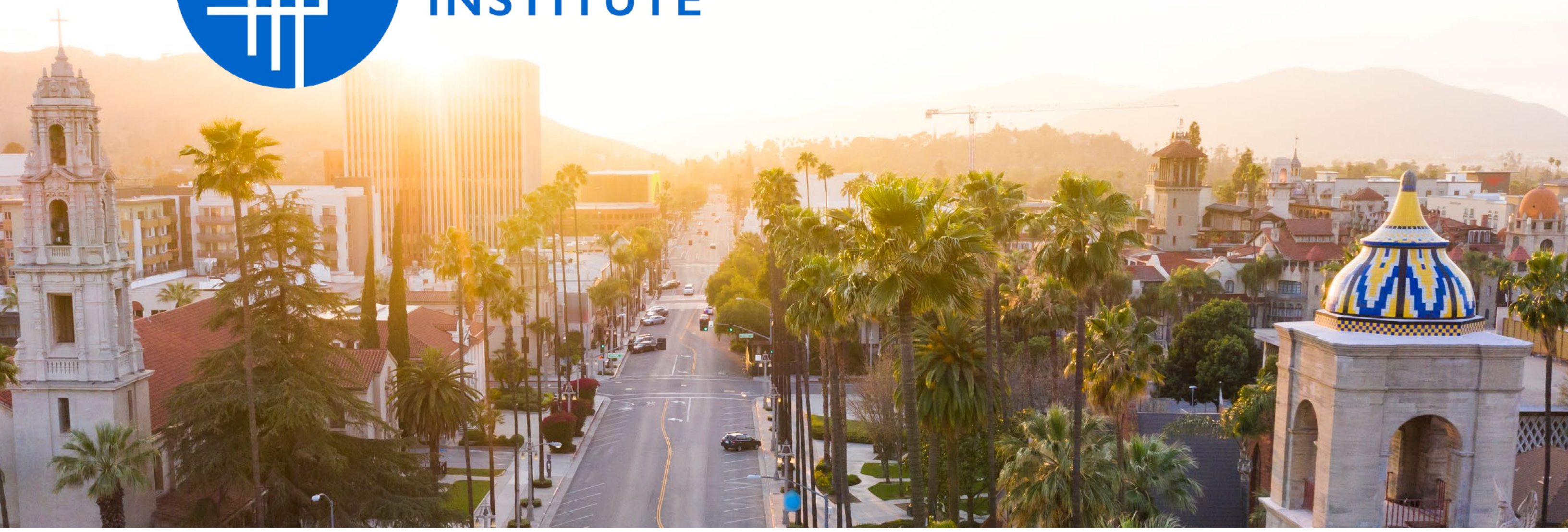
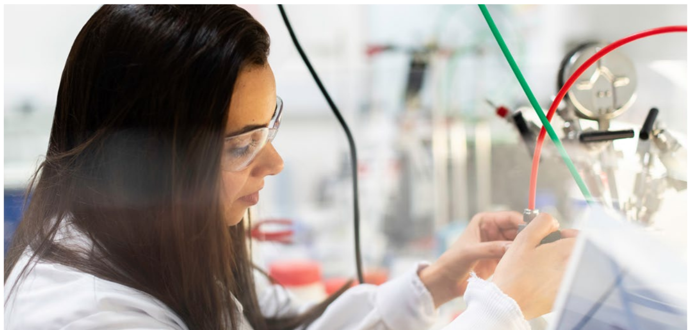


An Inclusive Economic Development Roadmap for California's Inland Empire

BY ALISSA DUBETZ, MISAEL GALDAMEZ, AND MATT HORTON





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EXECUTIVE SUMMARY

In the decade between the global financial crisis and the COVID-19 pandemic, the US economy expanded significantly, averaging 2.3 percent GDP growth and recording 113 consecutive months of job growth. Yet, these trends were primarily driven by concentrated activity in specific industries and metropolitan areas, while large swaths of the country struggled to keep up.[1]

