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KERN ECONOMIC JOURNAL

Volume 4 Issue 1

2003 First Quarter

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KERN ECONOMIC JOURNAL is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions.

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Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in hard or electronic copy. Individual authors are responsible for the views and research results.

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Local Economy in Perspective

Opinion Surveys:

Business Outlook Survey: Business managers remain *pessimistic* about local economic conditions. The Kern County Business Outlook Index increased from 95 in the fourth quarter of 2002 to 99 in the first quarter of 2003. Factors contributing to these *pessimistic* perceptions are:

- State budget cuts targeting education, local governments, and non-profit organizations
- Continued volatility of the Stock Market
- War, international terrorism, and security considerations affecting the travel and tourism industry
- The SARS virus infection affecting trade with East Asian countries

(Full story on page 2)

Consumer Sentiment Survey: Households have turned *pessimistic* about local economic conditions. The Bakersfield Consumer Sentiment Index declined from 103 in the fourth quarter of 2002 to 98 in the first quarter of 2003. Other than the aftermath of September 11, 2001, this is the only time the index has fallen below 100 in its four-year history. Compared to one year ago, 14 percent of the respondents said their families are doing financially *better*, 81 percent *the same*, and 5 percent *worse*. Anticipating one year from now, 18 percent of the respondents perceived their financial conditions will be *better*, 77 percent *the same*, and 5 percent *worse*.

(Full story on page 3)

Economic Indicators:

Indicator	Previous Qtr.	Present Qtr.	Change	Data Source
Unemployment Rate (%)				California Employment Development Department
Kern	10.4	12.7	2.3	
Bakersfield	8.5	9.0	0.5	
Employment Growth (%)				
Kern	1.4	-1.7	-3.1	
Bakersfield	0.7	-1.9	-2.6	
Total Personal Income ($ billion)				Bureau of Economic Analysis
Kern	13.57	13.62	0.05	
Bakersfield	7.52	7.55	0.03	
Personal Income Per Capita ($)				
Kern	20,450	20,480	30	
Bakersfield	30,900	31,000	100	
Personal Income Growth (%)				
Kern	1.5	1.4	-0.1	
Bakersfield	1.9	1.6	-0.3	
Median Housing Price ($)				California Association of Realtors
Kern	112,100	121,500	9,400	
Bakersfield	120,300	129,300	9,000	
Housing Affordability Index	58	57	-1	
Mortgage Interest Rate (%)	6.1	5.8	-0.3	economagic.com
Price of Crude Oil ($)	22.20	28.40	6.20	Berry Petroleum

Business Outlook in Kern County

Abbas P. Grammy
Professor of Economics

This article presents opinions of business managers regarding current and expected economic conditions of Kern County in the first quarter of 2003. We began compiling the local index in the first quarter of 1999. It is constructed from telephone surveys administered to a random sample of the Greater Bakersfield Chamber of Commerce membership. Responses were enumerated to construct the Business Outlook Index (BOI) for the county. The value of 100 indicates *neutrality* about local business conditions, greater than 100 expresses *optimism,* and less than100 *pessimism*. Results are illustrated in the following charts.

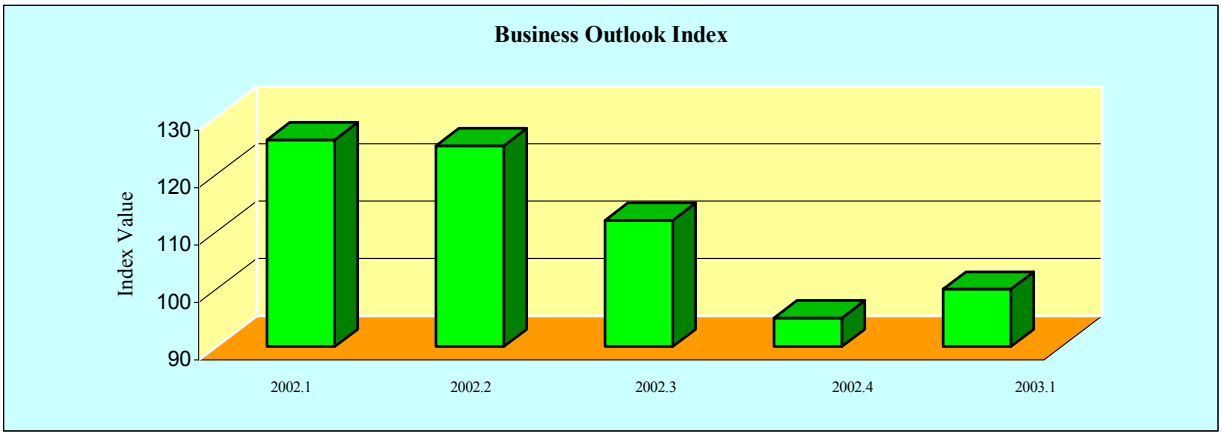
After a quarter of sharp decline, the BOI increased slightly. It rose 4 points from 95 in the fourth quarter of 2002 to 99 in the first quarter of 2003. This increase indicates that business managers have become less *pessimistic* about local business conditions. This increase ends a year-long decline of the BOI when the index plummeted from 126 in the first quarter to 95 in the fourth quarter of 2002. Over the past four quarters, the BOI has fallen a whopping 27 points.

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

Most business managers perceived that financial conditions (sales or profits) of their companies were unchanged last quarter. They projected no improvements this quarter.

Also, the majority of business managers indicated that current employment and financial conditions of their industries were the same as last quarter. They anticipated that employ-

(Continued on page 4)



Question	Response		
	Better	Same	Worse
	(Percentage of Total Responses)		
Employment in your company this quarter was	18	65	17
Employment in your company next quarter will be	21	71	8
Financial condition (sales or profits) of your company this quarter was	24	74	2
Financial condition (sales or profits) of your company next quarter will be	20	72	8
Employment and general business conditions in your industry this quarter were	12	79	9
Employment and general business conditions in your industry next quarter will be	9	89	2
Employment and general business conditions in Kern County this quarter were	2	75	23
Employment and general business conditions in Kern County next quarter will be	0	72	28

CONSUMER SENTIMENT IN BAKERSFIELD

MARK EVANS
INTERIM DEAN, EXTENDED UNIVERSITY DIVISION

The Bakersfield Consumer Sentiment Index declined from 103 in the fourth quarter of 2002 to 98 in the first quarter of 2003. Other than the aftermath of September 11, 2001, this is the only time the index has fallen below 100 in its four-year history. We began compiling the local index in first quarter of 1999. It is constructed from telephone surveys administered to a random sample of households listed in the Bakersfield section of the phone book. Index values above 100 indicate consumer *optimism*, while values below 100 are rare and suggest considerable *pessimism*. This is the first time the index declined for three consecutive quarters, no doubt due to the uncertainty created by the prolonged preparation for the Iraq war. The index is disaggregated into sub-indexes relating to recent trends and future expectations. A small improvement in the sub-index measuring recent trends was offset by a larger decline in the sub-index representing future expectations.

