief Enforcement Officer for the State Board of Equalization. He'd probably disown me if he heard me say that I really fundamentally believe that the drive of a market system transcends the ability to regulate.

Q. I am going to give you two or three types of land uses. What I would like you to do when I give you the type of use is to give me a real short answer on where you think the future of that land use is in Orange County. General Retail?

A. General retail. Be very, very careful in general retail. There is a big revolution in retailing going on. We are going to need a lot less square feet per capita consumer than we used to. Because of subsidies from cities, we are building a lot more than we need to. This is something to be very careful about, and it's very location sensitive because the most important thing about retail is location because you do have a monopoly, you could have a flourishing neighborhood center here and three miles away, you could have three dying; and yet their death wouldn't kill this one.

Q. Anything different about auto sales.

A. We are going to have fewer auto dealerships or the cities that have sub-sized auto plazas are not going to realize their expectations because they were predicated on the belief that car dealerships in auto plazas do two to three times the volume that the average car dealership in the county does. When all of the dealerships are in an

continued on page 9

Our Economy in 1993
Continued

auto plaza, we are either going to have half as many or a third as many dealerships as we had before, or the average sales volume per dealership is going to regress down to what it was, and the sales tax give-backs that were predicated on sales may not match the front-end value of what was implied. There is going to be a lot of screaming and hollering going on. I think it is going to result in a lot fewer dealerships myself rather than the regression. The reduction in dealerships will make a bunch of old dealerships sites available.

Q. Office Space?

A. Don't worry about running out. I used the real numbers on this. We were doing some work for the former employer or current employer of an awful lot of people in this room on this topic, and I won't tell the part that's proprietary to them. But I had to do some detailed background on our perceptions of Orange County overall. We expect to see (optimistically) by 1997 vacancy rates overall in office space come down from what they are now (depending on who you listen to, it's 18% or 19%) down to on the order of 13%. So, that is probably a 5% or less reduction in vacancy rate. That really means to get down into single digits, you probably have got another three or four years beyond that. One of the things people tend to forget is that even when it is overbuilt, everybody knows it's overbuilt and nobody can make any money building it, some office buildings will get built by companies that are expanding and need to have build-to-suits and by doctors who pay no attention to economies anyway.

Q. Industrial Development?

A. I think industrial development is going to be a surprise once we write down the value of R&D space, which is not really industrial space anyway. We are getting that out of the way, we are seeing building prices come down from $85 a square foot to $65 a square foot and less very rapidly. We think that the industrial sector demand, the true demand, is going to pop back a lot quicker than most people believe because two of the three legs of demand for industrial space are very sensitive to recession. Manufacturing employment and contract construction. We don't expect either of those to come rushing back, but we expect them to come back with recovery. The problem in the office market is not the recession. The problem in the office market is just flat-out overbuilding. The problem in the industrial market is a little bit of both; but because it's a little bit of both, it comes back a lot quicker. A corollary of that is if you assume we have a 20% vacancy factor in industrial space, which I disagree with although the broker surveys say 20% plus or minus, we think they don't include in their base the Hughes, Rockwells, etc., because they forget about them. We think the effective vacancy rate is like 10% rather than 20%. No matter what, we think that vacancy rate will spin off a lot quicker in terms of the absolute magnitude than in the office sector. But if you say 20% and you say 20% in the office, the increase in employment in those two categories, which combined represents about 65% of jobs, the increase in employment to fill that space, basically a 25% increase, would create in essence 25% of 75% or 70% or say 80% at 20%, a 15% increase in jobs, which would increase demand for housing in Orange County by 15% because of the close connection between housing and jobs. Before the office guys get well, somebody is going to be making a lot of money in the housing sector just because that's the nature of the beast.

Q. How about housing?

A. There are two ways to get overbuilt by our terminology. One is to have too many units, and the other is to have them too high priced. The elements that determine purchase or occupancy of housing are you need a place so you can sleep and whatever it is you do, and you need to be able to pay for it. So you have apparent demand and effective demand: Economics 100A. We overbuilt the market in Southern California, particularly in Orange County, in price in 1988, 1989, and 1990. We didn't, I don't think, over-build it in units, because if the units had been at the price that was consistent with our incomes, it wouldn't have taken as many jobs to support occupancy of the units, and we would have occupied (as I mentioned earlier) in Southern California as a whole about 800,000 units more than we really did. This would have meant in 1990 we would have had a negative vacancy rate around 500,000 units. If you take Orange County's median household income, which is higher than it should be because we have sort of a Will Rogers thing – we send the middle-income people from Orange County to the Inland Empire, raising the average income for both places – if you take that and divide it into our median home price, it is something like a ratio of 5.6:1. If you take the median income nationally and divide it into the median home price nationally, the number is 2.6:1. So, you have almost a double intensity in terms of disparity of price here. People like me who have lived in a house for a long time don't notice the cost because it's not an overt cost - but it's a major problem, and I don't think there is any way we are going to build significant amounts of new houses below the median price, except for some attached housing, because the lot prices in Orange County didn't come down the way I thought they would when the bad news about Lusk and Lyon became conventional wisdom.

Q. The final land use is one that this County has a lot of and one of those land uses is going to expand – at least if they have their way. What about commercial entertainment? And I am talking about Disney.

A. It's such a specialized use. We have a lot of it as a percentage of what there is in the county, but as a percentage of our total land, it is not the critical element. The critical element in terms of the impact of Disney or Knotts or whatever (Disney-like entities) is not the primary impact of that land use itself, but the derivative impact of all the land that is needed to house the people that work there, the hotel, the people who work the hotels, etc. For example, in Orange County, if you develop five acres of manufacturing land successfully and it's occupied, you create demand for probably 90 acres of other land for urban uses because of the economic multiplier effect of those jobs and then the derivative jobs and the derivative people who create demand for land. For those kinds of economic multiplier land uses, the impact is not the facility itself; the impact is the derived impact that could easily be 20 times the primary impact as manifest in land use. The high density of employment in recreation entities implies a high economic multiplier in terms of land use.

Bear Valley Road Bike Path to the Victor Valley College

By Kathie Martin, Town of Apple Valley
Marketing & Public Affairs Officer

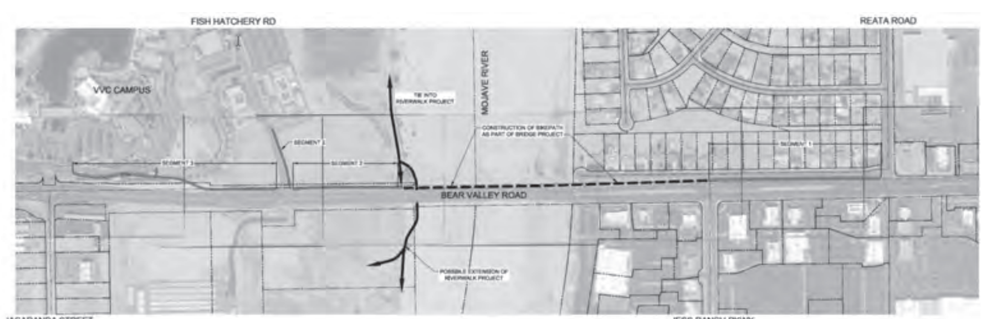
At their February 11, 2014 Board meeting, the Victor Valley College (VVC) Board approved a Memorandum of Understanding between VVC and the Town of Apple Valley for the construction of a new Class 1 Bike Path that will connect the Town to the upper campus.

The Town of Apple Valley will be the lead agency for the bike path project, which starts in Apple Valley and continues east to VVC along the north side of Bear Valley Road. The San Bernardino Associated Governments (SANBAG) Board allocated to the Town of Apple Valley $386,370 from Transportation Development Act (TDA) funds for the construction. The Town is providing matching funds of 20%.

The project has three segments: 1. From Reata Road to Jess Ranch Parkway, 2. From the Bear Valley Road Bridge to Mojave Fish Hatchery Road, and, 3. From Mojave Fish Hatchery Road to the Campus.

The Town is working with Hall and Foreman, Inc., the design engineering company, to finalize the construction drawings. It is anticipated that construction will start later this year.

The new bike lane will provide a continuous route of access from Apple Valley Road to Victor Valley College, providing better bicycle access to students living in Apple Valley. It also improves travel conditions for bike riders coming from Victorville to visit the many shops and restaurants located at the Apple Valley/Bear Valley Road intersection. Coupled with the construction of the Yucca Loma Bridge 3 miles to the north, which also includes a Class 1 bike lane, citizens on both sides of the Mojave River will find travel options greatly expanded over the next two years.



Protecting State Assets: Aerospace and Defense

By Senator Steve Knight

For decades the High Desert has been instrumental in California's defense and aerospace industries and, subsequently, the Nation's security. California State leaders need to protect this valuable national asset and businesses that are creating hundreds of thousands of jobs and generating billions of dollars for the state's economy.

To that end, California's Governor created the Governor's Military Council to protect and expand defense and aerospace's vital role in national security as well as California's economy. I am honored to be a part of the inaugural council. As a veteran of the U.S. Army, Chair of the Senate Select Committee on Defense and Aerospace, and Vice Chair of the Senate Committee on Veterans Affairs, I look forward to sharing insights at future council meetings.

I will counsel our federal delegation on ways to best represent California on the national level, reinforcing the significance of protecting the aerospace and defense industries by cultivating an environment that is business-friendly and promotes economic growth.

Near and dear to my heart are Edwards Air Force Base, Exquadrum, NASA Armstrong (formerly Dryden), Plant 42, and major military contractors with close proximity to Northrop Grumman, Lockheed Martin and Boeing. These proven assets must be protected to ensure jobs and economic prosperity for our region and California as a whole.

continued on page 11

What is AB 1103, California's new Nonresidential Energy use Disclosure Law?

By Marika Erdely, CEO Green EconoME

You may have heard about AB 1103, the new Nonresidential Energy Use Disclosure Law, and if you haven't, you should. Here's what you need to know:

AB 1103 came into effect on January 1, 2014 for all commercial buildings in excess of 10,000 square feet in California. On July 1, 2014, it drops to include all buildings over 5,000 square feet. If the building has a residential component, or has a Group F (Factory F1/F2) occupancy permit, it doesn't need to comply with the law.

The law requires nonresidential building owners to disclose their energy usage via a software tool called "Energy Star Portfolio Manager." This software tool will "benchmark" a building and produce data, as well as an Energy Star rating or Energy Use Intensity (EUI), depending upon the building type.

The Energy Star rating is from 0 to 100, with 100 being the most energy efficient. The EUI looks at the energy efficiency of the building from a square foot perspective, and the lower the number the better. Of the over 80 different building types, only 20 can actually receive the Energy Star rating. The others must rely on the EUI to assess energy efficiency.

The process of "benchmarking" involves entering the most recent 12 months of energy (electric/gas) usage and certain physical and operational characteristics of the building into the software tool. Benchmarking compares all of this information against similar building types in the software tool, while also performing a zip code weather normalization function. Benchmarking produces several reports, but only one report is required for compliance with AB 1103: the "Data Verification Checklist," or the "disclosure report."

The AB 1103 guidelines stipulate that at least 30 days before a disclosure is required, a building owner must open an account for the building in Portfolio Manager and begin the preparation of the disclosure report.

Since the disclosure report is required prior to a financial transaction being executed, it is best to have the report prepared in advance. The law requires the report to be presented to:

- A prospective buyer – at least 24 hours before the purchase agreement is executed.
- A prospective tenant (for a single tenant building only) – at least 24 hours before the lease is executed.
- A prospective lender – no later than upon submittal of the loan application.

Unfortunately, the disclosure report expires within 30 days. Because the energy usage data must also be kept current, after 120 days additional energy usage data will need to be entered into the software tool or the tool is unable to produce a rating or EUI.

Having fun yet? Another glitch to the process is that in many buildings, it is the tenant that must provide the energy usage data since they are the one paying for the meter. Utilities will in no way assist the building owner in providing the tenant's energy usage data to meet the requirements of this law. It is up to the tenant to provide it, so all building owners should make sure all new leases include a provision requiring the tenant to provide their energy usage data upon request.

What happens if you don't comply? Well, the California Energy Commission has stated that their actions may include:

- Investigating non-compliance

continued on page 12

Protecting State Assets

Continued

Fostering job creation has always been a legislative priority of mine. Assembly Bill 2243, which was passed in 2012, provides limited liability for commercial space ventures so innovators remain competitive in this promising market. Senate Bill 415, which I am currently running, is an extension of AB 2243 adding "suppliers" or "manufacturers" as a space flight entity with limited liability for any participant injury relating to commercial space launch activities. Also, this year I am working to create geographically-based aerospace hubs around existing aerospace manufacturing clusters, and creating benefits and business incentives within the aerospace hubs. These measures will ensure California's private space flight and exploration industry is protected while it continues to prosper and create jobs for our state.

California needs to bolster the aerospace and defense industries, particularly with the backing of the Governor's Military Council, to ensure existing state installations are not threatened.

Senator Steve Knight, (R-Palmdale), represents the 21st Senate District which includes the communities throughout the Antelope, Victor, and Santa Clarita Valleys.

Thinking Regionally

By Paul Granillo
Director of Public Policy, IEEP

Everyday a thousand thoughts cross our mind. Most thoughts concern our family and loved ones. For those of us in the work force, much of our thought focuses on the job, our career goals and our co-workers. Many times it is not till the evening news when we think about politics, our nation's economy, the world situation or just how our favorite team is doing. Hopefully we carve out a thought for the poor and suffering. So in that long list of thoughts there is not much time left to think about our region. Yet every thought in the previous list is effected by the economic and quality of life reality of our region, the Inland Empire.

The United States government's Bureau of the Census defines the Inland Empire as the Riverside-San Bernardino-Ontario metropolitan area, which covers more than 27,000 square miles and includes the entirety of San Bernardino and Riverside Counties. If the Inland Empire were a state, we would currently be the 26th largest state in the nation; soon our region's population will pass Kentucky and be able to claim a population greater than half the states in the nation.

Now, while most of us do not spend inordinate amounts of time thinking regionally, myself, and the organization I head, the Inland Empire Economic Partnership, do just that: we think about ways to better the business climate and quality of life of our two-county region. We do this because the economies of our two counties our interlinked.Moreover, our regional economy is tied to the larger Southern California economy, which is part of the 9th largest economy in the world (just behind Italy and larger than Russia's) the State of California, which is part, of course, of the largest economy in world, that of the USA.

continued on page 13

What is AB 1103

Continued

allegations (which may include subpoenas, compelling testimony, and convening investigative hearings).

- Initiating administrative proceedings before the full Energy Commission for an order compelling compliance.
- Initiating a civil judicial proceeding to enforce an Energy Commission order.
- Initiating a civil judicial proceeding to obtain injunctive relief.
- Settling enforcement actions through negotiated settlements that impose reasonable and appropriate requirements, including possible payment of penalties.

It is not clear who they will be going after, but since this is now the law of the land, it is best to comply.

Buildings with an Energy Star Score above 75 are able to be "Energy Star Certified." This requires an on-site inspection by a Professional Engineer (PE) and further testing. Testing includes looking at the indoor air quality, thermal comfort and illumination of the building. The PE uses the same disclosure report to perform the inspection and testing, and fills out all the forms associated with it.

Why do this extra step? Well, there are demonstrable economic benefits from owning an Energy Star-certified building. Occupancy rates are 3% percent higher for Energy Star-certified office buildings, and while rent premiums can range from 5 to 8.5% higher; most significant resale premiums can range from 13 to 26% higher.