The Inland Empire's experience is a case in point. Located in the inland heart of Southern California, the "Inland Empire" has experienced above-average job growth for the better part of a decade.[2] Similarly, high-tech output has grown almost an entire percentage point over the last decade.[3]

However, employment in high-tech industries has fallen over the same period, which means fewer workers are reaping the benefits of innovation economies,[4] while wage gains have been slow and uneven. Earnings growth in the region has trailed national trends,[5] and income gains have accrued to workers in the top-fifth of the income distribution.[6] The region relies heavily on low-paying retail and service sector jobs and moderate-paying logistics jobs. And despite low incomes overall, Inland Empire residents face high living costs; as of 2019, more than a quarter of all renters spent more than half their income on rent.[7] The pandemic's resulting waves of economic shutdowns have only exacerbated these disparities. While many service and frontline workers have lost employment or experienced a reduction in hours, professional and knowledge-based workers have emerged relatively unscathed, and some even prospered during the pandemic. These circumstances clarify the need to rethink the policies that we use to support investment in job creation and higher wages.

Since California's 400 redevelopment agencies (RDA) were shut down in February 2012, the state has struggled to implement an economic development successor successfully. RDAs provided an opportunity for coordinated economic development activity by both city and county governments. Their demise resulted in the loss of the ability to attract private investment to targeted areas through redevelopment incentives, the ability to fund local infrastructure improvements and affordable housing through tax increment financing, roughly $1 billion in annual funding for affordable housing statewide, and the loss of funding for local government services.[8]

Local and regional leaders face difficult choices. Sustaining long-term growth requires dedicated public investment, but the pandemic has strained government funds, especially at the local level—depriving regional and state leaders of the resources and capacity necessary to build, maintain, and revitalize communities. And without coordinated and strategic public investment, it is more difficult for these communities to attract businesses and residents who can expand the tax base and restore revenue growth.

Moreover, traditional approaches to economic development often result in a race-to-the-bottom dynamic in which local governments trade future economic resilience (e.g., investments in talent and infrastructure) for short-term budgetary necessities (e.g., capturing commercial property and retail sales taxes to help pay for services). These mechanics illustrate the pressure and capacity issues the public sector faces in terms of prioritizing the tension between essential services, talent, and infrastructure versus the imperative of equitable long-term economic investment. Meanwhile, a community's full economic potential goes untapped due to a lack of coordination and capacity among key regional stakeholders and actors.

For instance, regions that especially prospered since the Great Recession were those that harnessed technological innovation; when Amazon began the search to expand its corporate headquarters, cities across the country jumped at the opportunity to craft a competitive bid while positioning an array of tax and other incentives in the hope that they too could harness innovation and rapid growth. Although this competition has long since ended, the underlying conditions that compelled local and state leaders to position an expansive list of incentives and other tax concessions to attract the tech giant illustrate the extent and limitations by which current economic development approaches have failed to cultivate a more equitable and resilient economic landscape.

This paper will outline a new dynamic model of economic development and governance to make up for decades of deferred maintenance, lack of capital improvement, and community disinvestment. This model should serve as a bridge among local, state, and regional entities, in coordination with the private sector, in establishing a more dynamic investable communities' framework. Our recommendations for the state and regional actors are threefold:

1. ***Enhancing Regional Governance and Collaboration:*** State and local leaders should prioritize the creation and implementation of a coordinated, statewide economic development framework, one centered on the notion of talent and infrastructure investments as well as regional coordination that includes the private sector.
2. ***Cultivating a Talent Pipeline and Employer Retention:*** Leaders should encourage incentive models that promote developments that attract higher-paying industry jobs.
3. ***Investing Strategically, Building an Innovation Hub, and Catalyzing Existing Assets:*** Leaders should leverage existing assets and the convening and planning power of existing regional governments to enhance regional competitiveness by aligning and coordinating investments to create a unified vision for regional growth.

This collaborative, local-control governance framework would give regional leaders the ability to leverage market dynamics to benefit their communities and facilitate dynamic investments throughout the region for sustained economic vitality.