The Index of Recent Buying and Financial Trends is constructed from responses to questions relating to expenditures on discretionary items, financial status of the household compared to one year ago, and perceived changes in the financial condition of acquaintances in Kern County. This sub-index recorded a small increase from 101 in fourth quarter, 2002 to 103 in the first quarter. First quarter responses suggest local households were in a holding pattern: there was a large "movement to the middle" or "normal" position for all questions relating a current trends and conditions. For example, when asked about spending on discretionary items, the percent of households indicating their spending was the "same as usual" increased from 41 in the previous quarter to 77. The percent responding they spent "more than usual" decreased from 29 to 8 percent, while those indicating they spent "less than usual" declined from

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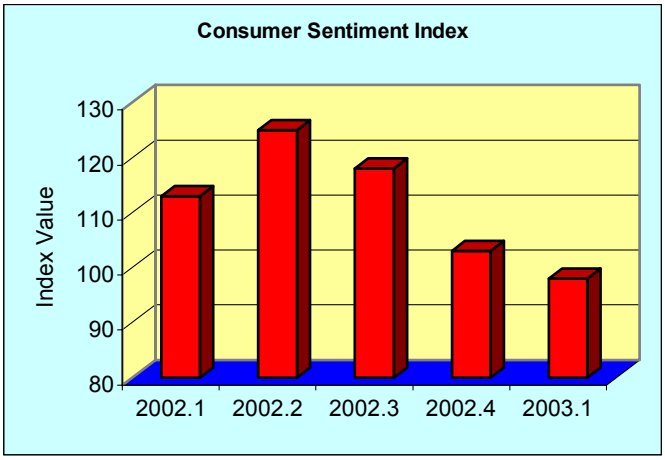


TABLE 1—INDEX VALUES			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	**98**	**103**	**113**
Sub index: Recent Buying & Financial Trends	103	101	108
Sub index: Expectations	94	105	118

TABLE 2—RECENT BUYING AND FINANCIAL TRENDS (Percentage of Responses)			
	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	8 %	77 %	15 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	14 %	81 %	5 %
How your acquaintances in Kern County are doing financially compared to one year ago.	16 %	74 %	10 %

Business Outlook *(Continued from page 2)*

ment and financial conditions of their industries would remain constant this quarter.

Over seventy percent of the business managers felt that employment and business conditions in Kern County were the same as the previous quarter and are likely to remain unchanged this quarter. Note here that more than twenty percent of the business managers felt current and future local employment and business conditions are likely to get worse.

Survey participants were asked to comment on local, regional, national, or international factors that have affected employment and financial conditions of their companies. They identified a number of factors contributing to improved local business conditions:

- Low rate of interest on mortgage loans
- Continued boom of the construction industry and the real estate market
- The opening of a new distribution center and several medical facilities
- Productive agriculture and agribusiness

However, the survey respondents felt that several factors have hindered the business outlook in Kern County:

- State budget cuts targeting education, local governments, and non-profit organizations
- Continued volatility of the Stock Market
- War, international terrorism, and security considerations affecting the travel and tourism industry
- The SARS virus infection affecting trade with East Asian countries

The survey results indicate reduced *pessimism* in local business outlook. Nevertheless, a considerable number of business managers felt that the county's economic conditions are unlikely to improve this quarter.

Consumer Sentiment *(Continued from page 3)*

30 to 15 percent. When asked how their family was doing financially compared to one year ago, the percent indicating they were in the same position increased from 59 to 81 percent. Although those responding they were better off declined from 20 to 14 percent, the percent of households who reported being worse off declined more sharply -- from 21 to only 5 percent.

To assess consumer expectations, households were asked how they thought the financial situation of their families would change over the coming year, how their acquaintances in Kern County view the coming year, and whether this is a safe or risky time to draw down savings or incur additional debt. The forward-looking index constructed from these responses decreased from 105 in the fourth quarter to 94 in the first quarter, its lowest value to date. When asked the most likely financial situation of their family in one year, there was a slight shift from the previous quarter away from "expecting things to worsen" to "expecting things to stay the same." However, this positive change was dominated by two negative developments. Respondents perceived their acquaintances in Kern County to view the coming year less optimistically and more pessimistically than the previous quarter by a small amount. More significantly, the percentage of respondents who thought now was a safe time to use savings or incur debt plunged from 24 percent in the previous to only 4 percent.

Summarizing, the Bakersfield Index of Consumer Sentiment declined for the third consecutive quarter to a value less than 100, suggesting there was considerable pessimism prior to the Iraq War. The actual position of households did not decline. Rather, they became more pessimistic about the future. It is likely that the index will rebound in the second quarter.

TABLE 3—FUTURE EXPECTATIONS (Percentage of Responses)

	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	18 %	77 %	5 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	29 %	37 %	34 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	4 %	66 %	30 %

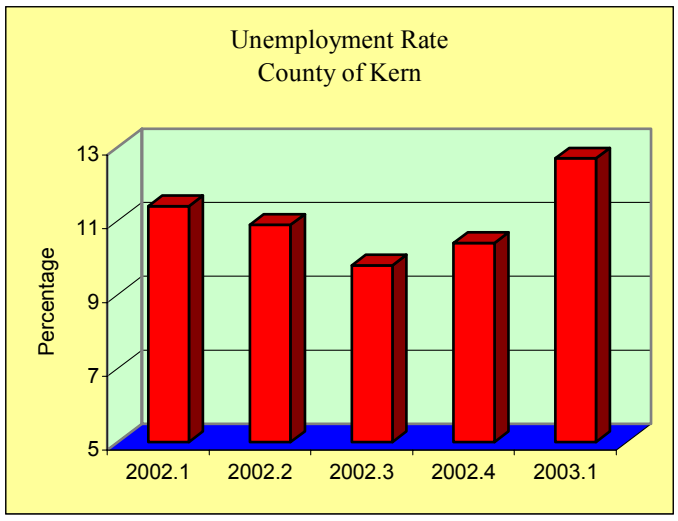
ECONOMIC INDICATORS

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS

Note: In the previous issue, we tracked the trends of ten local economic indicators. In this issue, we won't report quarterly taxable sales because of a long time lag involved in the availability of the published data and its great sensitivity to cyclical changes, making forecasts somewhat inaccurate. Also, we have modified the data definition of housing price from "single-family" to "all" homes because of the unavailability of data on the former indicator on a timely basis. Monthly data on the latter indicator are readily available. Finally, we corrected a typographical error in the reporting of total personal income.