AB 1103 is about raising awareness and encouraging building owners to find ways to increase the energy efficiency of their buildings and reducing consumption of energy in the state. Utilities currently have incredible opportunities to fund energy efficiency retrofits of buildings.

Title 24, California's Energy Building Code, also has some interesting changes coming in July, 2014, which will push energy efficiency to new heights. Goals include residential construction to reach zero net energy by 2020, while commercial construction is to be zero net energy by 2030.

Pushing energy efficiency in existing building stock makes sense, because these properties will be competing against this new construction. New technology, such as lighting and HVAC control systems, can significantly reduce usage and demand. It is clear that these technologies will become more important in the coming years. Being energy aware is just the beginning!

Green EconoME produces the report for compliance with AB 1103. Contact us!

Marika Erdely is the Founder and CEO of Green EconoME, a full-service Energy Consulting firm with offices in Malibu and San Jose. Marika had been a financial professional for over 30 years and holds an MBA and a Contractor's License B (#892673). She is a LEED AP BD+C, and has been trained as a Certified Energy Auditor (CEA). Marika founded Green EconoME in 2009 to meet the needs of a growing industry fueled by the mandates required by AB 1103 and Title 24. Green EconoME's services begin with a full analysis of a building's energy and water usage. They project manage the retrofits and stay around to ensure projected energy savings are met. Because of Marika's financial background, all analysis is financial based and easy to understand, with clear ROI and payback periods.

Thinking Regionally

Continued

So, one might ask, how does one better a regional economy? The answer is with a lot of work. A lot of work because we have barriers in our way like our educational attainment rates, nonstop growth, reluctance to cooperate, lack of resources, and growing poverty rates.

First our baccalaureate attainment rate. Only 19% of our region's residents have a bachelor's degree, meaning 81% of our residents do not have a bachelor's degree. Further, of that 81% of residents, almost 42% did not complete high school. So what does this mean? It means we are a region heavily dependent on economic sectors that have little to no educational requirements to enter. That is why manufacturing, goods movement and logistics, and construction are critical to the Inland Empire's economy and job base.

IEEP sees the need and supports our region's educational leaders as they work to educate our region's children from the earliest opportunities parents have in the home to college graduation. And for those in the modern economy who may not choose a college path, we support the finest workforce training that our region can provide.

Second, the last 25 years has seen unprecedented growth in our region. Since 1990 alone our population has grown from 2,588,793 to 4,293,892 in 2012. The Southern California Association of Governments predicts we could grow to 6 million by 2035, with the County of Riverside becoming the second largest county in the state next to Los Angeles.

Third and fourth, the residents of the two counties move freely across the county lines working, shopping and playing from the wine county of Temecula, the forests of Lake Arrowhead and Big Bear and the deserts of Palm Springs and the High desert communities. Unfortunately, too often, elected officials, business and community leaders, although rightly looking after local issues, have failed to see the value of working collectively and regionally. And the cost of that has been our region's lack of ability to attract the resources that our region is properly entitled to, like the resources available through philanthropic institutions that support the non-profit sector.

Finally, of all the issues we have, the most troubling to me is the growing rate of poverty in our region. Using the same years as I previously referenced for population growth, in 1990, 306,417 or 11.8% of residents were defined as living in poverty. In 2012 that number was 809,234 or 19% of our population living in poverty and today, in 2014, the number has only grown.

The members of the Board of Directors of the Inland Empire Economic Partnership are business leaders, elected officials, college presidents and chancellors, non-profit and community leaders from throughout Riverside and San Bernardino Counties. They care about our region and its future. They want to tackle the hard problems that face our region and also celebrate the beauty and benefits of working and living in the Inland Empire.

From time to time they will write here about their perspective on our region, their struggles, wisdom and ideas as employers, educators and leaders about how together we can build a better Inland region.

Of course, that begins when we all take a little time to think regionally.

Seeking Solutions to Spur Economic Growth

By Robert Lovingood, 1st District Supervisor, San Bernardino County

As First District Supervisor of San Bernardino County, economic growth is key to every facet of our community, and there can be no economic growth without job creators. As someone whose entire career has been in the private sector, I firmly believe that government needs to treat job creators like their best customers – because they are.

Unfortunately, too often, government at all levels can be a hindrance to economic and job growth. So when I was elected to the Board of Supervisors, I met with a diverse group of folks from the mining industry around the county. In short, we heard how permitting processes had become bogged down. This became a priority in my office, as well as with the county's new director of Land Use Services, Director Tom Hudson. Tom pledged to address the concerns, and when we had a follow-up meeting several months later, area mining industry representatives were very pleased with the improvements they were seeing.

A few months ago, we also formed a roundtable of architects, commercial real estate brokers and others from the High Desert development community. It was a frank, but healthy, discussion on how we could streamline county operations. We forwarded the group's suggestions to Land Use Services.

Land Use Services is making efforts on two fronts to reduce the time and cost involved in processing applications.

First, they are completing efficiency studies on planning staff time and procedures. This is greatly improving efficiency and throughput.

Second, the department is utilizing contractor assistance to clear backlog applications more efficiently (with their entire focus on application processing and not including other duties required of staff planners). Land Use managers are measuring each planner's productivity in order to guide staff assignments and time management.

Some business roundtable participants suggested creating a "road map" to outline steps and costs of various LUSD processes. So the Planning Division is adding a lot of helpful information to the web site, particularly in answers to Frequently Asked Questions. The Division has several FAQs dealing with the application review process and is adding flow chart illustrations soon.

Another way to combat uncertainty in the planning process is to take advantage of the free pre-application review process. The process involves review by staff from multiple County departments who are involved in the development review process. The committee meets with potential applicants to explain exactly what can be expected upon filing of an application. Applicants in the Pre-Application process receive a general overview of the requirements and potential costs prior to investing in the filing of an application.

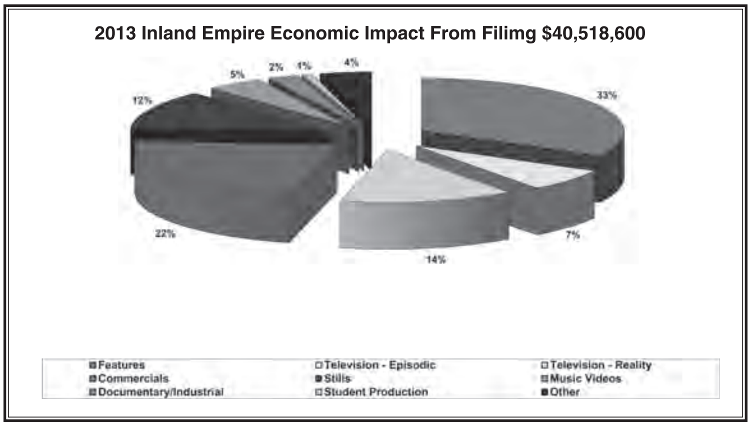
If anyone has a concern that an individual staff member is not following the Countywide Vision of customer service, the Department provides comment cards that are reviewed by the management team and the Land Use Services Director. Comments may be signed, or they may be submitted anonymously. Land Use Services also has an on-line customer survey, www.surveymonkey.com/s/3RK9JH7, for the same type of feedback.

The Planning Division has been reviewing procedures to find ways to reduce applicant's time and materials. The Land Use Services does accept electronic application filing now. The following link to the user guide is posted on the County web site: http://cms.sbcounty.gov/lus/Planning/ePlans.aspx. And, of course, I would love to hear your thoughts. Please feel free to contact me at SupervisorLovingood@SBCounty.gov or at 760.995.8100.

Destination County of San Bernardino for the Film Industry

By Sherri Davis

The Economic Impact for the Inland Empire for 2013 was $40,518,600 with 690 projects and 1,564 days. County of San Bernardino had an economic impact of $24,942,300 with 425 projects and 905 days of production throughout the county.



A close look at the 1st and 3rd Districts of San Bernardino showed that 13 out of 24 features were shot in the two districts. Most were low budget indie films except for Legendary Pictures' "Interstellar" which was shot in Johnson Valley on BLM land. Christopher Nolan was the Director and the film stars Matthew McConaughey, Anne Hathaway, Michael Caine and Ellen Burstyn, to name a few. Some of the other features were Australian-based Layfilm Dhi, LTD's "The Uberkanone," which shot at Dumont Dunes; L.A. Butterfly, LLC feature "Butterfly," shot in Barstow, and Slinmmit, Inc.'s film "Echos," shot at El Mirage Dry Lake.

Several Episodic Television shows selected locations near El Mirage – FTP Productions' "RAGTAG" and Renegade Pictures "None of the Above." Brownstone Entertainment's "Barter Kings" shot their reality television show in numerous locations throughout the year. Green Bottle Pictures' reality show, "Hot Rod Rescue," shot near Barstow, while Hollywood Sky Entertainment's "Cinderella" selected Lucerne Dry Lake.

There were 74 commercials shot in the region with 48 using locations throughout the high desert. A great Super Bowl commercial for the Fiat 500 was shot at Dumont Dunes starring Sean Combs aka Puff Daddy (this commercial is still on the air). The commercials have ranged from "Max Factor's 'I am Oasis'" to "American Express v.1" while the car commercials covered everything from "VW" to "Tesla."

Barstow BLM opens additional sites for filming

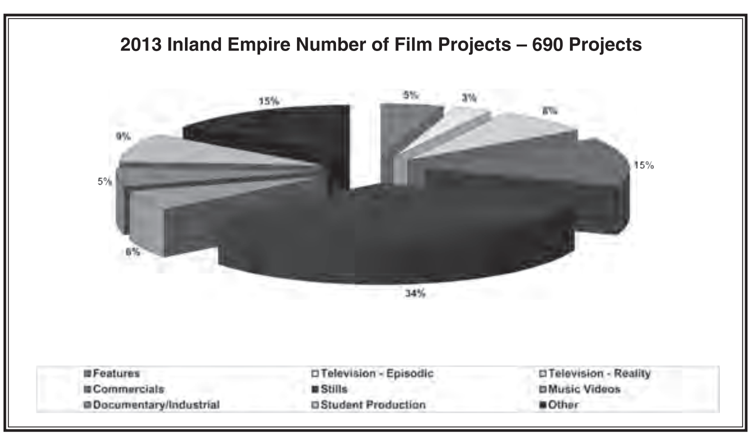
The Environmental Assessments on 9 locations in the 1st and 3rd Districts has been completed after almost 5 years of work. This had been part of the Inland Empire Film Commission's projects since 1998. In 2000 a presentation was made to Supervisor Postmus to support the environmental work to open additional locations within BLM for filming. At that time filming was not a priority and the project stalled. When presented again, this time to Supervisor Mitzelfelt in 2009, funding was allocated and work on the environmental assessments began. This funded project, thanks to Brad Mitzelfelt, will give the County an edge when production is looking for more diversity in the desert.

What is often misunderstood is the fact that even though BLM land is open for commercial (i.e. mining, grazing, alternative energy, etc.) and recreational use, it does not mean it can be it can be used for filming. According to Federal statutes, separate environmental assessments must be done for commercial filming use. This is what the funding from the County paid for.

These new areas are Sawtooth Canyon; Stoddard Valley OHV area; Rasor OHV area; Afton Canyon; Portions of Odessa Canyon; Portions of Mule Canyon and the Hollywood Canyon and Sperry Wash sections of Amargosa Canyon.

We are hopeful that the Incentive bill, AB 1839, which is currently working its way through the committees, will be passed and signed by the Governor.

As the Inland Empire Film Commission,



Destination County of San Bernardino for the Film Industry

Continued

we have been very active with the California Film & Television Production Alliance, supporting AB 1839 – California Film and Television Job Retention and Promotion Act.

The motion picture industry has long called California its home and has grown into one of America's greatest and most lucrative exports, a cultural touchstone known around the world, an economic engine for jobs and business and a tourist magnet. Combined, the industry supports more than 190,000 direct jobs and $17 billion in wages in California.

AB 1839 would expand the current production incentive program beginning in 2016 to include one-hour dramas and large budget feature films. There is an added incentive for filming outside the Los Angeles area to support increased production for the entire state. This additional incentive will dramatically impact the Inland Empire. It will help make California—the state known across the globe as the home of filmmaking—competitive once more.

Statistics from the California Film Commission speak to the hazard of runaway production. In 2012-2013, of the 54 large, live action feature films shot during that time frame, only ONE filmed exclusively in California. These big-budget movies generate the most jobs and revenue, but presently they do not qualify for our state tax credit program. For many years, California was home to one-hour dramatic television shows. Now, many of those shows have left. In 2005, California hosted 51 of the 79 one-hour dramas made (65%), but in 2013, that number fell to 39 out of 137 shows (29%).

The loss of big budget pictures cost California $410 million in state and local tax revenue, 47,600 jobs and total economic output of $9.6 billion, according to the study, which was conducted by the Los Angeles Economic Development Corp.

This is an example of the feature activity in the Inland Empire:

- In 1999 we had 11 large feature films plus 15 additional features within the 1 to 5 million dollar budget range.
- In 2013 we had 1 large feature

The County of San Bernardino and the Inland Empire Film Commission along with other concerned stakeholders are greatly concerned that the state's status as the epicenter for motion picture production is at risk. What started as isolated runaway film and television production to a few countries some 15 years ago has become an ever-growing exodus of high quality middle-class jobs. And with those jobs, California is sending precious tax dollars, economic opportunity and its iconic brand to other states and nations.

A petition calling on state legislators to help bring production back to California is now in circulation at www.filmworksca.com. If keeping filming and middle-class jobs in California is important to you, we encourage you to visit Film Works CA and join with the more than 11,000 other petition signers who have already voiced their support.

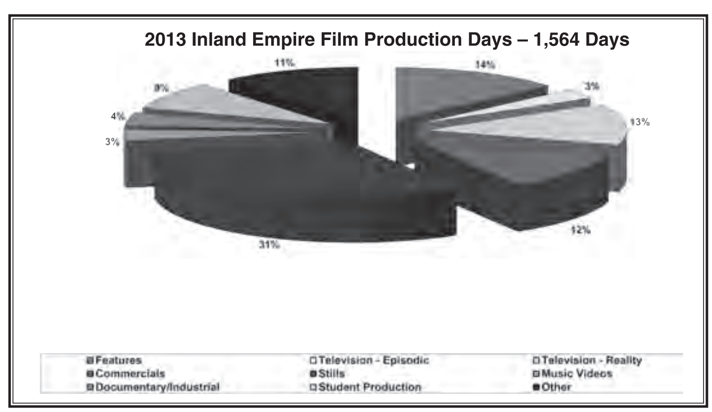
PLEASE SIGN THIS PETITION AND SHARE THIS PETITION WITH 3 MORE PEOPLE. Together we can keep our signature industry in California.

We are looking forward to a successful year in 2014.

In Memory of Ira Norris

Born in Chicago to Ruth and Sol, and brother to Jane, Ira graduated from Senn High School. He received a BA in Finance in 1958 from his beloved USC, where he played on the baseball team. In 1979 Ira earned his MBA from Pepperdine. He began his career in 1960 and has built homes for over 13,000 families across California, Nevada, Arizona, Illinois, New York, and New Jersey. Ira served as President of the Building Industry Association of Southern California and was National Vice President, Federal Governmental Affairs Chairman, and a Life Director of the National Association of Home Builders. He was recognized as "Housing Person of the Year," voted "Best Builder in America" by Builder Magazine, and was inducted into the California Builders Hall of Fame. Ira was a founder of the Lusk Center for Real Estate Development, a graduate program at USC, where he was an adjunct professor for 24 years. He also developed the curriculum for the Master's Degree program in Entrepreneurial Home Building at USC.