THE NEED FOR GREATER REGIONAL COLLABORATION IN THE INLAND EMPIRE

ECONOMIC CONTEXT

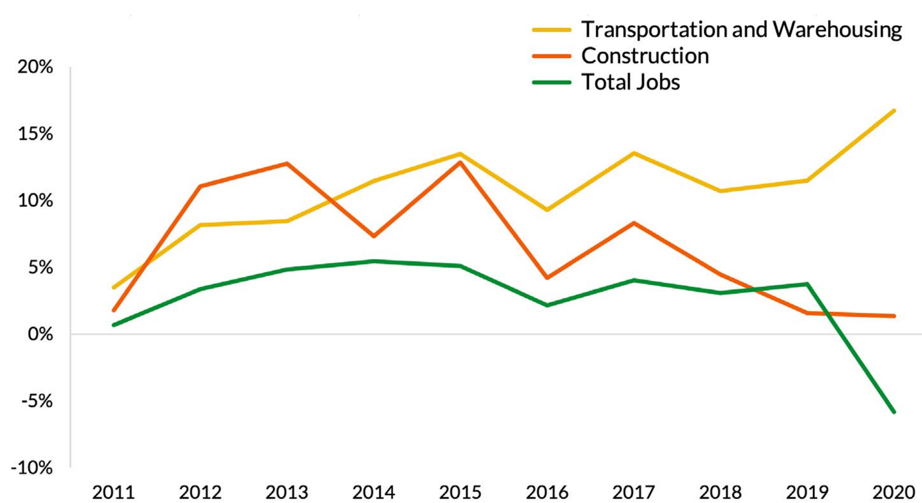
The Inland Empire is riding the waves of decade-long population growth and economic expansion. While population growth in neighboring Los Angeles and San Diego metros has slowed,[9] the Inland Empire's population grew 9.5 percent from 2010 to 2019, adding roughly 405,000 residents over the period. More than half of in-movers from 2014 to 2018 came from metro Los Angeles or San Diego.[10]

This recent population growth has also fueled the construction of housing and e-commerce–related warehousing. Construction of single-family residential units grew steadily to reach a post-recession high in 2020,[11] whereas the logistics industry expanded its footprint in the region, building 13 mega-warehouses over six years.[12] The Inland Empire's geography—in its land availability and proximity to Southern California's ports, key rail and interstation transportation corridors, and 20 million consumers within a 60-mile radius—has played a role in the logistics sector's growth.[13]

As a result, the region's leading industries include construction, transportation, and warehousing (Figure 1). Similarly, the occupation sectors with the highest location quotient—a measure of concentration and specialization—include transportation and material moving, and construction and extraction.[14] Many of these jobs, however, pay below the average metro wage of $53,600.[15] Research also suggests that for every

Figure 1. Job Growth in Logistics and Construction Led the Inland Empire's Economy

Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA): Year-over-Year Job Growth, 2011-2020



Sources: US Bureau of Labor Statistics and Federal Reserve Bank of St. Louis (2020) dollar spent in wages by Amazon, warehouse workers receive an estimated 24 cents in public assistance benefits.[16]

Further, of the 15 largest occupations in the Inland Empire, 12 do not pay a living wage (Table 1). These lower-wage jobs also tend to be filled by workers of color. Notably, the region lacks a Fortune 500 company headquarters,[17] and new business growth has remained essentially flat since 2009.[18] These factors add up to a consumption-oriented economy that has grown significantly but lacks the dynamism of a high-value-added industry.

The coronavirus pandemic has magnified these economic challenges. While consumer industries can and do generate economic growth, they are also vulnerable to downturns. Notably, the foodservice, accommodation, and recreation sectors were hit hardest by the pandemic, shedding roughly 47,000 jobs (year-over-year) as of February 2020.[19] Almost half of all small businesses in the region reported a sizable negative effect from the pandemic.[20] The transportation and warehousing sector was the lone industry to add jobs throughout the pandemic.[21]

Table 1. 12 of the Top 15 Occupations in the Inland Empire Do Not Pay a Living Wage