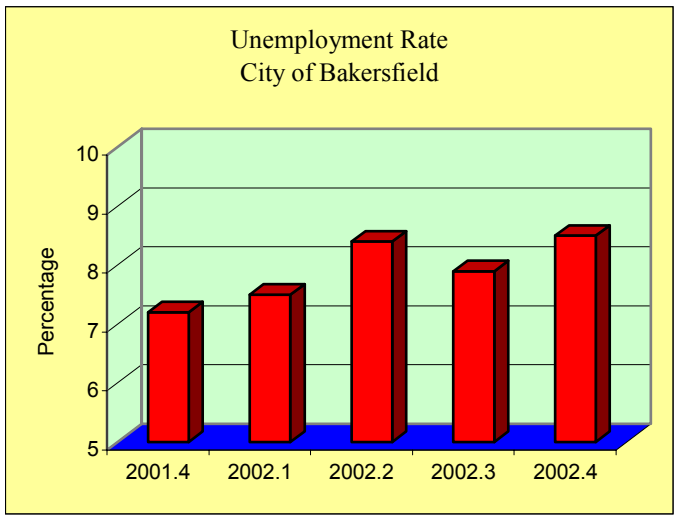
Unemployment Rate

The *seasonally adjusted* unemployment rate in Kern County increased from 10.4 percent in the fourth quarter of 2002 to 12.7 percent in the first quarter of 2003. Compared with four quarters ago the county's unemployment rate was 1.3 percent higher. The county's unemployment rate was 6.1 percent higher than the state rate and 6.9 percent greater than the national rate.



Labor market data for cities are estimated based on their shares of the county's labor force, employment, and unemployment. These shares are calculated from the census data and remain constant throughout the decade. As a consequence, the published data cannot accurately reflect the city's labor market conditions. We have established a methodology for calculating variable labor force shares for cities in order to obtain more accurate estimates for labor market data.

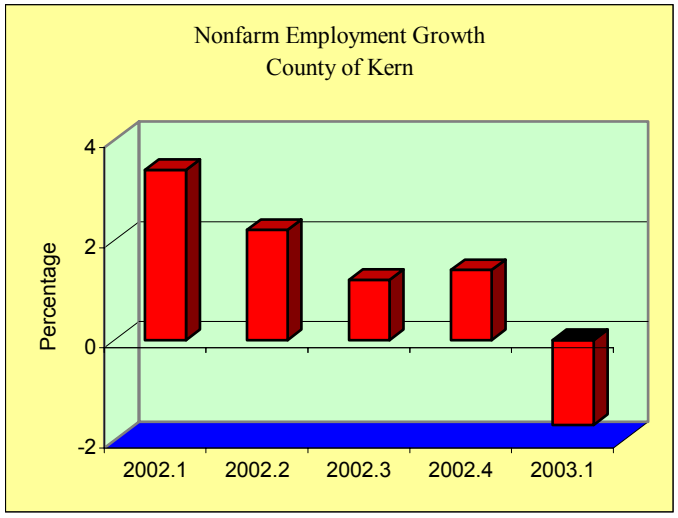
The *seasonally adjusted* unemployment rate in the City of Bakersfield rose from 8.5 percent in the fourth quarter of 2002 to 9.0 percent in the first quarter of 2003. Compared with four quarters ago, the city's unemployment rate was 1.5 percent higher. Bakersfield's unemployment rate was 3.7 percent lower than the county rate, but 2.4 percent higher than the state rate and 3.2 percent greater than the national rate.



Employment Growth Rate

In the first quarter of 2003, Kern's labor force increased by 1,600 persons, while total employment declined by 4,300 persons. Unemployment increased by 6,000 persons. The decline in total employment accounted for 700 more jobs in the nonfarm sector, 9,900 less jobs in the farm sector, but 6,300 more jobs in the market for self-employed workers and those who work outside their place of residence.

In Kern County, *nonfarm* employment decreased at an annual rate of 1.7 percent in the first quarter of 2003. Among the nonfarm industries, finance and insurance, professional, scientific and technical services, and state and local governments added jobs. Whereas, construction, wholesale trade, retail



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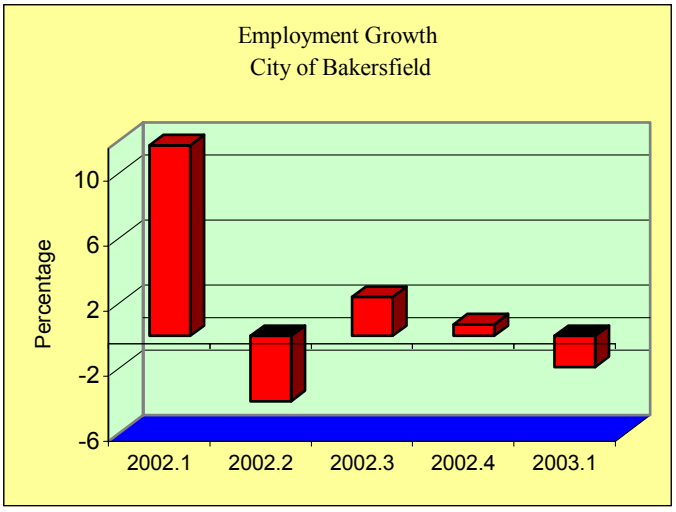
trade, educational services, leisure and hospitality, and federal government reduced employment.

The growth rate of *nonfarm* employment declined gradually from 3.4 percent in the first quarter of 2002 to 1.4 percent in the fourth quarter of that year and -1.7 percent in the first quarter of 2003. During the entire time period, nonfarm employment increased at an average annual rate of 1.3 percent.

In Bakersfield, employment decreased at an annual rate of 1.9 percent in the first quarter of 2003. Similar to the county's trend, the city's employment growth has been unstable. The city experienced positive employment growth in the first, third, and fourth quarters of 2002, but negative growth in the second quarter of 2002 and first quarter of 2003. Nevertheless, Bakersfield's employment increased at an average annualized rate of 1.7 percent in this time period.



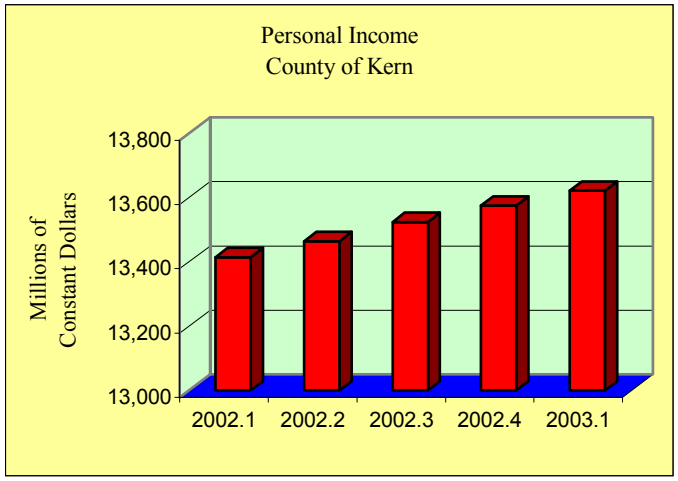
Total Personal Income

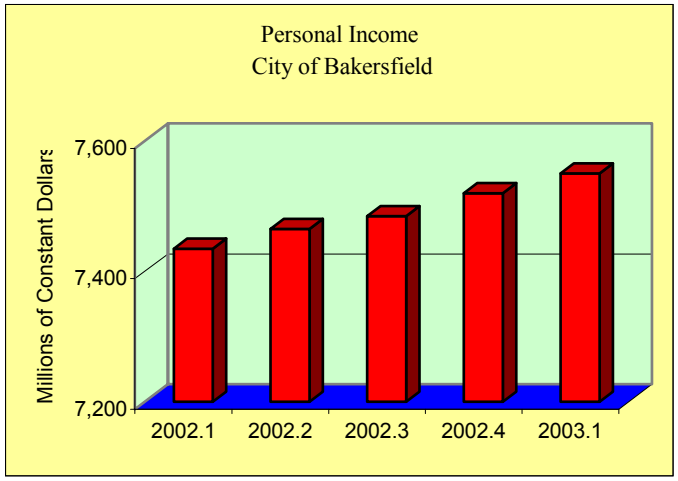
Total personal income for counties are published on an annual basis with a time lag of at least one year. At the state level, however, quarterly data are available with a two-quarter delay. To establish a quarterly database for Kern County, we constructed a statistical method to calculate variable income shares. We then generated forecasts for the most recent quarters.