In addition to USC football, travel, the Dodgers, and spaghetti, Ira loved golf and played at both Indian Ridge and El Caballero, where he was on the Board of Directors. Ira was a sweet, intelligent, and philanthropic man who was completely adored by his wife, Nancy, children Michael (Leslie), Greg (Joanne), Terry Gevisser, and Susan (Rick) Schnall, and grandchildren Asher, Kyle, Jason, Ava, Will, Jordan, Judd, and Brooke.



High Desert Achieves 10 Years of Commercial Operation

By Victor Barron

The High Desert Power Project, LLC power plant reached a significant milestone in 2013 when it achieved 10 years of commercial operations. High Desert is a natural gas-fueled, combined-cycle generating station near Victorville, Calif., that began operations in 2003, delivering enough power to the California Independent System Operator (CAISO) transmission grid to serve approximately 830,000 California homes, along with substantial local benefits.

An entity managed by Tenaska Capital Management, LLC (TCM), an affiliate of Omaha, Neb.-based energy company Tenaska, acquired the 830-megawatt facility from Constellation Energy in 2006. It's been safely and reliably operated since then by a Tenaska affiliate, earning two National Safety Council awards for 2012 for its outstanding safety record.

High Desert Power Project, LLC

Location: Victorville, Calif. (San Bernardino County)

Capacity: 830 megawatts, enough to serve approximately 830,000 California homes

Design: Natural gas-fueled combined-cycle

Commercial Operation: 2003 (acquired by entity managed by Tenaska Capital Management in 2006)

"We are proud to have this facility in Victorville," said San Bernardino County Supervisor Robert Lovingood. "The High Desert Power Project contributes jobs and tax revenue to the local economy, in addition to supporting community projects and organizations. It's a great business neighbor and an asset to the region."

The High Desert plant is staffed by 38 full-time employees – all of whom live in the county. It provided approximately $21.3 million in salaries and payments for locally contracted services and supplies in 2012, according to Plant Manager Frank Carelli. He said the facility is one of the largest taxpayers in the region, paying more than $3.1 million in local property taxes for 2013.

"Our employees are instrumental to the success of High Desert," Carelli said. "It's their work, day after day, that helps ensure that the facility runs safely and efficiently, providing reliable power for Californians.

"And they don't stop there. Our employees go out into the community – their community – and contribute their time and talent. We truly have an outstanding workforce."

Plant employees have a history of supporting local causes and organizations, such as High Desert Opportunity Day and the Victorville Chamber of Commerce, Carelli said. They volunteer hundreds of hours to community efforts each year.

Long-time plant employee Victor Barron, Operations Manager, said the High Desert staff has been involved in the community since Day One. For years, he said, the plant has been providing scholarships to the Mojave Environmental Education Consortium that fund field trips and tours, sponsoring an annual essay contest through several local schools and hosting a teacher training to show how physics is applied to power generation.

"There's really been a focus on working with the education system," Barron said.

High Desert was named Power Plant of the Year in 2003 by POWER magazine in recognition of its adherence to strict environmental standards and its innovative approaches to project partnering, air emissions offsetting and water management.

Carelli said High Desert uses an efficient combined-cycle technology that first generates electricity using natural gas in a combustion turbine, and then recycles the exhaust heat to create additional electricity through a steam turbine-generator.

High Desert has been named a Climate Action Leader as part of the California Climate Action Registry Program. Registry members must undergo rigorous greenhouse gas emissions inventory in order to receive designation as a leader. Carelli said all emissions from High Desert are below every applicable national air quality standard and are among the lowest permitted levels in the nation for a plant its size.

TCM is a leading manager of private equity energy investments. It has approximately $3.8 billion in assets under management, including High Desert, and targets investments in power generation, oil and natural gas midstream and energy services. To learn more about TCM or Tenaska, visit www.tenaskacapital.com or www.tenaska.com.

The High Desert Power Project, an 830-megawatt power generating station in Victorville, Calif., managed by Tenaska Capital Management, has been delivering electricity to the California Independent System Operator (CAISO) transmission grid since 2003.

Killing Prop 13 Should be a Capital Offense

By Assemblyman Tim Donnelly (R - Twin Peaks)

They say those who do not study history are doomed to repeat it.

The battle over Proposition 13 is about to be fought all over again. Prop 13 passed by nearly 65% of the vote back in 1978. A significant majority of citizens of all political persuasions were united in support of a proposition that protected property owners and tenants alike from massive property tax increases.

The reason for this is simple. Markets work, and ordinary Californians are very savvy when it comes to their money, even if their politicians aren't.

For an example of just how much public support Proposition 13 has, we need look no further than the 45th Assembly District, where candidate Susan Shelley nearly defeated her Democratic opponent - in a highly Democratic district - by putting the issue of Proposition 13 at the front and center of her campaign.

The most dangerous assault on Prop 13 is what's called the "Split Roll." In simple English, it means you divide the residential and commercial property rolls and only allow residential properties to continue to be covered under the protections of Prop 13. This means all commercial properties, including business properties, retail properties like your local shops and restaurants, could be reassessed at dramatically higher values, doubling or even tripling their property tax.

Many businesses not only do not own the property, but are on triple net leases, which means they pay three times any additional costs incurred. So your favorite local hang-out might be forced out of business if the split-roll scheme were to pass. If they stay in business, the only way they are to be able to provide you their goods or services is to raise the price.

But the dirty little secret is that the tenants of apartment buildings - those who can least afford it - might suffer the worst.

Renters are not stupid. They know if the cost of housing goes up, their rent must go up to cover the cost. There are no "free lunches." Someone has to pay. The politicians believe they are sticking it to the income property investors - and this may be true for a year or two, but eventually all costs get passed on to the tenant.

The reason for that is also simple: investors need to know they will earn at least a minimum rate of return on investment, also known as the Capitalization rate (or Cap Rate for short), or it is not worth putting their capital at risk.

Since the average cap rate for apartment investments is about 5%, that means every dollar of extra tax lowers the value of the property value by $20 (it's a 20 to 1 ratio) Meaning, if property tax goes up $5,000 the value of the property comes down $100,000. Why is this important? Because the property is being taxed on its value. So raising the rate does not net out the amount the politicians think it will.

Property tax receipts will fall because property values will fall to bring the market in line with the average cap rate. So their net gain will not be as much as advertised. The lower property values will mean that the county will receive less transfer tax upon the sale of the property. The state and federal government will receive less capital gains tax upon sale. The budgets of cities and counties have been under intense pressure as tax revenues continue to fall, and business owners and taxpayers are leaving California in droves to flee the crushing burden of the nation's highest income tax.

Since apartment housing is the cornerstone of affordable housing, we cannot overstate the case that a split roll would not only fail to accomplish the proponents goals, but it would put tens of thousands of small business owners livelihoods at risk, and might possibly put an end to affordable housing in California altogether. Rarely do you see a cause that is joined by renter and building owner alike, where the interest of the employee and business owner are the same, but it can be argued that splitting Prop 13 poses a unique threat to public sector budgets and private sector enterprise, equally. The higher tax is just another reason for large businesses to leave the state, taking their jobs with them.

According to contemporary polling on this issue, Proposition 13 still retains the substantial support it had 35 years ago. It is urgent that we join forces and stand unified against the one move that could sink California's once-vibrant economy for all time. We can do this, you can help.

Caltrans Transforms the High Desert Transportation Infrastructure

By Joy Sepulveda—Public Information Officer

Most of Interstate 15 is currently undergoing major improvements from Devore to the Nevada state line. As the High Desert areas surrounding I-15 continue to boom with growth and more and more motorists use the corridor to travel to vacation destinations to both the north and south, it has become necessaray to improve the transportation system.

There are several major projects that have broken ground in the last year that aim to transform the infrastructure and operational efficiency of Interstate 15 through the High Desert.

Devore Interchange Project

The I-15/I-215 Interchange in Devore is a heavily traveled interchange due to goods movement, recreational vehicles and commuters. Travel through the Cajon Pass is one of only three routes into and out of Southern California. In addition to being a primary goods movement corridor of national significance, it is the route to vacation destinations such as Las Vegas and the Colorado River, to name a few.

As one of the worst grade-related bottlenecks in the United States, The Devore Interchange Project was initiated to address the issues of this highly traveled interchange.

The project was awarded to Atkinson Contractors, LP of Foothill Ranch, Calif. in November 2012. The purpose of the project is to reduce congestion and accidents and improve freeway operation through the interchange.

The $324 million dollar design/build project will add truck by-pass lanes, which will improve traffic flow and reduce delays; add lanes, which will reduce congestion because it will eliminate the need to make multiple lane changes; bring the interchange up to operational standards, improving the road conditions so that they are in a "state of good repair." The existing design causes passenger vehicles, freight trucks and RVs to weave to their desired lanes at the same time traffic is exiting and entering local interchanges, which causes higher than average accident rates. Local interchanges will be reconfigured to provide a safer drive, and reconnect State Route 66 (Cajon Boulevard) from just north of the I-15/I-215 interchange to just south of the same interchange.

The project is estimated to be completed in 2016.

I-15 Cajon Pass Project

The second design/build project on I-15, the Cajon Pass Project, which will begin this spring, will resurface and restore the pavement between Kenwood Avenue and the Hesperia Overhead. The project is needed because all of the high volumes of traffic traveling in this area have caused the pavement to deteriorate and settle.

The $120 million project was awarded to Coffman/Parsons: A Joint Venture. It will replace the two outer lanes, grind and replace random slabs in the interior lanes, rehabilitate ramps within the project limits, and upgrade and install roadside safety features.

The project is expected to be completed in summer 2016.

Clyde V. Kane Roadside Rest Area Rehabilitation Project

The existing facilities of the Clyde V. Kane Roadside Rest Area, located on I-15 30 miles east of Barstow, are unable to keep up with user demands in terms of facilities and parking capacity. A project to upgrade the facility was awarded in December 2013.

The work includes installation of new comfort stations, walkways; upgrading water, electrical and sewer systems; expanding parking lots and traveler amenities. The project will provide onsite drainage improvements and new picnic shelters, as well as pet recreation facilities. Also, this project will accommodate increased traffic and will improve public safety.

The project was awarded to RSM2 Contractors, Inc. of La Mesa, Calif. and is expected to be completed September 2015.

SR-58 via Hinkley Widening Project

This project involves the realigning and widening of State Route 58 (SR-58) from two to four lanes and upgrading the highway to an expressway near the community of Hinkley in the County of San Bernardino from west of Hidden River Road to east of Lenwood Road. The project will also add a mixed-flow lane in each direction and include shoulder construction, drainage improvements and median widening.

The project will eliminate the existing gap between the adjacent four-lane roadways. It will also address the need to safely accommodate increased large truck and recreational vehicle traffic, as well as reduce unnecessary delays to the traveling public. Additional benefits of the project include: reduce traffic congestion, improve traffic safety, improve operational efficiency, improve the reliability of goods and movement, and reduce people/goods movement conflicts, as well as extend the life of the pavement.

The project will be ready to list for bid this May and is set to begin construction by the end of 2014.

Caltrans is extremely proud to be able to bring such revolutionary and innovative projects to the High Desert. The Department has heeded the call for infrastructure improvement through the area and is looking forward to building partnerships to ensure that the I-15 corridor continues to shine statewide.

Victor Valley College Preparing Students for the Future

By Bill Greulich,
Public Information Officer | Presidents' Office | Victor Valley College

VVC, now in its 53rd year, serves an area encompassing roughly 2,200 square miles and is located on a 253 acre campus at the center of the three major communities of the Victor Valley (Apple Valley, Hesperia and Victorville). VVC also features a 13-acre Regional Public Safety Center in Apple Valley. VVC serves a population base of approximately 400,000 people and has over 20 feeder high schools and diploma-granting institutions. VVC now offers Associate in Science and Associate in Arts degrees in 23 different disciplines plus more than 100 certificates.

Enrollment

Enrollment for 2013/2014 is approximately 17,000 students, with spring numbers reaching 3.900 Full-Time Equivalent Students (FTES). A full-time equivalent student is a person taking more than 12 credit units or three part-time students taking a single 4 credit class. VVC employs over 800 employees.

During the 2012/13 academic year, VVC conferred more than 1,100 Associate Degrees and Certificates of Completion. Programs that are featured include but are not limited to: Nursing, Liberal Arts, Science and Math and other Transfer Courses, and 16 Career Technology Programs such as Computer -Aided Design, Airframe and Power Plant Technology, Fire Technology, Administration of Justice, Digital Animation, Respiratory Technology, Paramedics, Construction Technologies, etc.

Accreditation

Victor Valley College has also received approval from the Chancellor's Office to offer six new transfer degrees to California State Universities. Currently, VVC offers an Associate in Science for Transfer in Administration of Justice, An Associate in Science for Transfer in Mathematics, an Associate in Arts for Transfer in Sociology, Associates in Arts for Transfer in Communication Studies, Associates in Arts for Transfer in History, and Associates in Arts for Transfer in Early Childhood Education.

Victor Valley College's accreditation has been reaffirmed; however, a follow-up report was requested and submitted in March. This report includes a provision for the college to submit a long-term financial plan that guarantees future balanced budgets based on the current year levels of revenue being allocated by the State. VVC also delivered a required midterm self-study report that addressed continued progress on all standards established by the Accrediting Commission for Community and Junior Colleges, (ACCJC). In April the college will host a visit by an accrediting team who are charged with the responsibility to validate the information contained in these reports. A letter from the Commission will be forthcoming in June.

Search for a new Superintendent/ President

In the interim period, the College Board will proceed with the search process to select a new Superintendent/President for the college. The selection process should be completed by the first week in July.

The Music Building Upgrade and Construction

The Board of Trustees approved the modernization and construction project for the Music building that was built about 1965 for an amount of 3.8 million dollars as part of the Measure JJ bond Funds projects to bring current buildings up to current day standards. During construction, the Music department was relocated to the lower campus until the project is completed. Initially, the building was first abated of all asbestos-containing material and cleared safe for demolition and construction work. Construction should be completed this June and ready for students at the start of the Fall semester. The project consists of new construction of restroom and office areas; the rest of the project involves the modernization of the existing building and bringing it up to current ADA compliance.

New Science and Health Building

The next major project to be constructed on campus for Victor Valley College is the new Science and Health Building. This Building is being funded by Measure JJ Bond funds. The 25,000 square foot building will feature several new labs and faculty areas dedicated to the study of Science and Health. The plan features highly specialized training labs for the Nursing program that includes a simulation lab and fundamentals lab, a Chemistry lab, additional Life and Physical Science lab (digital), an Anatomy lab, a faculty suite and Dean's office. The plan for this free-standing building also includes an outdoor, covered courtyard area for student and faculty interaction to promote a collaborative and technology-driven learning environment.Victor Valley College has selected Balfour Beatty Construction and NTD Architecture to construct this project. It will be a one-story structure located adjacent to and on the west side of the existing Science Building 31. The college has instructed the builders that they will contract with local consulting firms and contractors to provide training and jobs for the local community.

Future projects

The expansion of the vocational complex will create a diesel facility and enhance classroom space for both automotive

continued on page 21

California Cities Remain High Cost, but High Desert Cities Hailed as Business Friendly

By Larry Kosmont, CRE®, President & CEO, Kosmont Companies

It should come as no surprise to those in the real estate community that California cities are the most expensive for business in the western United States. Claremont McKenna College's Rose Institute of State & Local Government, along with Kosmont Companies, recently released their 19th annual Kosmont-Rose Institute Cost of Doing Business Survey. The Survey gathers business fees and tax rates from 305 selected cities in California and eight other western states that many companies view as competitive alternatives. California cities consistently top the list of most expensive and 2013 saw little relief.