Riverside-San Bernardino-Ontario MSA: Largest Occupations, 2020Q1

Occupational Title	No. of Workers	Share of Total Workers	Median Annual Salary	Non-White Share
Home Health and Personal Care Aides	55,890	3.60%	$25,900	61.00%
Laborers and Freight, Stock, and Material Movers, Hand	54,500	3.50%	$31,900	82.70%
Stockers and Order Fillers	49,850	3.20%	$31,000	82.90%
Fast Food and Counter Workers	48,750	3.20%	$26,100	46.30%
Cashiers	48,570	3.20%	$26,600	76.50%
Retail Salespersons	44,880	2.90%	$29,200	58.40%
Registered Nurses	29,780	1.90%	$105,900	59.80%
Office Clerks, General	27,440	1.80%	$36,800	65.10%
Heavy and Tractor-Trailer Truck Drivers	25,300	1.60%	$49,500	78.20%
Waiters and Waitresses	23,430	1.50%	$26,100	58.50%
Elementary School Teachers	22,860	1.50%	$93,187	41.40%
Janitors and Cleaners	19,130	1.20%	$32,300	62.30%
Secretaries and Administrative Assistants	19,080	1.20%	$41,700	67.20%
General and Operations Managers	18,590	1.20%	$102,780	61.30%
Security Guards	18,170	1.20%	$29,625	61.50%

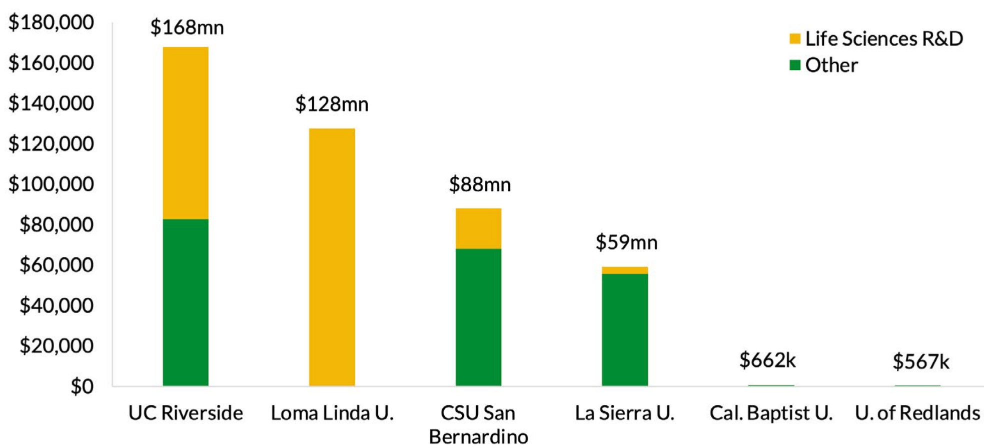
Note: Darker rows indicate wages are below a living wage for the Inland Empire. A living wage for a two-child household with two adults (one working) is $75,800.
Sources: Milken Institute analysis of Occupational Employment Statistics (2021), MIT Living Wage Calculator (2021), and Current Employment Survey Public Use Microdata (2019)

NEED FOR COORDINATION OF ASSETS

Although the Inland Empire lacks a prominent high-value-added industry, the region is not devoid of assets. For instance, the Inland Empire boasts six research universities with significant R&D spending. The University of California (UC) Riverside is a Tier 1 research university with strengths in licensing and startup incubation.[22] Substantial portions of R&D spending are directed toward the life sciences, including more than half of UC Riverside's expenditure and all of Loma Linda University's R&D (Figure 2), providing the foundation for a fledgling high-tech industry.

Figure 2. Local Life Sciences R&D Is an Asset

Inland Empire University R&D Spending (FY19, Thousands of 2019 Dollars)



Note: Data for the University of Redlands is from FY17.
Sources: National Science Foundation (2020); Cal. Baptist data courtesy of CBU (2020)

Interviewees noted, however, that although the beginnings of an industry exist, attracting and growing a life sciences cluster would require time and careful attention to the ecosystem. The difficulties of attracting early-stage (pre-seed) capital and retaining a talented workforce are currently significant inhibitors. As evidence, the Inland Empire lags behind other Golden State metros in both R&D spending[23] and landing Small Business Innovation Research (SBIR)/Small Business Technology Transfer (STTR) grants for launch-ready projects.[24] What is missing, then, is careful stewarding of these critical resources and building on existing strengths to grow a mature ecosystem.