Total personal income is the sum of labor income, capital income, and transfer payments, less payroll taxes. Personal income is adjusted for seasonal variations and converted from current to constant dollars to measure economic growth over time.

Kern County's total personal income (in constant 1996 dollars) increased from $13.57 billion in the fourth quarter of 2002 to $13.62 billion in first quarter of 2003. Hence, the county's economy expanded by $50 million.

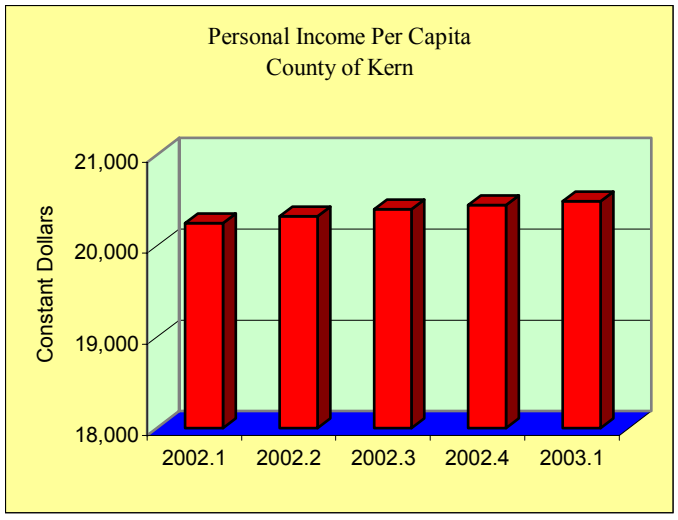
In Bakersfield, total personal income (in constant 1996 dollars) rose from $7.52 billion in the fourth quarter of 2002 to $7.55 billion in the first quarter of 2003. Hence, the city's economy expanded by $30 million.





Personal Income Per Capita

Personal income per capita is calculated as total personal income divided by population. Per capita personal income would increase if total personal income grows faster than population.



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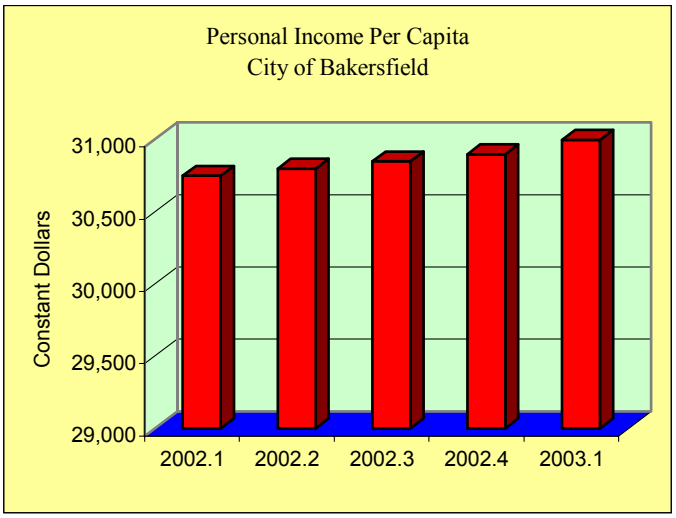
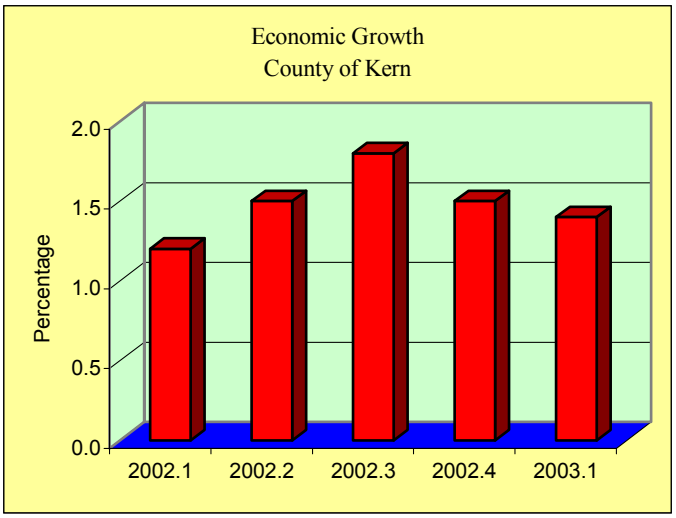
In Kern County, personal income per capita (in constant 1996 dollars) rose slightly from $20,450 in the fourth quarter of 2002 to $20,480 in the first quarter of 2003. Since the first quarter of 2002, the county's personal income per capita has increased $250.

Between the third and fourth quarters of 2002, Bakersfield's personal income per capita (in constant 1996 dollars) rose from $30,900 to $31,000. Over the past four quarters, the city's personal income per capita increased $350.

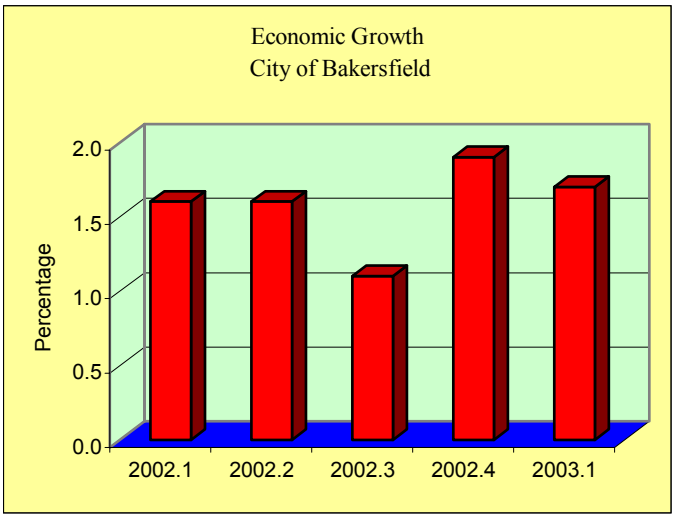


Economic Growth Rate

We measure economic growth as the percentage change of total personal income over the previous quarter. In Kern County, the rate of economic growth slowed from 1.5 percent in the fourth quarter of 2002 to 1.4 percent in the first quarter of 2003. Over the past four quarters, the county's economy expanded at an average annual rate of 1.3 percent.