The State's costly structure becomes more evident now that the Great Recession has receded. Real estate prices and occupancy are generally up, and unemployment is trending down, yet California's cities still struggle to make ends meet. After disposing of Redevelopment Agencies and the Enterprise Zone programs, California has few economic development tools left in the shed to stimulate recovery at the State or the local level, often resorting to adding penalties or taxes to business rather than incentives to create jobs.

Relying on its historic perception as the land of opportunity and good weather, California has been slow to react to an exodus of companies seeking cost-effective tax policies and friendlier politics. Cities do not receive a nickel of the state's high corporate income tax rate and may lack sufficient local revenue to support them while taxing a shrinking local business base.

High Desert Cities Lead in San Bernardino County as Business Friendly

Nineteen cities in the Survey are in San Bernardino County and five of those are located in the High Desert Region, namely Adelanto, Apple Valley, Barstow, Hesperia and Victorville. What's interesting is that all these High Desert cities rank as "Very Low Cost," "Low Cost" or "Medium Cost" in the Survey while most of their older San Bernardino Valley counterparts across the Cajon Pass rank as "High Cost" or "Very High Cost." This is emblematic of a statewide trend.

Generally speaking, older core cities tend to be more expensive to business than younger, exurban cities. In particular, the Survey cites higher business taxes and utility user taxes as the culprit. There are many underlying factors at play, but older cities such as San Bernardino and Colton generally face higher costs of services. Relatively dense resident populations, an aging infrastructure and pensions owed a long history of past public employees, raises the structural cost burden for cities that did most of their growing in the '50s, '60s and '70s. The crux is in a city's response to higher costs, and business is most often the path of least resistance. Taxing business becomes the most politically palatable solution, particularly when residents are more vocal about their own rising costs of living and access to services.

California Desirable but Expensive

Firms still want to locate in California, citing the Golden State's world-class weather, large and diverse workforce, and strategic Pacific Rim location. Practically speaking, large corporations have a love-hate relationship with California. They want to be in California. But in their attempt to minimize costs, CEO's are compelled to ask, 'How small an operation in California can I manage and still service that market?' As a result, sales, technology or design offices may stay or even expand in LA or the Bay Area or Orange

continued on page 22

Victor Valley College

Continued

and welding. Cost is $6.5 million. Completion is expected in 2014-15.

Future Hesperia Campus

VVC owns 55 acres at Main Street and US Highway 395 for a future campus. At this time VVC is focusing on building future enrollment and goodwill. Currently, VVC offers classes at both Silverado High School and Hesperia High School as a means to meeting current academic needs in this region of the High Desert. All of these projects are funded by Measure JJ.

Recently Constructed – now in Service

In 2012 the college opened the Victor Valley College Regional Public Safety Training Center in Apple Valley. The center is located on the corner of Navajo and Johnson roads near the Wal-Mart Distribution Center. The $31.4 million center is the first construction project funded by Measure JJ that was approved by voters in 2008. The center features a multi-agency learning environment to maximize disaster training by incorporating Fire Science, EMT, Paramedic training, and Administration of Justice & Corrections.

California Cities Remain High Cost, but High Desert Cities Hailed as Business Friendly

Continued

County or select coastal environs, but the remaining operating units are more likely to end up in states like Nevada, Arizona or Texas.

There are signs that the anti-business sentiment in California politics may be waning. In October Governor Brown signed three bills into law intended to promote economic growth by invigorating existing legislation and creating new methods to develop economic areas. The Legislature is considering additional bills that could further benefit Californian businesses. However, California won't become business-friendly overnight. Change is apt to be incremental, but sooner or later the State will figure out that the long-term answer to their budget deficit is private investment that creates jobs, and that means it will need to woo business back.

Governor's Budget Offers a Little Relief, but No Tax Increment Financing for Economic Development in Sight

A new economic development policy won't have broad and lasting effects without a return of Tax-Increment Financing or "TIF," which is the underlying tool that was lost when California dissolved Redevelopment Agencies in 2012. Today, the Golden State is one of only three states in the Union without this vital mechanism. The Governor appears open to enabling TIF primarily for public infrastructure in the form of limited reforms to an outdated and almost never used tool called Infrastructure Financing Districts (IFDs), but only if requests for TIF are first put to a public vote, of which he is willing to reduce to 55% from the prevailing 66% threshold.

It is unlikely the legislature will be able to advance any bill that uses TIF for economic development projects until the Governor can set aside ill feelings about the way TIF was used in Redevelopment. The stark reality is California cities are bringing a knife to a gun fight and losing business to other states that are better equipped. Until we get TIF and a more business-friendly culture, the economic development odds are stacked against local cities and counties.

In the long run, the road back to prosperity through economic development measures that avoid more taxes is simple. California gets 85% of its funding from income and sales tax. If we invest TIF in projects that create jobs and train workers and recent graduates, the State can get paid back over 11 to 1 on its investment because the new job handsomely returns increased income and sales tax back to Sacramento. The Project gets to happen. The State gets a check. The City gets a job. That's a natural win-win-win. With most counties in the State at over 8 to 9% unemployment, the State should find the political will to bring TIF back in a productive way. Until then, attracting and retaining businesses will remain a heavy cross to bear for California.

High Desert is Growing Up

As the State is now discovering, complacency is dangerous. The High Desert isn't the spring chicken it once was. In fact it's approaching the next stage of maturity with a sizeable resident population and a newly revitalized Victor Valley Mall. The historic crossroads of the Valley has become a metaphorical crossroads.

There isn't time to wait for a new tax increment tool to come down from Sacramento. High Desert cities have a lot in their tool kit already that can be used to stimulate private investment that brings jobs and revenue. Existing zoning regulations, special districts, project-specific tax revenue, innovative financing and former redevelopment agency-owned properties offer plenty of raw material to get started. In fact many of these tools were combined when Kosmont Companies guided shopping mall owner Macerich in the revitalization of the Victor Valley Mall - a successful public/private partnership which involved the City of Victorville.

The High Desert Region's local and regional government has an opportunity to build attractive, walkable downtowns to lure startup firms that are the drivers of much of California's growth. New private investment driven by young entrepreneurs can form a new, sustainable base of middle-class jobs in a region seen as an affordable alternative to coastal cities.

KOSMONT- ROSE INSTITUTE COST OF DOING BUSINESS SURVEY®
San Bernardino County Cities covered in the 2013 Survey

Very High Cost ($$$$$)	Low Cost ($$)
COLTON	**ADELANTO**
FONTANA	**APPLE VALLEY**
RIALTO	**BARSTOW**
SAN BERNARDINO	HIGHLAND
High Cost ($$$$)	ONTARIO
REDLANDS	RANCHO CUCAMONGA
Medium Cost ($$$)	Unincorporated SAN BERNARDINO CO.
CHINO	UPLAND
GRAND TERRACE	**VICTORVILLE**
LOMA LINDA	Very Low Cost ($)
High Desert Cities shown in bold	CHINO HILLS
	HESPERIA

Anatomy of a Crash

By Bob Thompson

Things were beginning to happen in the Victor Valley area in 2005. It was high times for sellers as prices surged to new highs month after month. Buyers struggled to obtain loans before "it's too late."

That was then. This is now. Now we can look back with hindsight, also known as the "knew-it-all-along effect." Was it predictable? Were the cues there?

Victor Valley Market Crash Timeline

January 2005-2006: Arizona, California (Victor Valley), Florida, Hawaii, and Nevada record price increases in excess of 25% per annum.

April 2005: Victor Valley percent selling peaks at 79%. When a property comes to market, there are only two outcomes. It will either close or not close. In April 2005, 79% of properties closed. 21% either expired, canceled, or withdrew. After April of 2005, percent selling began to decline precipitously. The market is beginning to show real weakness and will do so for a year.

April 2006: Prices peak at $325,000 one year after selling probabilities indicated a problem.

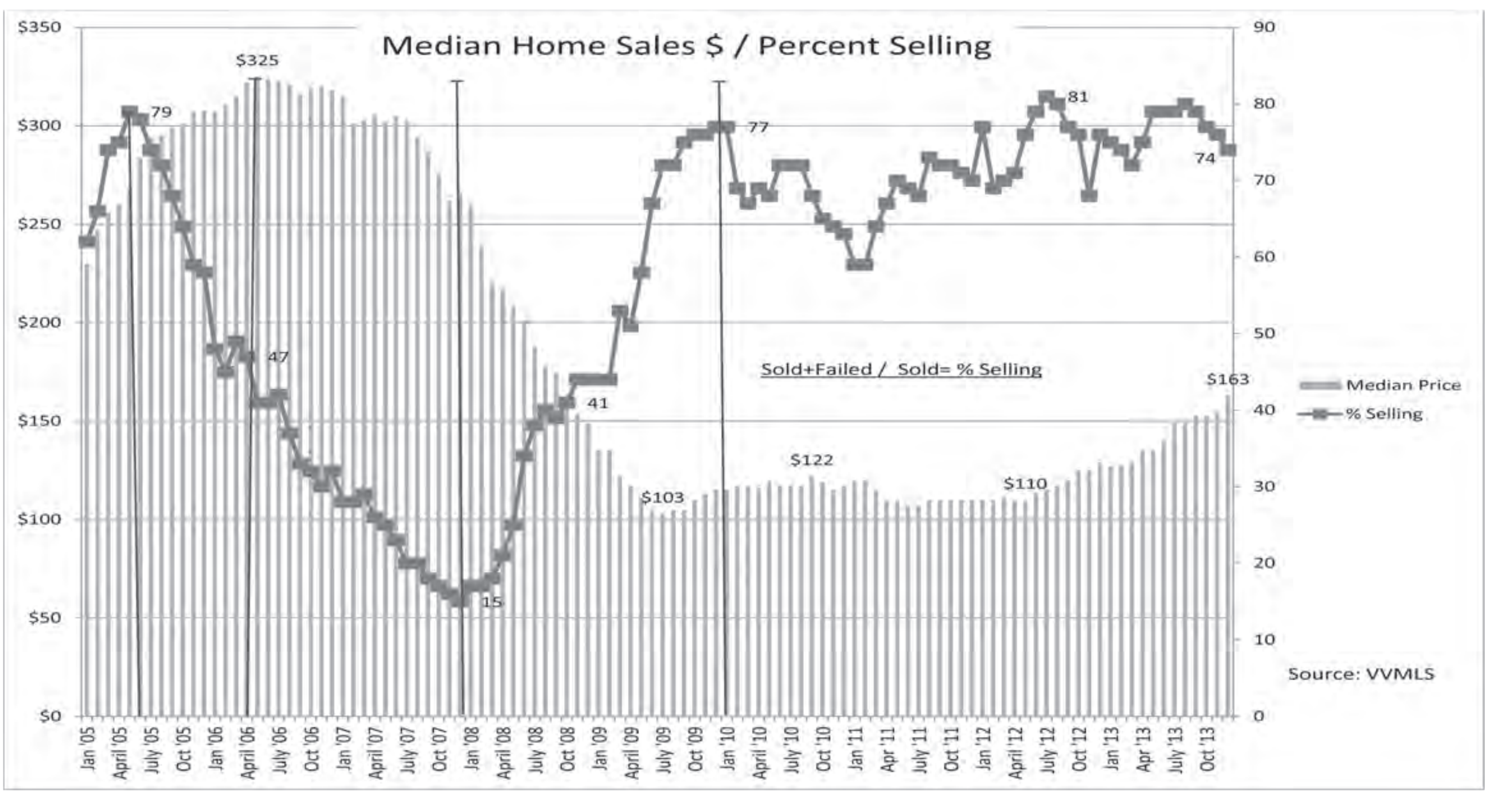
December 2007: Selling probabilities hit bottom at 15% and begin to rise for 17 months. Prices continue in a free fall.

July 2009: Price bottoms out at $103,000 (median) and begin to rise slowly. Selling probabilities have increased to 70% before prices stabilize and begin to rise.

December 2013: Selling probabilities gyrate in the range 70% to 80%. Median price has risen to $163,000 over a period of 4 years.

The clues were always there. Agents and brokers were not listening and looking: they were reacting—but only after the failing market was absolutely clear to all market participants. Even then, most sellers (as a class) resisted price reduction or moved too slowly to save their equity.

Conclusion: In their current form, real estate markets are slow and sluggish to react. Market reform is required to create methodologies and new concepts to analyze market activity looking for the subtle signals that say, "Change is on the way." Agents and brokers need to be trained to see and react decisively when action is required. Sellers need to understand they are in a market, not at a tea party. When markets speak, they need to listen. And, no, your home is not special.



Mojave Desert Air Quality Management District – Not "Just Another Air District"

By Christie Robinson, CRE Specialist, Mojave Desert Air Quality Management District

In today's economic climate, regulatory flexibility can mean the difference between success and failure for some businesses. Historically, California's air quality regulations have garnered a reputation as being some of the most challenging in the nation. The State of California is divided into 35 local air districts that are responsible for implementing these regulations, which apply to stationary sources of air pollution. Each district implements air quality programs required by state and federal mandates and enforces rules and regulations based on air pollution laws.

Every air district in the state must show progress in reducing air pollution to meet state and federal air quality standards in order to preserve the environment and protect the health and safety of the general public.

What Makes The MDAQMD Different?

The Mojave Desert Air Quality Management District, the local air district which regulates air quality in the High Desert portion of San Bernardino County & the Palo Verde Valley of Riverside County, is more than 20,000-plus square miles and is structured in a manner which allows policy on air quality issues to be developed and debated by those who are most affected by it: regulated industry and the High Desert community. Thus, the District employs a common-sense, inclusive approach to the development of air quality management programs. The District's mission is to attain and maintain a healthful environment while supporting strong and sustainable economic growth.

To the fullest extent possible, industry and the public are the MDAQMD's partners in the development of air quality plans, rules, and policy. Through District-sponsored workshops and meetings, MDAQMD staff works in a pro-active manner with those impacted by regulatory mandates to find the most prudent course of action and to resolve conflicts to the maximum extent possible. The District believes that tapping ideas from all possible sources is the best way to find mutually beneficial solutions. As a result, local industry has more flexibility in meeting environmental mandates than their counterparts in neighboring air districts and even some nearby states.Between January and March 2014, the MDAQMD issued 4,010 Active Permits, had 1,510 Permitted Facilities, and received 126 "Authority to Construct/Permit To Operate"applications.

As an example of how the District works with local businesses to help them meet state and federal emission mandates, in 2013 alone, the MDAQMD Governing Board approved $549,146 in funding for four proposals through the District's AB 2766 Grant Program. The MDAQMD Governing Board allocates 25% of all revenue received from AB 2766 (motor vehicle surcharge) for a recurring competitive grant program. Local municipalities receive 25% of the funds for local projects, while 50% of the funds remain with the District to fund operations.The projects are aimed at reducing emissions from mobile sources within the air district's jurisdiction.

The MDAQMD also provides funding to assist local industry, agencies and residents in doing their part to protect local air quality. The Carl Moyer Program provides grants to reduce emissions through upgrades to heavy duty diesel equipment. The Voluntary Accelerated Retirement Program (VAVR) provides a $1,000 incentive for residents to get older, high-polluting vehicles off the road. The "Cash for Grass," lawnmower scrapping incentive program is geared to induce residents to remove grass and install desert-adaptive landscapes and receive a gift card for replacing a water-wise landscape. The annual Electric Lawn Mower Exchange event invites residents to switch out their gas powered mowers for a zero-emission electric mower for as little as $99.00.