THE CASE FOR ECONOMIC COORDINATION

Although it is clear that the Inland Empire has experienced some successes, gaps exist in the cultivation of high-wage jobs and high-value-added industries. Recent economic growth has primarily been ad hoc and uncoordinated, resulting in consumption-oriented job creation that is less resilient to downturns. The creation of a high-tech ecosystem also requires attentive care for the needs of its actors and constituents, including greater coordination for grant applications and the attraction of private-sector capital.

Greater regional coordination is also associated with shared economic growth. In a study of 184 US metros, Pastor and Benner (2015) found that metros experiencing sustained economic growth had less economic inequality, more social cohesion, and more unified (and collaborative) power in regional governance. The metros with the longest growth spells had communities of diverse regional actors committed to working in the long term with one another. The authors noted, "the most important topics involve the political processes of regional development and the role of participation in planning processes."[25]

ACHIEVING EFFECTIVE REGIONAL ECONOMIC DEVELOPMENT

The Inland Empire has long been on the cusp spanning growth and rising opportunity. If it is to sustain and reach the full potential of a mature and inclusive economy, the region needs coordinated governance and an economic center of gravity. Currently, the Inland Empire lacks both. Coordinating a bottom-up regional economic development framework and leveraging the convening power of existing regional governments would bring diverse regional actors together to plan for future growth. It would also provide the Inland Empire's various economic actors with a forum to make collective decisions and coordinate investments. Effective regional economic development efforts include:

- developing industries, attracting businesses, and growing a talent pipeline;
- offering advice, resources, and technical/financial assistance for businesses;
- assisting with obtaining permits, selecting sites, and recruiting businesses;
- facilitating business programs and infrastructure development; and
- branding and marketing the region to outside parties.

An economic development corporation (EDC) is traditionally the type of entity that coordinates and facilitates these activities. In neighboring San Diego, for instance, the regional EDC is tasked with developing the innovation economy and attracting, retaining, and expanding businesses; attracting, developing, and retaining an educated workforce; addressing disparities in innovation job access; and cultivating a stream of export-ready firms.[26]

INCLUSIVE ECONOMIC DEVELOPMENT ROADMAP

"There is plenty of work to be done. What would help…is better cross-collaboration and communication between the economic development agencies that do exist. The [region] as a whole [needs to] effectively communicate or collaborate over strategic plans and delegation of work."

— Steering Committee Survey Respondent[27]

Effective regional governance is measured in economic performance related to the investments leaders make in infrastructure and talent that attract, incubate, and concentrate sector growth. Councils of Governments (COGs) are regional agencies that have historically worked under the premise of preserving local control and represent member local governments that aim to facilitate growth by providing cooperative planning, coordination, and technical assistance. COGs are typically formed following mutual agreement by local jurisdictions on common goals and objectives. They can help support growth by defining the geography of regions and bringing regional actors together to compete collectively rather than individual jurisdictions on their own. Their duties are intended to complement, not duplicate, jurisdictional activities and help create one cohesive regional voice to communicate externally with businesses and policymakers. COGs facilitate and support intergovernmental unification and coordination across regional, state, and federal agencies to promote a wide range of activities, including regional housing needs assessment, transportation planning, hazardous and solid waste management, and subregional growth and development.[28]

Achieving inclusive or equitable growth not only requires regional leaders to set out and explore strategies that facilitate place-based investment, but that state leaders prioritize investment and support financial tools that align with regional efforts and needs. This framework would broadly allow for communities, cities, and regions across California to address gaps in capital by leveraging partnerships and investment. Importantly, it would mitigate the risk needed to enhance place-based investment and coordinate regional economic growth strategies by deploying a strategic array of financial solutions. This enhanced governance model would coordinate regional investment and support long-term growth and development by leveraging public assets and layering incentives with existing funding and programs.