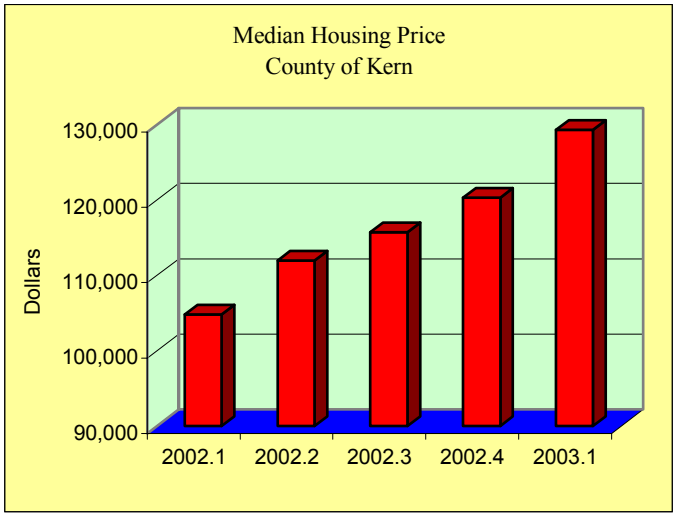


In Bakersfield, economic growth slowed from 1.9 percent in the fourth quarter of 2002 to 1.6 percent in the first quarter of 2003. Between the first quarter of 2002 and first quarter of 2003, the city's economy expanded at an average annual rate of 1.6 percent.



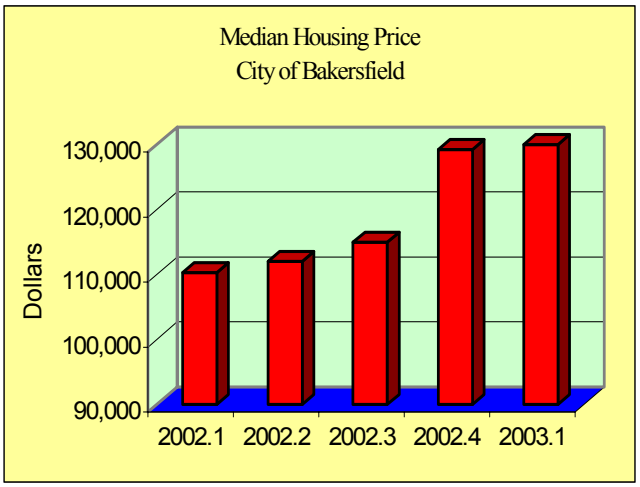
Housing Price

In Kern County, the median sales price of all homes (i.e., new and existing condominiums and single-family detached homes in current dollars) rose 8.4 percent from $112,100 in the fourth quarter of 2002 to $121,500 in the first quarter of 2003. Since the first quarter of 2002, the median price has increased by a whopping $25,900 or 27.1 percent.



In Bakersfield, the median sales price of all homes jumped 7.5 percent from $120,300 in the fourth quarter of 2002 to $129,300 in the first quarter of 2003. The city's median price was $7,800 higher than the county's average. Since the first quarter of 2002, the median price increased by a whopping $24,400 or 23.3 percent in Bakersfield.

Local Economic Indicators *(Continued from page 7)*

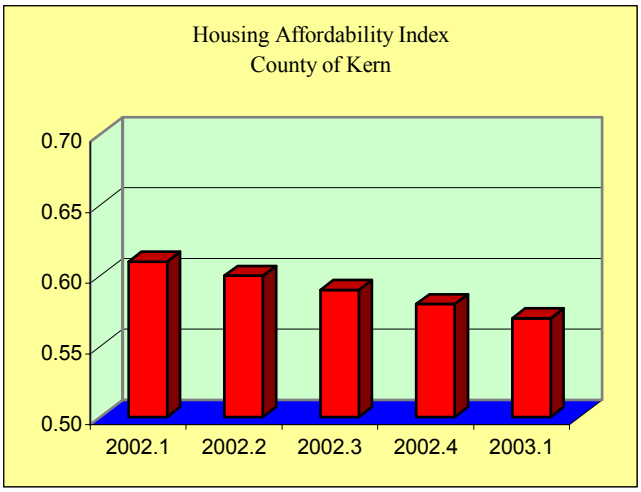


The median sales price of all homes appreciated in most cities of Kern County. Ridgecrest and Rosamond made the largest gain of over 16 percent between the first quarter of 2003 and first quarter of 2002. Tehachapi also showed a sizable gain of about 10 percent. Likewise, the median housing price rose 6.1 percent in Delano and 5.2 percent in Taft.

Housing Price for Selected Cities (First Quarter 2003)		
City	**Median Sales Price ($)**	**Change from Four Quarters Ago (%)**
Delano	97,000	6.1
Ridgecrest	92,170	16.5
Rosamond	126,250	16.3
Taft	68,900	5.2
Tehachapi	142,700	9.8

Housing Price Affordability

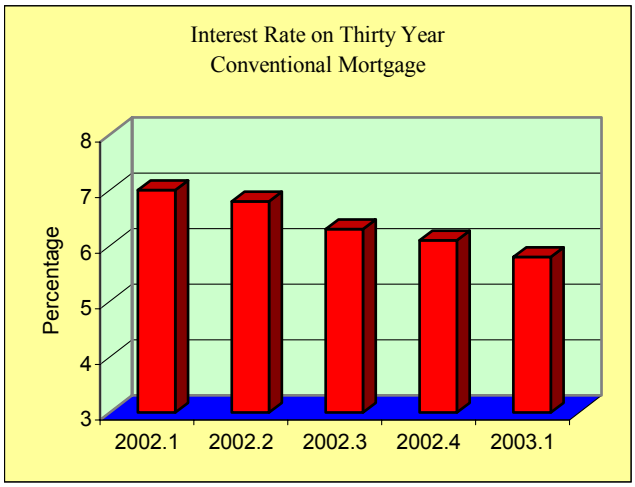
In the first quarter of 2003, the index of housing affordability declined one percentage point from 58 to 57 in Kern County. Over the past four quarters, the index fell 4 percentage points. This current index value indicates that a family earning the median household income has 57 percent of the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing single-family home.