MDAQMD also partners with local industry to provide sponsorship and funding for the Mojave Environmental Education Consortium (MEEC), a non-profit organization founded in 2001 by the MDAQMD. MEEC provides STEM-based environmental education resources at no charge to teachers and schools throughout the High Desert. Flagship programs co-hosted by the MDAQMD and MEEC include the Youth Environmental Leadership and STEM Service-Learning Conference, student Solar Oven Cooker Challenge, and the Environmental BusBucks school field trip transportation grant program.

To find out how doing business within the MDAQMD could be good for your business, call 760.245.1661 or visit us online at www.mdaqmd.ca.gov today!

Countywide "Vision in Action" Can Help Victor Valley Economic Recovery

By Carlos Rodriguez, CEO, BIA Baldy View Chapter

New single-family home construction has remained flat in the Victor Valley for the third consecutive year, with only 244 permits in 2013 – an increase of 80 permits over the past year. This is still a long way from the height of the housing market in 2005 when 6,408 permits were pulled or roughly 43% of the total permits in the entire county. Today, the Victor Valley permit activity only accounts for 13% of the total countywide permit activity.

This reduced permit activity has resulted in significant job loss and increased unemployment in San Bernardino County. From 2005 to 2012, construction industry jobs countywide declined 42% with almost 19,000 construction-related jobs lost. Likewise, unemployment in the Victor Valley has increased by 56% during that same time period.

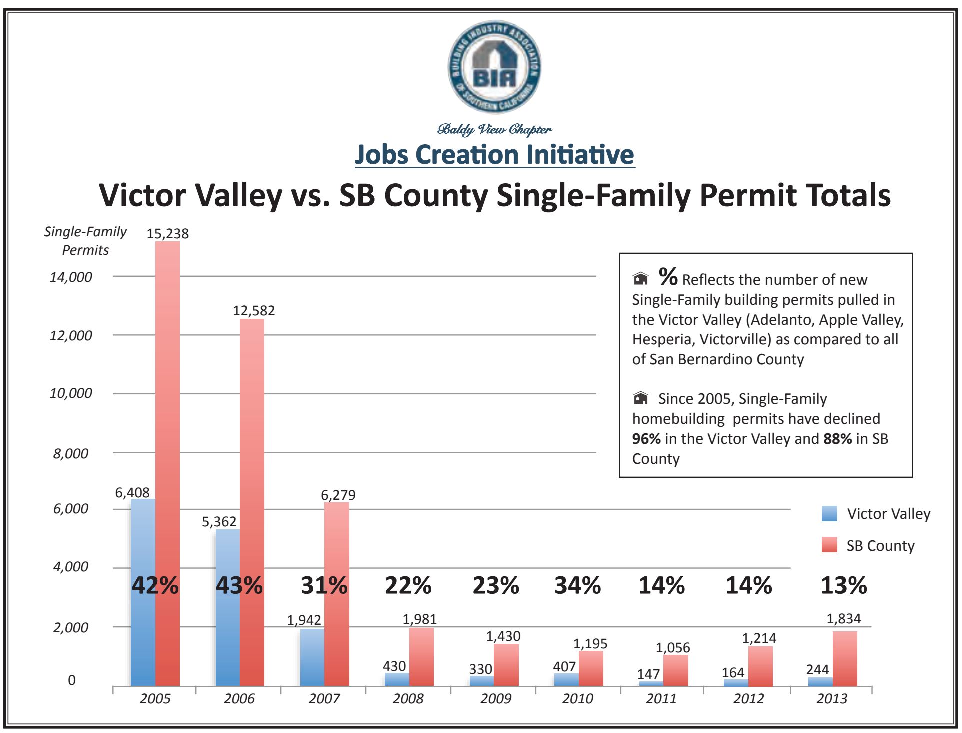
The road to recovery for the Victor Valley housing market has been a rocky one, but there is a glimmer of light at the end of the tunnel and it can be found in the City of Hesperia. Once enjoying a thriving economy fueled by home construction in 2005, the City of Hesperia has faced economic challenges resulting in zero new home permits in 2011 and 2012 and the loss of the city's Redevelopment Agency. However, the City of Hesperia has taken a bold approach of reducing development impact fees to bolster development and economic activity.

This approach was one of many ideas brought to the table on March 19, 2014, as the Building Industry Association, Baldy View Chapter (BIA), partnered with the County of San Bernardino and SANBAG to host a Countywide "Vision in Action" Housing Collaborative Workshop focused on identifying business friendly practices. The cooperative ideas shared during the workshop represent an important first step to ensuring a strong development industry. 80 attendees participated in the unprecedented event which paired representatives from 15 cities and 20 homebuilder companies to have meaningful discussions regarding the best-recommended practices for home development entitlements and permitting.

In attendance was Hesperia's City Manager, Mike Podegracz, who participated in a discussion panel between city managers and building industry leaders. Mr. Podegracz highlighted the efforts being made by Hesperia including; reduction of development impact fees, interdepartmental training of staff and improved customer service efforts in communication and transparency of processes. The four cities of Adelanto, Apple Valley, Hesperia and Victorville have also established a partnership to market the Victor Valley as a whole and pool financial resources, thus reducing marketing budgets and saving taxpayer dollars.

Early results for the City of Hesperia's fee reduction efforts have already been well-received. In 2013, single-family permit totals increased, albeit modestly, from zero to thirty-five new homes. City staff has also received overwhelming positive feedback on their improved customer service and timely returning of phone calls and messages. During the Countywide Vision workshop, Mr. Podegracz shared the importance of creating a culture within the cities "where there is always room for improvement."

As the Victor Valley continues to a face a long road to economic recovery, it is refreshing to see the bold leadership efforts on display by the Hesperia City Council. The home building industry has and always will be a cornerstone of Southern California's economic prosperity. Moving forward, it is our hope to continue the Countywide "Vision in Action" dialogue with San Bernardino County and SANBAG. In the meantime, Victor Valley cities should follow the positive examples set by the City of Hesperia to encourage home building development.



Grand Re-Opening of the High Desert Detention Center

By John McMahon, Sheriff-Coroner, San Bernardino County Sheriff's

San Bernardino County Sheriff's Department officials unveiled a new, state-of-the-art expansion of the High Desert Detention Center Thursday that will provide more housing capacity for inmates and better services to High Desert residents by eliminating the need for deputies to travel to Rancho Cucamonga to book inmates with medical conditions.

The High Desert Detention Center expansion is comprised of 297,000 square feet of various buildings on 8 acres of land and was built adjacent to the existing facility, formerly known as Adelanto Detention Center. Six housing units were constructed, adding an additional 1,392 beds that will help housing issues brought about by the realignment of state prisoners.

In October of 2011, Gov. Brown shifted the responsibility of housing of some state prisoners from the state to the county in an effort to comply with a federal mandate regarding prison overcrowding. As a result, the sheriff's departments in California have been tasked with housing inmates that would have normally been sent to state prison.

The Sheriff's Department applied for state funding designated for realignment and placed first in the competitive application process to secure $100 million in funding for the expansion. Also, leveraging the additional facility saved taxpayers more than $30 million versus the cost of building an entirely new stand-alone building.

The High Desert Detention Center will not only add much-needed bed space, it also boasts several technological, medical and social innovations that will provide better security and services to the inmates. The facility is equipped with a high-definition video surveillance system to enhance safety and reduce liability exposure. The facility is also equipped with video visitation, allowing inmates more access to visit with family members. This technology decreases movement throughout the facility, thus making it safer.

Medical advancements at the facility include specially coated walls to reduce the spread of infectious diseases, as well as an onsite dental facility equipped with two stations and staffed with a full-time dental hygienist and a dentist three days a week. Additionally, the facility was designed to allow rehabilitation services, classes and programs to be run directly in the housing units, giving inmates better access to services and, again, eliminating the need for inmate movement.

HDDC will also provide basic medical services to inmates, negating the need for deputies assigned to patrol in the High Desert to have to drive to West Valley Detention Center in Rancho Cucamonga to book inmates with common medical conditions such as diabetes or high blood pressure. This single fact alone will prove a betterment for the entire High Desert region as deputies can stay in the region and get back to their assigned area to provide increased proactive patrol duties.

The new facility will open in phases, with 222 beds being filled in the first phase. These inmates will be determined based on court cases in the High Desert and will be transferred from West Valley Detention Center within weeks.

High Desert Detention Center Facts

- Design for this facility began in April, 2006, shortly after the opening of the original Adelanto Detention Center
- Construction began in 2011 and was completed at a cost of $145.4 million
- The project consisted of the following:
- Construction of a new 25,000-square foot support and booking building
- Construction of 3 new housing units for a total of 255,000 square feet
- Remodeled existing kitchen and laundry facilities to handle the increase in population
- Construction of new parking lot, sally ports and fire access roads
- Each of the three individual housing buildings weighs approximately 11,000 tons, not including the furnishings or foundation
- 18,000 cubic yards of concrete were used in construction
- 5,297,842 pounds of rebar were used
- 1,882,000 linear feet of wire were used
- 600,000 linear feet of airlines were used
- 950,027 linear feet of conduit were used
- There are 736 smoke detectors in the new facility
- The HDDC has a new water facility system consisting of a well, water treatment system, 228,000-gallon storage tank that allows the facility to maintain its own drinking water supply in the event of a natural disaster.

Southern California's Economy Recovering

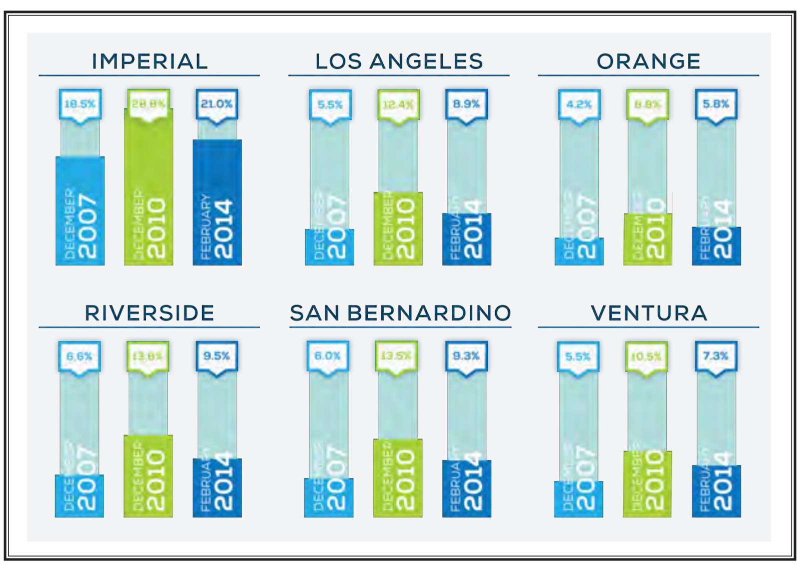
By Southern California Associations of Governments

The six counties of the Southern California Association of Governments (SCAG) region (Imperial, Los Angeles, Orange, Riverside, San Bernardino, and Ventura Counties) are home to over 18 million residents, 8 million workers, have a gross regional product of approximately $900 billion, all in an area covering 38,000 square miles. Between December 2007 and July 2009, the region experienced the "Great Recession," a devastating economic downturn with over 1 million jobs lost. Even though the recession technically ended nearly four years ago, California continues to have the fourth highest unemployment rate in the nation with nearly 1.6 million out of work, including approximately 770,000 in the Southern California region.

In 2014, however, Southern California's economic recovery is starting to gain traction, demonstrating significant job creation momentum. Recovery continues steadily as the unemployment rates across the region dropped to their lowest rates in five years. For example, Orange County's rate dipped to 5.8 in January 2014, down from 7.1 percent in January 2013. Manufacturing, financial services, and construction, industries hit hardest during the Great Recession, have become leaders in job growth. Self-employment and new businesses are also growing rapidly.

Recovering Lost Jobs in The SCAG Region

The graph to the right shows unemployment rates by county in three time periods: December 2007 (pre-recession), December 2010, and February 2014. Recent data shows that Southern California unemployment levels are well below their recession peaks and moving in the right direction. Nonetheless, none have returned to the levels enjoyed prior to the Great Recession. The Southern California region still has a ways to go to get back to pre-recession employment levels.



When Will we Recover Lost Jobs?

In 2010 the SCAG team of economic advisors compared the pre-recession to post-recession unemployment numbers in the region, State of California, and United States. The purpose was to determine the number of jobs that would need to be created to return to peak level employment in each county. In the fall of 2013, the economic team once again reviewed and analyzed the current economic indicators and employment trends to estimate a probable timeline for economic recovery by each county. The graph below outlines the projected best- and worst-case time frames for each county to return to pre-recession unemployment levels. Note the difference between Imperial County, where the recovery range is between 2013 and 2014, compared to Los Angeles and Ventura Counties, whose recovery dates could reach as far out as 2020. In general, much progress has been made so far in 2013 in terms of job creation, and economic recovery is on a steady path in most parts of the SCAG region.

Difficult Inland Empire Economic Environment Finally Improving

During the 2008-2010 Great Recession, the Inland Empire lost 148,425 jobs. The economy has finally started working its way out of that deep hole, creating 4,633 local jobs in 2011 and 23,025 in 2012. If 2013 goes as predicted by SCAG and Inland Empire Economic Partnership economist John Husing, 28,300 will be added. By the end of 2013, the total gain of 55,958 positions would represent 38% of the loss (Exhibit 1).

Unemployment Rate Lowering, but Still High

The unemployment rate has fallen from 14.3% in 2010 to 9.4% in February 2014. The October 2013 rate of 9.8% was the highest for any metropolitan area with over 1 million people, above Memphis, Los Angeles,

continued on page 28

Southern California's Economy Recovering

Continued

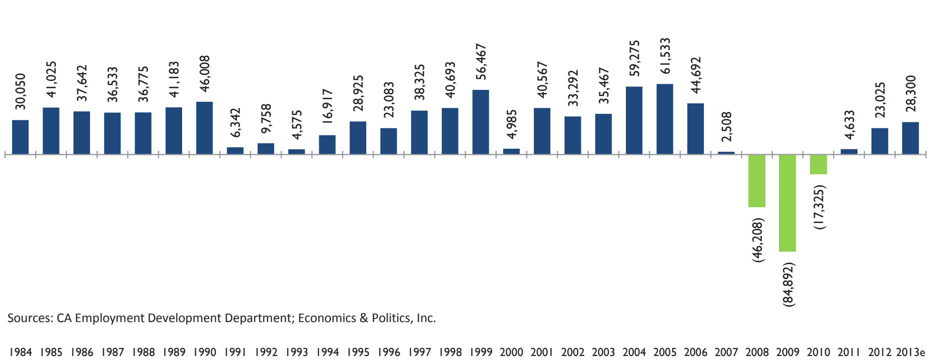


Exhibit 1 - Wage & Salary Job Change
Inland Empire, Annual Average, 1984-2013e

Sources: CA Employment Development Department; Economics & Politics, Inc.