As outlined below, to better achieve sustainable and resilient development goals, local and regional leaders should focus on enhancing the regional governance and collaboration model; cultivating the talent pipeline; prioritizing high-paying growth sectors and business formation retention; and leveraging other existing assets that further enhance the distinct character of the Inland Empire's emerging technology hub.

ENHANCING REGIONAL GOVERNANCE AND COLLABORATION

- Build on existing initiatives, such as Inland Economic Growth and Opportunity (IEGO), a collaboration between private- and public-sector leaders in Riverside and San Bernardino that aims to expand access to full-time jobs
- Prioritize investment activity by convening regional stakeholders (public, private, and philanthropic) to define opportunities for growth and lead economic development efforts and promote best practices
- Reduce competition and expand cooperation among regional authorities, such as by instituting tax-base sharing programs to distribute revenues across multiple jurisdictions and smooth out uneven levels of development[29]
- Establish a joint regional marketing effort to attract business and target industries, such as a regional private-sector jobs council or committee to support such efforts
- Regular private- and public-sector business roundtable sessions to coordinate, plan, and implement regional economic and talent development strategy

Case Studies: San Diego Regional EDC's Advancing San Diego Program and the Metro Denver Economic Development Corporation's Code of Ethics

The San Diego Regional EDC has been particularly successful in building a regional partnership among business and policy leaders to meet local workforce needs through its Advancing San Diego program. The initiative, which plans to add 20,000 skilled workers by 2030, convenes cross-sector employer collaboratives to discuss and validate skill demands to meet long-term workforce needs.[30] The private-sector-funded EDC has also played a pivotal role in growing the region into a biotech hub through its "San Diego: Life. Changing" campaign, which focuses on attracting and retaining talent in the tech and life sciences industries by linking companies with talent and expanding business networks.[31] Similar cross-sectoral collaboration would greatly benefit the Inland Empire in growing a high-wage job base and fostering greater access to economic opportunity.

The Metro Denver Economic Development Corporation aims to bring together the interests of a broad range of public, private, and public/private actors to promote the metro Denver area as a single economic region. To allow for the successful collaboration of such a variety of groups and interests, member organizations operate under a code of ethics which represents the standards that each member supports

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and practices in its daily activities. Under these standards, member organizations represent the metro Denver first, and their respective jurisdictions second; if a local jurisdiction cannot meet the needs of a particular prospect, the prospect should be shared with other members to find a more suitable location in another metro Denver region; and member organizations should not promote or advertise their prospective areas in other metro regions in a manner that is derogatory to that other region.[32] The code of ethics enables individual communities to compete together as a larger region rather than individual regions competing on their own.

CULTIVATING A TALENT PIPELINE AND EMPLOYER RETENTION

- Define target industries and sectors
- Work with private-sector partners to attract, develop, and retain a skilled workforce
- Facilitate conversation among business and policy leaders to meet workforce needs effectively
- Create training and retraining opportunities for low-wage and disadvantaged workers to achieve equitable economic growth

Case Studies: The Fresno DRIVE Initiative and the Greater Washington Partnership's Capital CoLAB

The Fresno DRIVE (Developing the Region's Inclusive and Vibrant Economy) Initiative is a 10-year community investment plan aimed at supporting an inclusive regional economy through providing opportunities for economic mobility. The initiative convened more than 300 individuals and 150 organizations and institutions representing a diverse cross-section of civic, community, and business stakeholders in the Greater Fresno Region. The plan focuses on three key areas: economic development, human capital, and neighborhood development. The plan aims to invest $4.2 billion in 19 initiatives fostering regional growth, which in turn is estimated to give rise to 49,463 new jobs and 13,800 new housing units, train 64,200 workers, and support 3,450 small businesses. In total, the investment is expected to have a positive impact on 270,000 residents. One of the 19 initiatives, Second Office Fresno, aims to deploy a long-term capital fund and increase economic development capacity to

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attract and retain the jobs and employers needed to grow the region. In support of this effort, a Second Office Recruitment Pilot will be launched that will double the current capacity and personnel within the Fresno County EDC and focus on research, outreach, marketing, and company recruitment.[33]

The Greater Washington Partnership's Capital CoLAB (Collaborative of Leaders in Academia and Business) is a partnership of business and academic institutions that works to develop a diverse digital tech workforce. CoLAB partners with employers and educators to build industry-aligned digital tech pathways that foster inclusive growth. The initiative aims to achieve the following by 2025: to engage more than 45,000 students and adult learners in digital tech pathways, engage at least 50 percent of the workers from underrepresented populations, and double the number of partner organizations working to scale the CoLAB initiative.