Mortgage Interest Rate

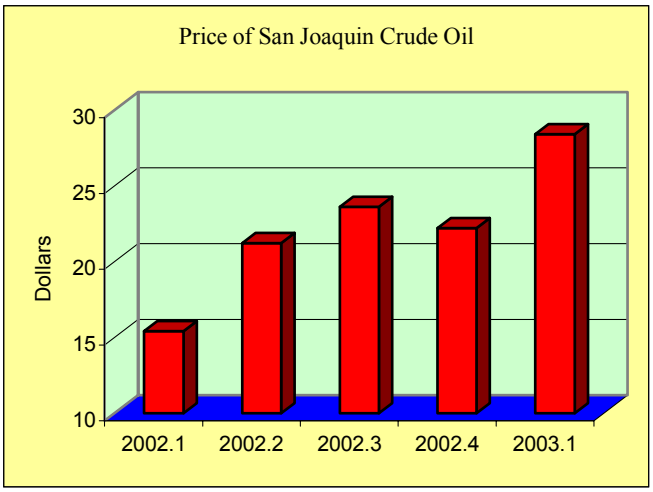
Residential investment depends, in part, on the rate of interest charged on mortgage loans. Lower rates help households qualify for higher loan amounts and reduce the monthly mortgage payments. As a result, the demand for housing increases. Housing prices would rise if the demand increases more rapidly than the supply.

In recent years, the expansionary policy of the Federal Reserve System has resulted in low interest rates. Interest rate on thirty-year conventional mortgage loans fell from 6.1 percent in the fourth quarter of 2002 to 5.8 percent in the first quarter of 2003.



Price of Crude Oil

The price the San Joaquin Valley heavy crude oil-- updated at each posting change by date-- is averaged to calculate the monthly and quarterly prices. The quarterly average price for the San Joaquin Valley heavy crude oil rose from $15.40 per barrel in first quarter to $21.20 in the second quarter and $23.60 in the third quarter of 2002. It then fell to $22.20 in the fourth quarter of that year. However, in the first quarter of 2003, the price averaged $28.40. Compared with four quarters ago, the price of crude oil was $13 or 84 percent higher.

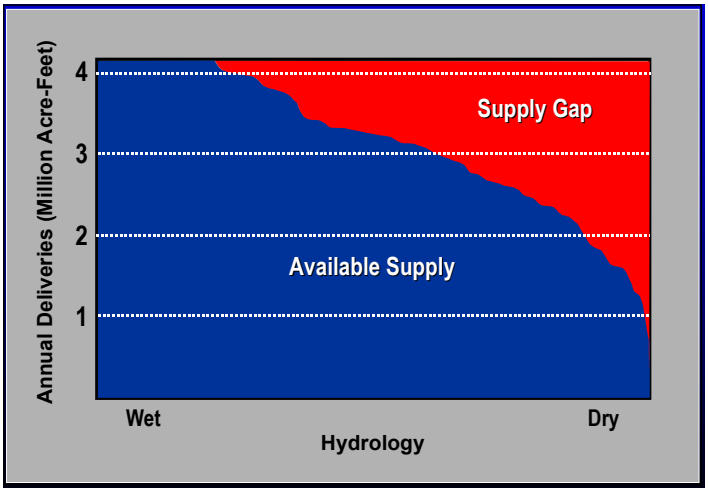


Water Supply Management in Kern County

John F. Stovall
General Counsel, Kern County Water Agency

It is no secret that California's water supply infrastructure is severely stressed. The backbone of that infrastructure, the State Water Project featuring the California Aqueduct, was supposed to deliver in excess of 4 million acre-feet[1] of water per year in all but the driest of years, but is now capable of delivering less than half that amount in similar years[2]. A series of regulatory requirements have both blocked completion of construction of the system, and restricted operations of existing facilities.

This article examines how enhancements in local management of supplies have recently prevented catastrophic consequences in the face of a diminishing state supply. The following figure depicts the State Water Project capability to deliver entitlement supply. It illustrates the diminished water supply currently available from the State Water Project. A comparison is drawn between severe economic damages incurred in 1992 and smaller damages incurred in 2001, years of similar delivery of project entitlement on the State Water Project.
In the year 1992, the State Water Project delivered only 1.67 million acre-feet of entitlement water (45% of contracted entitlement). Of this amount, only 0.47 million



acre-feet were delivered to Kern County for agricultural use[3]. This resulted in a variety of significant economic impacts: $78.0 million in increased on-farm water costs, $121.1 million in total revenue loss from reductions in producing agricultural acreage, and $5.7 million in total revenue reductions due to reduced yields from planted acreage[4]. Land went out of production when water was simply unavailable at costs affordable to agriculture.

In contrast, the year 2001 saw a State Water Project delivery of 1.68 million acre-feet of which 0.35 million acre-feet of entitlement water was delivered to Kern County for agricultural use. Yet needed water was delivered to all agricultural contracts from banking projects developed by local water districts and the Kern County Water Agency. Deliveries from banking projects during 2001 were 0.19 million acre-feet with projected costs, including amortized capital, of $150 per acre-foot[5], an estimated additional cost of $28.5 million to support agricultural production.

The reduction in impacts is due largely to enhanced water supply management at the local level[5]. In 1992 local water districts, having relied on contractual commitments of the Department of Water Resources to reliably deliver water, were not well prepared to deal with the shortages imposed by a dry year coupled with onerous regulatory requirements. Under the terms of its contracts the State of California should have delivered much more water, but federal regulatory requirements severely impaired deliveries. As a result of the shock imposed by these shortages, local districts and the Kern County Water Agency took proactive steps to diminish impacts in the future: contracts were renegotiated to enhance local operational flexibility and enhance stability, and, most importantly, land was acquired for accelerated development of groundwater banking facilities. Two large facilities enhanced the ability to store water in wet years and recover water in dry years: the Kern Water Bank of the Kern Water Bank Authority, and the Pioneer Project operated by the Kern County Water Agency.

These projects operate by storing large quantities of flood water and excess high flow water in the wet years of a hydrologic cycle, and recovering the water for use in dry years of the cycle. In wet years, these waters are spread over absorptive lands in the alluvial fan of the Kern River and migrate to the underlying aquifer for storage with minimal evaporative losses. Large quantities of high flow water and flood water can be captured in short periods of time by this method. Extraction occurs more slowly over a number of dry years.

Extraction requires significant power usage to operate the pumps utilized for extraction. Other costs include the capital cost and maintenance of facilities for both spreading and

(Continued on page 12)

Economic Impacts of ChevronTexaco on Kern County

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Note: In 2002, Ed Spaulding, Manager of Public and Government Affairs for ChevronTexaco, became interested to know the economic impacts of his firm on Kern County. This analysis focuses on three factors: (1) the direct impact of ChevronTexaco's 971 employees with an average annual pay of $53,500; (2) indirect impacts of ChevronTexaco's operations on secondary and supplier employment in Kern County; and (3) other impacts unique to ChevronTexaco in the area. A linear input-output model was constructed to quantify these economic impacts for 2002.