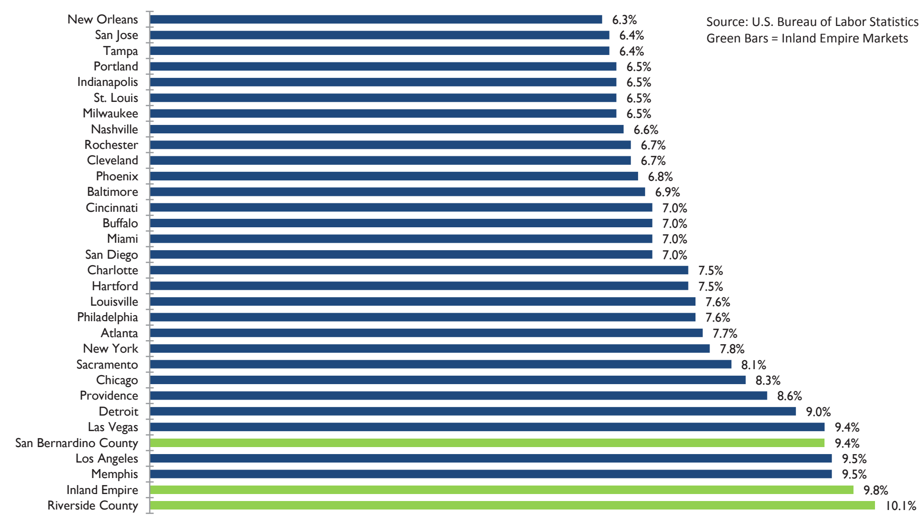


Exhibit 2 - Unemployment Rates, Highest 30 of 50, October 2013
Worst U.S. Metropolitan Areas, Over 1 Million Population

Source: U.S. Bureau of Labor Statistics
Green Bars = Inland Empire Markets

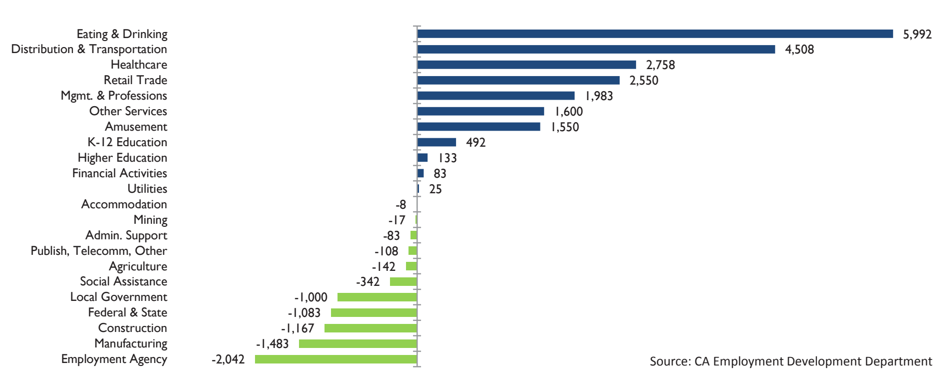


Exhibit 3 - Inland Empire Growing & Declining Sectors
Average January-December 2012-2013

Source: CA Employment Development Department

Las Vegas, and Detroit, all of which are over 9.0% (Exhibit 2).

Job Growth Steady

Some good news is seen in the details of inland job growth of approximately 14,200 from 2013 (Exhibit 3).

The top three sectors adding jobs showed a wide range of recovery as they included:

- Eating & Drinking (5,992), a low-paying sector driven by more funds circulating through the local economy.
- Distribution & transportation (4,508), a moderate-paying, blue collar sector that brings money to the inland area from international port trade and the rise of fulfillment warehousing centers like Amazon.com.
- Healthcare (2,758), a moderate-paying white/blue collar sector that brings money to the area via Medicare and insurance payments. It has grown in every quarter, including throughout the Great Recession.

With that said, the Inland Empire's growth is blunted by difficulties in two sectors:

- Federal & State (-1,083) and Local Government (-1,000) continue to shrink due to the federal sequester and low tax revenues at the state and local level. These difficulties will likely persist for a few more years. Growth would have been 16,282 without these job losses.
- Construction (-1,167) has stopped its major decline but is still not growing. From 2007-2013, the area's net loss of 106,500 jobs occurred largely because of a 52,500 loss in construction (49.3%).

High Desert Cities Show Growth in Education & Health, Losses in Industrial Jobs

The High Desert region, which is comprised of the cities Adelanto, Barstow, Hesperia, Victorville, Apple Valley town, and 11 San Bernardino County unincorporated areas, is summarized in brief within Exhibit 4

continued on page 29

Southern California's Economy Recovering

Continued

with 2012 American Community Survey data, the most recent data available. The region is characterized by unemployment far above the state average and relatively high poverty rates despite a moderate median household income.

The High Desert region experienced good growth in healthcare-related employment, as shown in Exhibit 5 below. Education and health-related jobs are the largest sector in the region, but jobs have been created in arts and entertainment and wholesale trade as well. Job losses in 2012 in the region occurred in the construction, manufacturing, and transportation-related industries, but those industries have subsequently likely turned around and created jobs in the last year (see previous Inland Empire charts for a more current perspective at the larger county and regional level).

Total employment growth (Exhibit 6) was positive in four regions in 2012: Phelan, Barstow, Victorville, and Wrightwood, with other High Desert communities experiencing a tough 2012. Employment growth has likely occurred in most, if not all, areas in the last year.

Income levels are highest in several unincorporated regions such as Helendale and Wrightwood, as seen in Exhibit 7. Here, differences among major cities are less pronounced, with Victorville leading in terms of median household income and Apple Valley leading in terms of per capita income.

Summary

Looking ahead, the forecast for complete recovery was 2016-2018 due to low home prices and lack of construction. Recent economic and employment data provides evidence that recovery may arrive sooner. Why? Because existing home prices in the Inland Empire have recently soared, rising 59.3% from a 2Q 2009 low of $155,319 to $247,418 in 4Q 2013. That means fewer underwater homes (down from 54.9% in 4Q 2009 to 20.8% in 3Q 2013) and foreclosures averaging under 1,000/month (pre-2007 levels). Housing affordability issues are sending coastal residents inland, but finance availability is a big hurdle. Median home prices in the Inland Empire are competitive and low-cost, but there is an enormous difference in price between new and existing homes ($348,217 and $247,418 in 4Q 2013). The area will likely see increased migration from the coastal counties in 2014 as Southern California's economy starts to normalize.

Exhibit 4 - High Desert Region Overview - 2012

Total Population	270,495
Total Labor Force	148,960
Total Employed	122,875
Total Unemployed	25,340
Total Households	110,753
Median Household Income	$44,883
Per Capita Income	$19,092
Poverty Rate	23.22%

Source: American Community Survey, U.S. Census Bureau, 2012

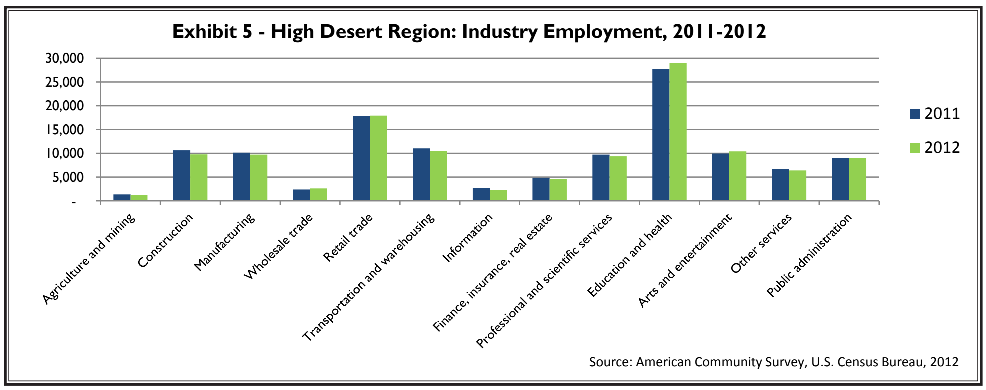


Exhibit 5 - High Desert Region: Industry Employment, 2011-2012

Source: American Community Survey, U.S. Census Bureau, 2012

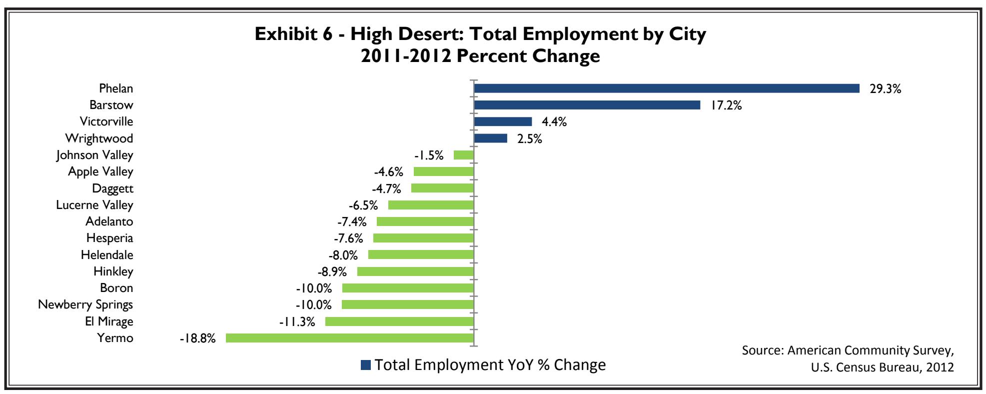


Exhibit 6 - High Desert: Total Employment by City 2011-2012 Percent Change

Source: American Community Survey, U.S. Census Bureau, 2012

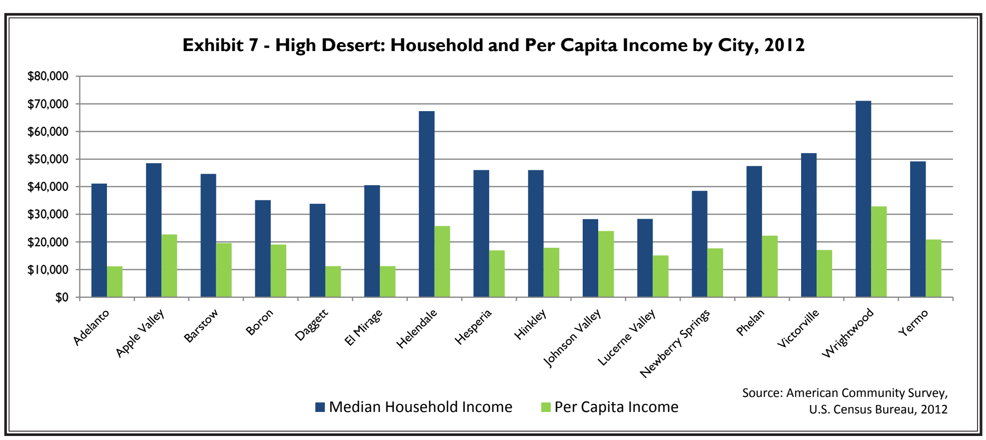


Exhibit 7 - High Desert: Household and Per Capita Income by City, 2012

Source: American Community Survey, U.S. Census Bureau, 2012

UPDATE: SANBAG High Desert Transportation Projects

By Jane Dreher, Public Information Officer
San Bernardino Associated Governments

San Bernardino Associated Governments (SANBAG) is the Council of Governments and transportation agency for San Bernardino County. The SANBAG Mountain Desert Committee is composed of representatives from all Mountain and Desert cities. They evaluate projects in the High Desert, Mountains, Morongo Basin, and Colorado River regions. This edition of SANBAG's update will focus on these High Desert projects:

• I-15/LaMesa-Nisqualli Road Interchange Project, Victorville;

• I-15/Ranchero Road Interchange Project, Hesperia;

• I-15/I-215 Devore Junction Interchange Project, Devore;

• Yucca Loma Bridge, Apple Valley and Victorville; and

• Lenwood Road Grade Separation, Barstow.

I-15/LaMesa-Nisqualli Road Interchange, Victorville

The Interstate 15 LaMesa-Nisqualli Interchange Project located in Victorville between Bear Valley Road and Palmdale Road was completed in August 2013. The total cost of the project, including engineering, environmental studies, right-of-way acquisition, and construction was $70 million. LaMesa and Nisqualli Roads are expected to relieve the heavy burden of traffic that has existed for years on Bear Valley Road and Palmdale Road.

The project was in the planning stages since 1990. SANBAG, in conjunction with the City of Victorville, came up with an innovative funding plan to finance the project that included a combination of Federal, State, Measure I (the county's ½ cent sales tax measure for transportation improvements) and City of Victorville funds. The project received $16.2 million from the State Proposition 1B fund through its Corridor Mobility Improvement Account.

The interchange improves local circulation, enhances safety, relieves I-15 congestion, and improves the quality of life for area residents.

I-15/Ranchero Road Interchange, Hesperia

The Interstate 15 Ranchero Road Interchange, located in Hesperia, started construction in January 2013.

This $59 million project will add a new bridge over I-15, provide congestion relief for I-15 and Main Street, improve drainage, and enhance safety. It is scheduled for completion in early 2015.

This interchange is part of a series of projects for the Hesperia area. The Ranchero Road Underpass (grade separation) to the east combined with future improvements to Ranchero Road and this new interchange, will offer a much-needed alternative for area residents, saving commuters time and money in their daily travels.

This aerial photo was taken in June 2013. The framework for the bridge is now constructed over the I-15 Freeway and signs of the completed interchange are starting to become more visible.

I-15/I-215 Devore Interchange Project

Construction on the $324 million Devore Interchange Project began in June 2013. The project is being constructed through a "Design-Build" process. Caltrans is the lead on the project.

Construction crews are currently conducting nighttime activities which necessitate occasional connector, ramp and alternating lane closures for the safety of the public and workers. Closure restrictions are lifted each day so motorists can travel at peak daytime traffic times. Some graded areas on both sides of the freeway are visible.

Elected officials and representatives from State and Federal agencies gathered for a photo at the groundbreaking ceremony in late June. A western theme was used to depict the days when covered wagons and pioneers trekked across the Cajon Pass.

Yucca Loma Bridge over the Mojave River

Construction of the Yucca Loma Bridge over the Mojave River, which also includes improvements on Yates Road, started in January 2014. The bridge will connect Apple Valley on the east side of the river to Victorville on the west side. Ultimately, this

continued on page 31

UPDATE: SANBAG High Desert Transportation Projects

Continued

corridor will provide easier access to the I-15/LaMesa-Nisqualli Interchange in Victorville.

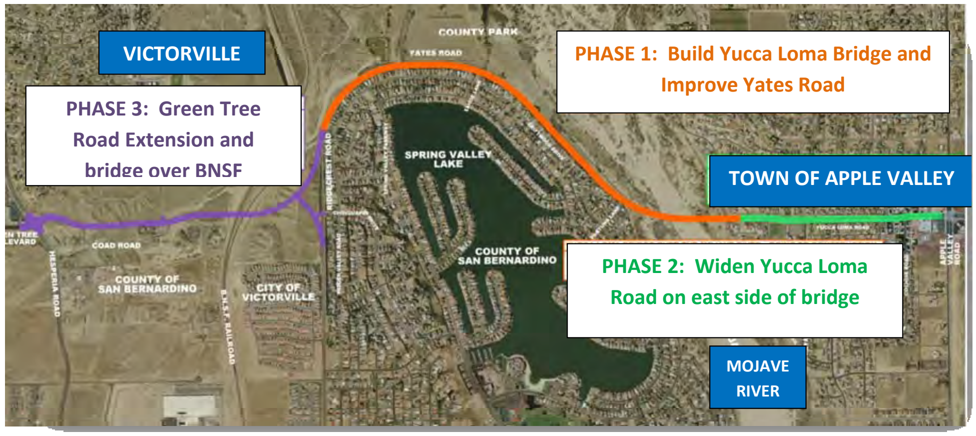
The Yucca Loma Bridge is of regional importance in the High Desert as it is midway between the two existing Mojave River crossings at Highway 18 and Bear Valley Road. This project is Phase 1 of the three-phase Yucca Loma Corridor Project that includes Yucca Loma Road/Yates Road/Green Tree Boulevard. The project was designed to provide another east/west connection in the region.

Phase 1 includes building the Yucca Loma Bridge and widening Yates Road from two to four lanes. The new bridge will feature Class II bikeways and improvements to the regional drainage system.