These initiatives demonstrate how effective collaboration and an investment in capacity building, with the support of regional leadership, can create strategies that strengthen the regional economy.

INVESTING STRATEGICALLY, BUILDING AN INNOVATION HUB, AND CATALYZING EXISTING ASSETS

- Facilitate dynamic investment partnerships among private-sector capital and local and state authorities
- Tap traditional revenue sources such as taxes and fees, and leverage other assets (including public lands and facilities) to address financing gaps and mitigate risk; acquire assets (including public land) to negotiate deals—such as Western Riverside Council of Government's proposed Transportation Uniform Mitigation Fee exemption for Class A office building development to incentivize higher-paying industry job growth
- Accelerate housing and infrastructure projects (e.g., broadband accessibility) that enhance equity and catalyze future growth
- Work with the state to define and deploy a broad array of financial solutions and incentives so that local authorities can expand and incubate local business formation in rapidly growing industries
- Leverage existing assets to drive sector growth and the formation of innovation hubs—such as the Inland Empire Tech Bridge, which aims to accelerate the

development of a regional tech hub in areas including artificial intelligence, data analytics, and visualization—and advanced manufacturing to support the Navy and Marine Corps and the regional economy[34]

Case Study: New York City EDC's Strategic Investments Group

New York City EDC's Strategic Investments Group (SIG) structures influence investments to drive economic development. SIG invests in projects that expand opportunity, increase access to capital for underserved groups, grow emerging industries to diversify and foster innovation, and prioritize climate action through the use of clean technology and resilient infrastructure.[35] SIG has launched major initiatives to diversify the city's economy and create high-paying jobs, such as the Hudson Yards project. The initiative is transforming 360 acres of under-utilized land in Manhattan into an inclusive, mixed-use destination supporting office space, residences, and retail. Hudson Yards' appealing proximity to transportation, waterfront views, and cultural capital (such as Times Square and the High Line) makes it a prime location for development. Additionally, tax breaks are provided to commercial office developers as incentives for businesses to move to the area.[36] This initiative demonstrates the positive impact of place-based investment and the use of under-utilized land as an asset to spur growth.

CONCLUSION

The impacts of the COVID-19 pandemic continue to be felt across the state of California, wreaking havoc on state and local government budgets—which are already grappling with systemic deficiencies in affordable housing, access to high-quality jobs, and deteriorating infrastructure. In the absence of an economic development model following the demise of RDAs, regions and locales now face the growing need for capital improvements, modernization, and maintenance amid further diminishing revenue sources. To address these issues, state and local governments should not emulate the pre-COVID economic landscape. Instead, they should structure a new, coordinated economic development and governance model built around collaborative local control to support inclusive, sustainable growth by aligning investments focused on cultivating a pipeline for talent and infrastructure, which is missing from today's economic development landscape. Governments at all levels (cities, counties, state, and federal) collect revenue from an array of sources derived from taxes and fees to provide services while also managing a vast portfolio of assets (e.g., land) for the potential benefit of residents and taxpayers. If public budgets reflect our shared values, then how governments invest the public funds not only illustrates what we value but how we collectively invest in a more prosperous and equitable future. Agencies that support and represent regional groups such as COGs and EDCs can play a pivotal role in facilitating these efforts.

The Inland Empire has valuable assets that have laid the foundation for potential growth. The endeavor needs top-down (state) and bottom-up (regional) coordination and governance in the form of dedicated investment tools to sustain and reach the full potential around a shared vision for growth. Enhancing the role of regional governance over the short term would help achieve this potential by bringing together the necessary policy and business leaders to work collaboratively in deploying and scaling efforts to meet the investment needs along with sustained, inclusive growth.