(1) The direct impact of ChevronTexaco's presence in Kern County is an incremental purchasing power of $51,948,500. This is derived from multiplying 971 ChevronTexaco employees by their average pay of $53,500. These monies are paid to the employees and then are used by the employees to buy housing, transportation, services, and retail trade items in support of their life styles as they live in Kern County. In Table 1, the Company column shows the allocation of this purchasing power to the various business sectors in the county. The allocation percentages are taken from the Bureau of Labor Statistics annual 2000 Consumer Expenditure Survey. In summary, this shows that the employees are responsible for the following amounts of direct spending:

869 houses	$83,600,000
430 vehicles	6,400,000
Bank deposits	13,900,000
Commercial Investment	14,600,000
Living Expenditures	42,300,000
Local Government Revenues	52,000,000
Total	$212,800,000

(Continued on page 11)

Table 1
ChevronTexaco Primary & Secondary Job Impacts

			COMPANY	Multiplier	SECONDARY	TOTAL
JOBS GENERATED	2002		971	3.215	3,122	4,093
INCOME AVERAGE NEW EMPLOYEE			$53,500		$31,970	$37,078
UNEMPLOYMENT IMPACT			-0.3%		-1.1%	-1.4%
POPULATION	677,293		679,823		687,954	687,954
Increment			2,529		8,131	10,660
VEHICLE PURCHASES (NEW & USED)	17%		430		1,382	1,812
Cost	$15,000		$6,400,000		$20,700,000	$27,200,000
HOUSING			869		2,794	3,663
Residential Real Estate Investment			$83,600,000		$268,900,000	$352,500,000
BANK DEPOSITS			$13,900,000		$44,700,000	$58,600,000
Net Income Increment	1.10%		150,000		490,000	640,000
COMMERCIAL SPACE	200 = Ft/Emp		194,000		624,000	819,000
Commercial Real Estate Invest	$75 = $/Ft		$14,600,000		$46,800,000	$61,400,000
EMPLOYEE INCOME FROM INCR JOBS	100.0%		$51,900,000		$99,800,000	$151,800,000
EMPLOYEE EXPENDITURES	81.4%		$42,300,000		$81,200,000	$123,500,000
Auto Payments	8.5%		4,400,000		8,500,000	12,900,000
Clothing & Apparel Stores	4.4%		2,300,000		4,500,000	6,800,000
Educational Institutions	1.3%		700,000		1,400,000	2,200,000
Electric & Gas Utilities	2.7%		1,400,000		2,700,000	4,100,000
Entertainment & Recreation Facilities	4.4%		2,300,000		4,400,000	6,700,000
Furniture & Appliance Stores	3.7%		1,900,000		3,700,000	5,600,000
Grocery Stores	7.1%		3,700,000		7,100,000	10,700,000
Health Care Providers	2.5%		1,300,000		2,500,000	3,900,000
Home Mortgage Holders (Interest only)	6.0%		3,100,000		6,000,000	9,100,000
Insurance Agents (Home, Auto, Health, Life)	5.8%		3,000,000		5,700,000	8,700,000
Professionals (Attys, Accts, Architects, etc)	0.4%		200,000		300,000	500,000
Rental Housing	4.6%		2,400,000		4,600,000	7,000,000
Restaurants	5.2%		2,700,000		5,100,000	7,700,000
Telephone/Communication Providers	1.9%		1,000,000		2,000,000	3,000,000
Water & Other	0.6%		300,000		700,000	1,000,000
Misc Retail, Product & Service Providers	22.4%		11,600,000		22,000,000	33,600,000
LOCAL GOVERNMENT REVENUES			$52,000,000		$6,400,000	$58,400,000

ChevronTexaco *(Continued from page 12)*
(2) The indirect impacts of the ChevronTexaco jobs are in addition to the direct impacts listed above. The ChevronTexaco jobs are classified as "primary" in that they generate a product that is sold outside of the area in exchange for monies that are returned to the area with net positive retention of those monies after leakage. Thus, the wealth of the local community is enhanced. In addition, these primary employees generate secondary employment in two areas (a) suppliers and subcontractors needed to produce the ChevronTexaco products, and (b) service, retail trade, construction and government needed to support the increase in services resulting from the presence and purchasing power of the primary employees. To quantify these secondary employment impacts, the California Regional Input-Output Multiplier System (RIMS) factor for SIC 1311 (NAICS 21) Crude Petroleum & Natural Gas of 2.2647 was used as a starting point.

The first component of the RIMS factor is the indirect employment generated by the ChevronTexaco operations with local suppliers and subcontractors. ChevronTexaco has a practice of utilizing subcontractors where possible and has a low level of supplier vertical integration. Thus, a large network of independent subcontractors who rely on ChevronTexaco for a major part of their business has come into existence in Kern County. ChevronTexaco spends approximately $200,000,000 per year on capital expenditures. Some of this is for equipment (from outside of the area) that has a collateral impact on the local construction industry (for installation), and a large part of this goes to subcontractors for drilling, collecting, processing, and transporting of the oil and gas products. This rate is greater by 3.4 times the national average of $58,000,000 for 17 comparable but less vertically integrated companies in this industry according to the ratios given in Enterprise Statistics 1992 (Bureau of Census). The result is a higher-than-average secondary employment generation factor than the average vertically integrated company in this industry. This leads to a higher RIMS multipler than the California factor would suggest. To accommodate this difference, an upward adjustment of 30% in the primary-to-secondary employment RIMS factor was made. So instead of a normal 45% reduction in the RIMS factor for local supplier leakage, only a -15% reduction was used.

The second component of the RIMS factor is the difference in purchasing power between the average ChevronTexaco employee and the average employee in the County. The higher the pay rates of the direct employees, the more money they spend on goods and services which leads to greater sales in the service, retail trade, and construction sectors of the local economy. As sales rise in these indirect sectors, so does the need for employment in these sectors. To quantify this impact, an arbitrary 50% of the differential between the ChevronTexaco pay rate of $53,500 and the average pay rate in the county of $25,559 (reported in ES202 adjusted for inflation) was used to estimate this impact. This results in a +49% adjustment of the RIMS factor ($53,500 / $26,987 = 98.24%, and 98.24% / 2 = 49.12%).

Finally, government employment is not part of the calculation of RIMS factors. A +12% addition was made to account for this missing component[1]. Thus, the net result of these adjustments is a local RIMS primary-to-secondary employment multiplier of 3.2 secondary employees generated by each of the ChevronTexaco employees.

The indirect impact of ChevronTexaco's operations in the county is the generation of 3,122 secondary jobs in the supplier and service areas. Assuming these secondary employees are representative of the county, the average countywide pay rate of $31,970 is used then to yield an additional $99,400,000 income from the secondary employment. In Table 1, the Secondary column shows the concomitant allocated purchasing power impacts. These are summarized as follows:

2,794 houses	$ 268,900,000
1,382 vehicles	20,700,000
Bank deposits	44,700,000
Commercial Investment	46,800,000
Living Expenditures	81,200,000
Local Government Revenues	6,400,000
Total	$ 468,700,000

The combined primary and secondary impacts are shown in Table 1, Total. This shows a combined employment impact of 4,093 employees. This employment reduces the unemployment percentage (currently at 11.7%) by 1.4%, and represents a population increment of 10,660 people. These jobs have a combined average pay rate of $36,982, which generates $151,800,000 in income with purchasing impacts summarized as follows:

3,663 houses	$ 352,500,000
1,812 vehicles	27,200,000
Bank deposits	58,600,000
Commercial Investment	61,400,000
Living Expenditures	123,500,000
Local Government Revenues	58,400,000
Total	$ 681,600,000

(3) A third impact of ChevronTexaco on the Kern County economy comes from the above-average local taxes paid. ChevronTexaco pays approximately $50,000,000 annually in special property taxes. That is roughly twenty-five times what the average company pays with similar employment in the county. These taxes go to support local government

(Continued on page 12)

ChevronTexaco *(Continued from page 11)*

revenues in an amount that greatly exceeds the cost of the local government services required by ChevronTexaco in the form of safety, transportation, and human services.