The total construction cost is $37.3 million. The project received funding from Measure I (the San Bernardino County ½ cent sales tax for transportation improvements), Redevelopment Agency Funds, State Local Transportation Partnership Funds and Proposition 1B funds. To qualify for congestion relief funds, the bridge is required to not only get motorists across the river but eventually provide a direct route to I-15.

MAP: The map below outlines all three phases of the project.

- Phase I includes construction of the Yucca Loma Bridge and improvements on Yates Road.
- Phase 2 involves widening of Yucca Loma Road on the east side of the bridge. It is in the design stage and should go to construction in the summer of 2015.
- Phase 3 is the Green Tree Road Extension with a bridge constructed over the BNSF railroad tracks. It is in the design stage and should go to construction in 2016.



Lenwood Road Grade Separation, Barstow

Construction on the Lenwood Road Grade Separation project in Barstow began in March 2014. The Lenwood Grade Separation Project was developed in response to commercial and industrial development in the area. A grade separated crossing along Lenwood Road is being constructed over the existing Burlington Northern Santa Fe (BNSF) railroad tracks, allowing the uninterrupted flow of both vehicular and freight rail traffic.

The primary objective of this project is to improve operation and safety by ensuring prompt emergency response time to businesses and residents while eliminating the hazards and inefficiencies of trains passing through the flow of vehicular traffic.

The City of Barstow and the County initiated this project in 2007. After the environmental studies were completed in 2010, the City and County requested that SANBAG take the lead to manage the final design and project development, and to secure funding.

SANBAG combined funding sources from the City of Barstow, the County of San Bernardino, Federal and State, BNSF Railroad, and Measure I, the ½ cent sales tax approved by voters in San Bernardino County for transportation improvements.

The total project cost is $31 million, which includes:

- $13.7 million in Federal funds;
- $8.3 million from State Proposition 1B Trade Corridor Improvement Funds;
- $3.5 million from Victor Valley Major Local Highway Measure I bond funds;
- $2.5 million from the County;
- $2 million from the City of Barstow; and
- $1 million from BNSF Railroad.

Project Map

County of San Bernardino Working Together to Build a Better Future

By Kelly Reenders

Economic Development Agency Administrator, County of San Bernardino

If you attended the State of the County, held on February 26 at the Citizens Business Bank Arena, then you were among the more than 1,000 attendees who heard the County's message of collaboration. This has become an important theme within all County departments.

To encourage greater opportunity for the County's residents and businesses depends on our ability to work together to build a brighter future. Collaboration between the private and public sector is central to this goal. While there are certainly challenges, the County has something significant in its favor, a Countywide Vision. This vision will continue to shape how we plan for transportation, schools and water as well as how we work hand-in-hand with our residents and businesses to encourage a greater quality of life and a positive economic environment.

Throughout the region there are numerous examples of the power of collaboration and how our Countywide Vision is taking shape to transform the region for the better.

Our Jobs/Economy & Housing Collaborative met March 19 to discuss best practices. It brought together, in an unprecedented way, residential developers, city and county officials, SANBAG and the leadership of the BIA Baldy View Chapter to celebrate and encourage business-friendly best practices in order to encourage a proactive business environment.

One element of the meeting was a presentation of a first draft inventory of Business-Friendly Best Practices. The report is designed to create a list of programs and practices that cover customer service, development processing, business attraction/ retention and direct business assistance (economic initiatives). Information was also presented from a survey of cities and developers that outlined the factors necessary to encourage investment and development in our communities.

Some of these best practice ideas included: pre-application review, centralized cashier, comprehensive review, an easy to understand fee schedule, ability to use debit and credit cards, incentives, one-stop permit process and review of time commitment/time frames associated with approving milestones.

Throughout the meeting, the message was clear: As a team we can work together to build the best San Bernardino County. Looking ahead, this coalition will continue to work toward building a resource of best practices.

Another powerful form of public agency and public sector collaboration is the ongoing work of our County of San Bernardino Workforce Investment Board (WIB) to help companies thrive and create jobs.

Southern California Aviation (SCA) is a Victorville-based Aircraft Transitional MRO Facility. For the last 15 years, the company has been responsible for repairing and maintaining aircraft for some of the nation's top carriers, including United Airlines, Delta Air Lines, Cathay Pacific Airways and Boeing. SCA recently formed a partnership with the County's WIB to help recruit and train newly qualified mechanics. This program has been helpful for SCA since, in order to uphold strict industry standards, their employees must undergo specialist training to ensure strong understanding of federal regulations.

The County's WIB helped the firm to recruit licensed A&P mechanics through its On-the-Job Training program. The WIB's federally funded On-the-Job Training program provides partial wage reimbursement for the first 90 days of employment, the designated training period. The goal is to help alleviate the financial burden that often accompanies hiring new employees, thereby supporting company growth. By absorbing the expense of costly training, WIB helps to create a win-win solution for the business, the employees and the County. Programs such as these are a direct example of collaboration and ways in which the County continues to proactively step in to support its business community.

To learn more about the Countywide Vision, visit http://cms.sbcounty.gov/cao-vision/home.aspx. The VisionWire is another ongoing source of information on County programs: http://wp.sbcounty.gov/cao/visionwire/. We also encourage you to contact our agency, www.sbcountyadvantge.com

MWA Groundwater Recharge Strategies and Other Programs Ensure Sustainability During Statewide Drought

By Yvonne Hester, Community Liaison Officer. Mojave Water Agency

Headlines across the state showcase California's water woes affecting farms, fish and wildlife, businesses, and residents. The Mojave Desert region, however, is weathering the drought thanks to Mojave Water Agency's (MWA) capital investments and programs that replenish groundwater supplies, and encourage water conservation. These efforts have helped to "drought-proof" the region and will ensure sustainability without any imported water for the next three years or more.

Guiding MWA is a foundation of collaborative, integrated planning that embraces sound investment, science-based policies and programs, aggressive conservation efforts, and strategic basin recharge using surplus State Water Project water.

The first Integrated Regional Water Management plan, adopted in 2004, helped to more efficiently use the region's geology, infrastructure, and collective financial resources. That plan, developed with stakeholder participation, yielded a prioritized list of projects and programs. Since that time, more than $170 million in local, state, and federal dollars have been invested in regional infrastructure and water supply projects.

Among the Agency's recent accomplishments is the start-up of the Regional Recovery and Recharge Project, known as R3, which provides MWA greater ability to effectively manage the region's groundwater resources. This project provides a renewable supply of high quality drinking water for the Victor Valley communities.

Previous to R3, the Agency's groundwater projects were constructed to deliver untreated SWP water to strategically located spreading basins for recharge. The R3 project, however, uses water from the California Aqueduct in Hesperia that is transported to the Deep Creek recharge pipeline and then delivered to the Mojave River recharge zone in Hesperia and South Apple Valley.

Developing this project required the installation of 15 miles of pipeline, construction of numerous recovery wells, turnouts, and a new pump station and chlorination facility. Coordination was required among the project partners to ensure compatibility with existing systems, as well as environmental permitting and monitoring, and community impacts.

The $55.5 million project offers an initial capacity of 15,000 acre-feet of water per year, and at full build-out it will produce a total of 40,000 acre-feet annually. An acre-foot of water can supply a family of four for an entire year. The project was funded with $24.5 million in grant funding from a Department of Water Resources Proposition 50 program grant, $11 million from the U.S. Bureau of Reclamation, and $20 million from MWA.

Construction began in 2010 and the first deliveries were made to the Victorville Water District in May 2013. To date, 4,500 acre-feet of water has been delivered, allowing the City of Victorville to reduce its supply from high-arsenic wells.

Following a tour of the project, Victorville Councilman Jim Kennedy said, "All the community will benefit from this project, and there will be a sustainable, predictable water supply well into the future."

The City of Hesperia has recently submitted applications to MWA for deliveries in 2014, and with Phase 1 turnouts in place and operational, other communities in the greater Victor Valley area can now access R3 to help meet growing regional demands.

A public Open House and Dedication ceremony is set May 15th at 10 a.m. at 7620 Deep Creek Road in Apple Valley. This program will feature tours of the R3 recharge site, San Bernardino County's High Desert Interpretive Center, and MWA's new Central Operations Center. The public is invited. For more information call Gloria Golike at 760.946.7001.

City of Adelanto – Progress by Design

By Mike Borja, Sr. Management Analyst
City of Adelanto, Development Services

With a willingness to move forward, the City of Adelanto's economic status is demonstrating what Progress by Design truly means. In the past years, most of the development activities have been in the city's five Industrial Parks, but Adelanto is finally seeing retail interest from several notable businesses.

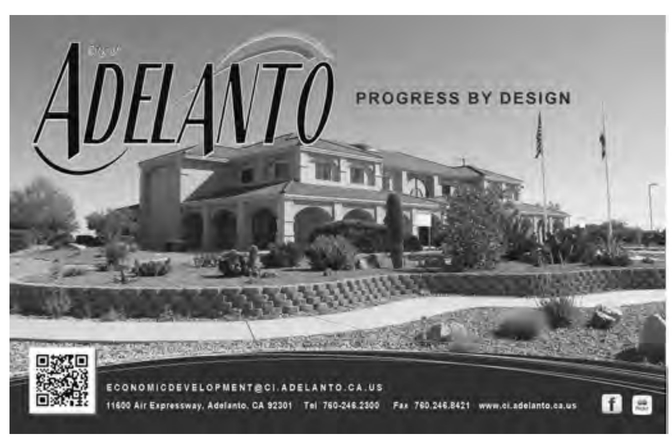
New to 2014 are the Family Dollar and Dollar General projects. Both retail giants have proposed to construct a 9,100 square foot retail facility on a 1-acre parcel and are expected to perform extremely well in the much -needed northern region of Adelanto. The Cactus Plaza project that's located on the southwest corner of Highway 395 & Cactus Road is well under way, with commitments from the eatery chain Steak 'n Shake and a Shell gas station/ convenience store. In addition, the city's current shopping center, the Adelanto Marketplace, has been continuously receiving interest from new tenants for the thriving shopping center. Its newest tenant, Flame Broiler, is already meeting expectations.

Other future retail developments included the partnership with Lewis Retail Centers to build the Adelanto Town Center. With a Target as the main anchor, the project will be located at the corner of Highway 395 and Mojave Drive on 35 acres of land. Plans call for additional recognized national chains, as well as a variety of shops, services, and food. With these projects moving forward and the development activities already occurring on Highway 395, the outlook is indicating that the city will improve its economic position in today's marketplace and soon establish Highway 395 as a major retail corridor for the City of Adelanto and the High Desert.

Adelanto's Industrial Parks are continuously seeing significant growth in development as well. Completed in 2012, the Adelanto Detention Center West project consists of a 650-bed correctional facility with 64 additional beds in segregated housing units constructed on a 189,016-square-foot, single-story concrete and steel frame structure with precast concrete cells. Currently, The Geo Group is negotiating with US Immigration and Customs Enforcement (ICE) on adding additional beds to the existing facility and has recently signed an agreement with the State to reopen their Desert View facility for state inmates. In addition, a 20-acre site on Koala Road in Adelanto has been purchased by The Geo Group for future correctional facility development.

Awarded through a state grant to design a new sustainable development model for desert communities in San Bernardino County is the Adelanto North 2035 Sustainable Community Plan. The project will promote sustainable development approaches, protect environmental resources, and forge a strong physical and economic connection between Southern California Logistic Airport jobs center and new mixed-use neighborhoods in North Adelanto. The Sustainable Community Plan will be based on the concept of activity centers surrounded by residential neighborhoods linked to the adjacent jobs/business centers. Activity centers, dynamic focal points and transit hubs allow for community gathering, as well as "events" such as farmers' markets and cultural performances. "Smart growth" and "healthy community" concepts are anticipated to be keystones in the Sustainable Community Plan. The Adelanto North 2035 Sustainable Community is funded by a State of California Sustainable Communities Planning Grant and Incentives Program and the City of Adelanto. The Community Plan area encompasses 27 square miles of west Mojave Desert land in the City of Adelanto and unincorporated San Bernardino County. The regional access to the Community Plan Area is provided by State Route 18 (Palmdale Road) and Interstate US 395. Other transportation corridors include Adelanto Road, Air Expressway Boulevard and Holly Road.

For more information on the opportunities that exist in Adelanto, please contact the City's Economic Development Department at 760.246.2300 ext.3062, or via email at economicdevelopment@ci.adelanto.ca.us.



Town of Apple Valley City Update

By Orlando Acevedo, Economic Development Manager

In January the Town of Apple Valley hosted a ground-breaking ceremony for the Yucca Loma Bridge. In the pipeline more than forty years, the $37 million project will create more than 2,000 jobs and open in early 2016. The bridge will help alleviate traffic congestion along Bear Valley Road and Highway 18 and will generate higher traffic counts at Yucca Loma and Apple Valley Roads, driving new retail and office development at The Fountains at Quail Ridge, a planned 346,500 square foot mixed-use center at the northeast corner of the intersection. The Fountains will serve the region's best demographic area with median household incomes near $100,000.

Ulta Beauty, Jersey Mike's Subs ,and Denny's recently opened at Jess, Ranch Marketplace, one of the High Desert's most dynamic retail and dining destinations, located at Bear Valley and Apple Valley Roads. Tenants include Cinemark Theater, Best Buy, 24-Hour Fitness, Bed Bath and Beyond, Burlington, WinCo Foods, Red Robin, Buffalo Wild Wings and Petsmart. Limited inline space is available and an adjacent 10-acre parcel is available for hotel and/ or office use. A 4,300 square foot restaurant on a 47,000 square foot pad is for lease at the southeast corner of the intersection.

In November 2013 a 260,000 square foot Walmart Supercenter was voter-approved and will open north of Highway 18 along Dale Evans Parkway, adding what Randall Lewis, Lewis Retail Centers, calls "critical mass" to Apple Valley's civic center—including Town Hall, Civic Center Park, Amphitheater, Aquatics Facility and Brewster Sports Park. These facilities welcome the award-winning The Summer Concert Series, Freedom Festival and state and regional swim meets and soccer tournaments each year, together attracting tens of thousands of visitors and players to the area. Nearby a 140,000 square foot former Lowe's building and a 40,000 square foot former Ralphs' store are available for lease, along with several outparcels on the Walmart site.

The 469,000 square foot Apple Valley Commons, developed by Lewis Retail Centers, at Highway 18 and Dale Evans Parkway, draws consumers to California's first Super Target, as well as Ross Dress for Less, Dollar Tree, Round Table Pizza, Starbucks and more. Limited inline space and outparcels are available for lease and an available 11-acre site for hotel and/ or office development fronts Bass Hill Road.

Residential permits have reached a seven year high. While the numbers are a far cry from pre-recessionary levels, they signal an improving housing market. Property tax revenue is also moving steadily upward. Apple Valley is the premiere residential choice in the High Desert, featuring homes for everyone from new buyers to retiring seniors to relocating executives. In fact, Apple Valley was recently voted the "Best City to Live In" by readers of the Daily Press for the third year in a row. Beautiful parks, an amphitheater, and other amenities, along with distinguished schools and a leading health care community, create an appealing quality of life.

Finally, Apple Valley ranks as one of California's best cities for doing business, offers certified industrial sites, and boasts a transparent 120-day permit process for large-scale facilities in its 6,600-acre industrial-specific plan. Located in one of the top pro-business air districts in California, Apple Valley's growing industrial market provides a low-cost, less-hassle solution just 35 minutes north of the Inland Empire along Interstate 15.

For more information please contact Orlando Acevedo, Economic Development Manager, via office: 760.240.7915, email: select@ applevalley.org or online: getaslice. org.