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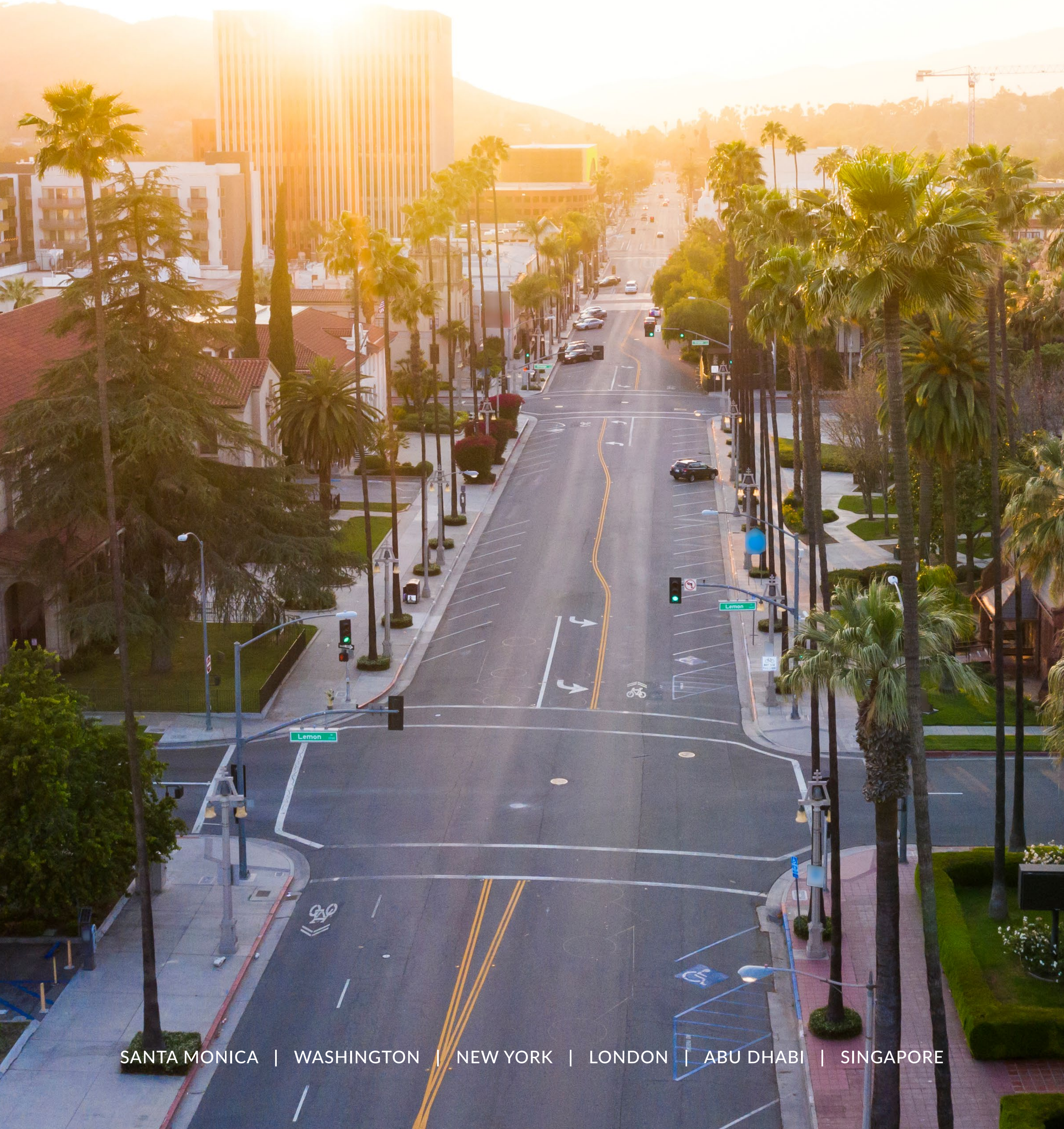

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