Barstow City Update

By Oliver Chi, Assistant City Manager

The City of Barstow believes that there is much to be optimistic about in 2014 as we work on several important economic development projects that have the potential to significantly improve the overall quality of life in our community.

Current significant projects that are underway in the community include the following:

Barstow Aluminum Corporation – Secondary Aluminum Production Facility

The city has recently entered into an Exclusive Negotiating Agreement with Scuderia Development regarding the development of a proposed $1.5 billion project to build a 2.95 million square foot secondary aluminum production facility in Barstow. The overall project, which will be operated by a new private company known as Barstow Aluminum Corporation, is being designed to accommodate an annual production capacity of 1 million metric tons and will include a cast house, rolling mill, extrusion mill, and logistics warehouse. When fully operational, Barstow Aluminum Corporation will employ at least 2,000 people.

The Shoppes at Spanish Trail

The city is currently working with Malcolm Riley & Associates / The Bradco Companies on developing a 112-acre site located off of the I-15 Freeway on Avenue L into the Shoppes at Spanish Trail. The overall project, which includes approximately 801,000 sq. ft. of commercial / retail space, has been thoughtfully laid out to connect three separate commercial sectors:

- The West Sector (area west of Avenue L) has been designed to accommodate big box retail use.
- The East Sector (area east of Avenue L) has been designed for family entertainment, specialty retail, lodging, residential, and open space uses.
- The North Sector (area north of Main Street), which is the western entryway to the nation's longest remaining Main Street section of historic Route 66, has been designed for dining, fueling station, and tourist attraction uses.

Currently, a Home Depot is located in the West Sector of the overall project. The power center has been designed with an "Old Spanish Trail" theme that builds on the unique history of Barstow, which served as a critical stopping point along the ±1,200 mile Old Spanish Trail route which connected Santa Fe, New Mexico with Los Angeles, California.

Montara Place Shopping Center Project

Rothbart Development will be beginning construction of the Montara Place Shopping Center this year, which includes 255,000 square feet of retail space set to be anchored by a Super Wal-Mart. The project will be constructed on a 28-acre site located at the southeast corner of East Main Street and Montara Road. Overall, the project calls for the construction of the following facilities on the identified property:

1. A new approximately 200,000 square foot Super Wal-Mart
2. One 30,000 square foot retail store
3. One 14,550 square foot drug store
4. One 5,100 square foot bank
5. One 2,800 square foot restaurant
6. One 2,800 square foot restaurant

Barstow Casino & Resort Project

The Barstow Casino & Resort Project, which is being pursued as a partnership project between the Los Coyotes Band of Cahuilla & Cupeňo Indians and Bar West Gaming, is still a viable initiative that is in the review process. In order for the project to move forward, both the federal government and the State of California will have to agree to allow the project to be constructed. Currently, the Federal Government's Department of the Interior is evaluating the proposed Barstow Casino & Resort project in accordance with the Indian Gaming Regulatory Act. If the Department of the Interior approves the project as meeting federal guidelines, the next step in the process would be negotiating a compact with the State of California.

Barstow Industrial Park

Another significant initiative that the city is coordinating is the revival of the Barstow Industrial Park project. In total the Barstow Industrial Park spans over 1,174 acres and is located around 3 miles northwest of Interstate 15 and around 5 miles west of the Interstate 15 / Interstate 40 interchange. The city has been working with the project developer regarding future plans for the location. A number of infrastructure concerns are currently being addressed, including the installation of a potential rail-spur at the site. The city will be working with the developer during this next year to coordinate and implement the solutions needed to ensure that the Barstow Industrial Park becomes the High Desert's premier logistics, manufacturing, and distribution hub.

Lenwood Grade Separation

The Lenwood Grade Separation project is currently under construction. The overall $31.5 million facility includes a number of design enhancements that will ensure that the bridge over the BNSF railroad will provide smooth and efficient access for industrial users at the intersection of Lenwood Road and Main Street. A groundbreaking ceremony for the project was held on March 21st.

Barstow Courthouse

The city continues to work with San Bernardino County Superior Court representatives to restore full services

continued on page 37

Hesperia City Update
Development Activity Flourishes in Hesperia

By Lisa K. LaMere, Economic Development Management Analyst

The City of Hesperia's 14 miles of commercially-zoned Main Street frontage has reaped the lion's share of retail activity in the city, with 111,000 s.f. of recent openings, new construction, expansion, and planned tenant improvements in the last several months. These include 14,497 s.f. under construction for Aaron's and Family Dollar, with ribbon cuttings a likelihood in June; and the 9,500 s.f. Hesperia Speedwash which has begun grading and anticipates an October opening. Other projects include an O'Reilly's Auto Parts for which permits have been pulled to construct an 8,748 s.f. store expected to break ground by May.

More than 68,000 s.f. of retail alone opened for business throughout Hesperia between December 2013 and mid-April 2014, including Wingstop, Cinnabon, Fitness 19, Panda Express, Baskin-Robbins, Dollar General, and Vallarta Supermarkets.

Off-Main is also a hive of development activity encompassing nearly 53,000 s.f. of planned projects. Residents can look forward to 25,000 s.f. of new sports and entertainment venues, including an indoor volleyball training center and a 10,000 s.f. indoor radio-controlled race car track. Pacific Eye Care Institute has submitted tenant improvement plans for 4,645 s.f. on Mariposa south of Bear Valley Road. Country Oak and Stove, also on Mariposa, expects to move dirt early second quarter for an expansion totaling 19,296 s.f. in two separate retail buildings.

With the 72,000 s.f. lease of warehouse space by hay exporter Sage Hill Northwest in December and Keller Williams leasing the entire third floor of a medical office building, the City of Hesperia has tracked more than 240,000 s.f. of development activity over the past five-month period.

According to Measure I Sales Tax data, Q3 2013 is the fourth consecutive quarter that Hesperia has IMPORTED per capita sales tax, and the sixth time in the last ten quarters. Sales growth over the previous year occurred in four of seven categories, with a 31% increase in "General Consumer Goods" being the most significant.

Ranchero Road Corridor Project

The Ranchero Road Corridor Project has long been one of the city's highest priority transportation infrastructure projects, consisting of three phases. Each is a separate and distinct project in and of itselves, interconnected and crucial to the success of the entire project. Collectively, all three phases of the Ranchero Road Corridor Project will provide significant mobility, access, and safety improvements to an underserved, growing area of San Bernardino County.

Phase I, the installation of an undercrossing at the BNSF Railway to connect Ranchero Road where it ended at both sides of the railroad tracks, broke ground in August of 2011 and was completed in June of 2013 at a cost of $27 million. Phase I provides direct access for Phase II, the Ranchero Road Interchange.

This new interchange is now under construction, having broken ground on January 11, 2013. The project consists of a six-lane bridge with a center median over Interstate 15, on- and off-ramps, with additional turn lanes at the freeway ramp connections and intersections with two realigned frontage roads. The project includes utility relocations, flood control improvements, traffic signals and ramp metering, and grading. The construction of this $60 million project is slated for completion by September

continued on page 38

Barstow City Update
Continued

to the Barstow Courthouse. Originally scheduled for closure in June 2013, the efforts of the City Council, other elected officials in the county, and the state legislature have helped result in a budget augmentation that has allowed the Courthouse to remain open three days a week. The county courts have indicated keeping the Barstow Courthouse open is a top priority, and they hope to gradually restore complete services.

While the overall economic situation is still challenging, the current projects in the Barstow area that are either underway or in the planning process illustrate that...

…Barstow is strategically situated midway between Los Angeles and Las Vegas.

…Barstow is a major transportation corridor that serves more than 60 million travelers and 19 million vehicles each year.

…Barstow is where the Interstates 15 & 40 and Highways 58 & 247 all converge.

…Barstow is home to the Tanger Outlets and Barstow Outlets, which provide shopping options that are usually only found in metropolitan areas.

…Barstow is where an eclectic mix of railroad, military, high technology, and mining employers have located.

…Barstow is home to a vibrant and caring community.

…Barstow is at the crossroads of opportunity… where the best is yet to come.

Any individual who would like to learn more about all that Barstow has to offer is encouraged to visit the City's website at www.barstowca.org or to contact Oliver Chi, Assistant City Manager, via email at ochi@barstowca.org or by telephone at 760.577.4510.

Hesperia City Update

Continued

2014 and will wrap up a few months later.

Phase III is a joint project with San Bernardino County for the future widening of a five-mile stretch of Ranchero Road from two to four lanes between I-15 and the Phase I Undercrossing. Funding has been identified for the design and environmental portion of the project. City staff is working with the Department of Water Resources on the requirements for widening the bridge over the California Aqueduct. Regulatory changes necessitate the new bridge structure provide for enhanced free-board vertical clearance over the water surface. The final phase of the Ranchero Road Corridor Project is expected to cost $15 million.

These projects will result in increased travel reliability and safety, thereby enhancing the transportation utility of this vital corridor which is necessary to ensure the economic sustainability of the High Desert area and the Southern California region as a whole. Additionally, the projects address the challenges the city faces in providing for a growing population while maintaining the quality of life, economic vitality, and diverse environment that has made Hesperia a desirable place to live.

Hesperia's Industrial Strength

The city has long understood the need to attract more businesses to provide its large labor force with better paying jobs and to help improve and balance the quality of life in Hesperia. This goal can be achieved, in part, with an infrastructure investment in the industrial core of Hesperia, in particular to support the development of the city-owned properties adjacent to the G Avenue Rail Lead Track. A $2M grant from the U.S. Economic Development Administration augmented construction funding for the $8.1 million track, runaround, service road and drainage channel, which were completed in 2012. Hesperia's nearly one-mile long track off the Cushenbury Branch Line is served by BNSF Railway. The city is currently seeking funding to construct sewer, streets, curbs, gutters and utility facilities to provide infrastructure improvements in this 80-acre area to facilitate the attraction of new industry to Hesperia.

The addition of sectors such as manufacturing, warehousing and logistics will inject new skill-based, high paying employment prospects into the local and regional economies. For those companies requiring build-to-suit opportunities for large scale facilities and proximity to transportation corridors such as Interstate 15 and US Highway 395, Hesperia offers what is becoming a rarity in Southern California—two prime 200+ acre sites, each controlled by a single entity.

Covington Capital's 232-acre Hesperia Commerce Center is a five-phased project which at build-out could consist of up to 3.5 million square feet. Comprised of up to 34 buildings of industrial warehouse and office space, the future Hesperia Commerce Center is located on the west side of the I-15 on Caliente, just north of the future Ranchero Road Interchange. The project's Draft EIR passed muster with the Hesperia Planning Commission and was given final approval by City Council on 12/3/13.

At the NWC of U.S. 395 and Phelan Road/Main Street are five parcels encompassing 225+/- acres, zoned as Commercial/Industrial Business Park. The approximate aggregate dimension is 3,988' x 2,585', plus a flag lot connecting the site to U.S. Highway 395 which ultimately connects with Interstate 15 to the south. However, just over a mile to the east of this site on Phelan Road/Main Street, Interstate 15 is also fully accessible to exiting and entering trucks.

With its strong Interstate highway network, large parcels and prime rail-accessible land, Hesperia can forge a strong link in any supply chain. Goods movement has never been easier – or more cost effective – than in the City of Hesperia.

Commercial, industrial, retail and office opportunities abound throughout Hesperia, and this pro-development, customer service-oriented city is serious about bringing your business to Hesperia! For more information, contact Economic Development Director Steven J. Lantsberger, CED/EDFP, at 760.947.1906 or e-mail econdev@cityofhesperia.us.

City of Victorville - Spring 2014

By Doug Robertson, Victorville City Manager

As the largest city in the High Desert, Victorville is leading the way towards a strong economic recovery for the region. With a continually growing population of 114,000, there have been several projects completed in the past year that sustain the growth.

Retail

Retail development is continuing to grow with a variety of well-known companies such as Wal-Mart, BJ'S Restaurant & Brewhouse, Dick's Sporting Goods, and Macy's, to name a few. The new Super Wal-Mart will be opening its 24-acre Palmdale Road location later this year. Restaurant Row continues to expand with Red Robin Gourmet Burgers opening its new 4,836 square foot location at the Mall of Victor Valley in November 2013. BJ's Restaurant & Brewhouse will be the newest installment with its 7,200 square foot location at Dunia Plaza which is expected to open later this year.

Southern California Logistics Airport

Southern California Logistics Airport continues to grow as the largest development project in the region. As the airport remains busy, its lease occupancy rate for hangar, warehouse, and manufacturing facilities has reached an all-time high of 93% for leasable facilities. SCLA's leased out capacity demonstrates a demand for the installation and construction of new capital improvements such as new hangars, industrial, warehouse and office buildings for new and existing tenants.

Aviation operations at SCLA continue to grow. In 2013 alone, several companies extended their lease agreements for hangar and office space. Among these companies are Boeing and Leading Edge. Leading Edge, for instance, has seen a large amount of its work as a result of various airline mergers. Late 2013, Leading Edge committed to making major upgrades to Hangar 747's exhaust air system. This capital improvement investment took SCLA's and Leading Edge's joint efforts and commitment so that Leading Edge would be able to meet its customers' painting requirements when operating within a cold winter climate. The most recent of these paint jobs include orders for Ethiopian Airlines, China Southern Airlines, Singapore Airlines, United Airlines, and many more to come. Leading Edge employs an estimated 150 people at SCLA. Other large investments made by SCLA include facility upgrades to occupied and unoccupied facilities ,including hangars and office buildings, security upgrades which include the repair of existing fence, and covering dilapidated housing areas in order to beautify the Airport.

More recently, in the last six months, The Boeing Company, a tenant of SCLA since 2003, has brought its 777 offload program to its facility in Victorville. Leading Edge and Boeing have teamed up in this program and continue to bring business to SCLA. In December 2013, the Boeing 787-900 Dreamliner landed at SCLA where it has been undergoing a significant amount of flight testing.

To stay current with exciting news on SCLA or retail and restaurant growths in the City of Victorville, follow us on our social media sites.

Be sure to visit our website at www.victorvillecity.com. Contact Keith Metzler at opportunities@victorvillecity.com or call 760.955.5032.

Publisher's Message

Continued

High Desert on the development map and a person who I served with on the Building Industry Association/Baldy View Chapter for many years, Mr. Ira C. Norris passed away from his bout with cancer. Ira began building in the City of Victorville with his project called Liberty Village in late 1970s when the prime interest rate was at its highest level (ever) and his homes were sold at $49,990.

Mr. Norris was a leader. He was a visionary. He was a person who never forgot who he was and he was a person who everyone admired. This edition is dedicated to the memory of Mr. Ira C. Norris. Ira, thank you for everything that you have done. Thank you for the opportunities that you had forwarded to individuals such as myself and many other individuals who you helped in the homebuilding industry. Mr. Greg Norris and Mrs. Nancy Norris, our prayers are with you and your family.

To keep my opening comments as short as possible, I would like to thank each and every one of our article suppliers who continually make the Bradco High Desert Report the most unique economic overview of the High Desert, the longest standing publication, the one with the most amount of subscribers.

While we have gotten away from publishing our report on a quarterly basis due to the protracted recession (depression), we continually see improvement in the High Desert economy and we look forward to an ever-improving 2014 year.

Lastly and most importantly, if you wish to continue to receive a copy of the Bradco High Desert Report, any statistical reports, op-ed articles that we post to our website for free, please register at our website at www.TheBradcoCompanies.com/register.

I always welcome people's emails (jbrady@thebradcocompanies.com, your phone calls 760.951.5111 Ext 101 and any comments that you have on how we can continually improve our content and our distribution. Thank you.

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An economic overview
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