In conclusion, when the various purchasing impacts, capital expenditures, and property taxes are added together, ChevronTexaco's presence in Kern County has a major positive economic impact of $881,600,000. This impact is achieved not only from direct employment, which is highly paid – raising the average worker pay in the County, but also from secondary employment impacts. The subcontractor businesses that are linked to ChevronTexaco derive substantial benefit from its presence. These subcontractors also provide substantial employment with at least average pay, and positively impact the local economy. From an economic viewpoint, ChevronTexaco can be regarded as a valuable asset to the Kern County economy.

Water Supply Management *(Continued from page 9)*

extraction, and the cost of wet year water used for storage. The overall costs of water developed through this method are significantly less than through surface storage of water – a mere fraction of the cost. By comparison, the cost of desalination of water is approximately one order of magnitude higher in the vicinity of $1,000 per acre-foot.

The success of such projects depends on the availability of suitable geologic formations and enlightened water management. Kern County is quite fortunate in having a suitable groundwater basin for the development of such projects. Continued development also requires continued constructive dialogue between local governments and water users to fully realize the potential created by our geologic fortunes. Water must be viewed as a resource to be managed for the overall health of Kern's economy, and not simply as a fixed asset to be hoarded. Proper management can significantly enhance our economic viability even in the face of state and federal regulatory regimens hostile to economic activity.

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[1]An acre-foot of water is approximately enough water to cover a football field to a depth of one foot.
[2]California Department of Water Resources, Management of the California State Water Project, Bulletin 132-01, December 2002.
[3]Kern County Water Agency, 1992 Drought Update, October 12, 1992.
[4]Northwest Economic Associates, Economic Impacts of the 1992 California Drought and Regulatory Reductions on the San Joaquin Valley Agriculture Industry, December 31, 1993.
[5]Gary L. Bucher, Water Resources Manager, Kern County Water Agency, March 2003.
[6]Additionally, some of acreages planted prior to the shortages of 1990 through 1992 were never returned to production.

Consumer Debt *(Continued from page 13)*

5. Population growth (*Population*) increases the number of consumers who could qualify for credit, hence increasing consumer debt. In recent years, many consumers have taken advantage of the reduced credit standards and falling interest rates to spend beyond their means.

To estimate this model, I collected quarterly data for the 1992-2002 period. As it is customary in time-series data estimation, the model suffered from an estimation problem named autocorrelation. I corrected this problem by re-estimating the model with an iterative procedure. The estimation results gave an explanatory power of 0.99 for the model . This number indicated that the independent variables explained ninety-nine percent of variations in *Debt*. As expected, *Income*, *Bankruptcy*, *Economy* and *Population* had positive effects on *Debt*. *Unemployment* exerted a negative effect on *Debt*, supporting the argument that unemployment would induce households to reduce spending and reliance on borrowing. But, the coefficients of *Bankruptcy* and *Unemployment* on *Debt* were not statistically significant.

Although this model proved to be a reasonable approximation for explaining the determinants of consumer debt, it had several limitations. Reliable and consistent data on interest charged on consumer credit were hard to find. The credit interest rate or the finance-charge rate seems to be an important variable omitted from the model. A possible extension of this study could be the collection of survey data to directly observe consumer behavior in reaction to the changing economic and demographic conditions.

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Determinants of Consumer Debt

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Consumer debt has been rising at a rapid rate for two decades. Total consumer credit outstanding (hereafter, consumer debt) has risen fourfold from $787 billion in 1992 to $1.7 trillion in 2002. As shown in Figure 1, the inflation-adjusted (hereafter, real) consumer debt rose slightly from $555 billion in 1992 to $560 billion in 1994 and begun a rapid growth trend thereafter, reaching $948 billion in 2002.

Figure 2 illustrates the average annual growth rate of the real consumer debt. The growth rate of the real consumer debt averaged 3.2 percent in 1992-99. It accelerated to 4.7 percent in 2000-02. Over the entire period, the real consumer debt rose at an average annual rate of 3.8 percent.

Economists are concerned about the consequences of high levels of consumer debt. They argue that heavy debt burden carried by many households would eventually contribute to a stalled economy. The fact that consumer debt has been growing at twice the rate as the gains in wages and salaries would depress the financial well-being of families over a lifetime. Economists fear that consumers overwhelmed by debt payments would reduce spending. Since consumer spending accounts for nearly two-thirds of the national income, its decline would cause an economic downturn.

In this study, I attempt to explain the determinant of consumer debt. In doing so, I have designed a model in which total consumer credit outstanding (*Debt*) depends on the following variables:

1. Disposable personal income (*Income*) determines the household purchasing power. We expect *Income* to exert a positive effect on *Debt* since a higher level of actual and expected disposable personal income enables families to finance the purchase of homes, automobiles, household appliances, vacations, and other big-ticket items.

2. The rate of unemployment (*Unemployment*), when lagged one period, may exert an ambiguous impact on *Debt*. On the one hand, an increase in the rate of unemployment reduces the purchasing power of households, hence forcing them to borrow in order to meet their financial obligations or to pay for goods and services they purchase. On the other hand, unemployment would induce households to reduce spending and reliance on borrowing because of their uncertainty about future earnings.

3. The number of personal bankruptcies (*Bankruptcy*) is expected to have a positive effect on *Debt*. One would expect, as consumer debt becomes a greater burden on the economy, the number of bankruptcies increase.

4. Economic growth (*Economy*) could increase consumer debt (*Debt*). When consumers feel confident about sustaining jobs and incomes, they are inclined to spend more on goods and services and finance purchases of big-ticket items.

(Continued on page 12)

Figure 1: Consumer Credit Outstanding

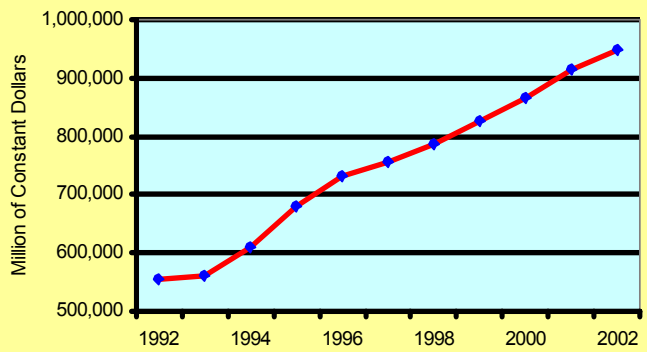
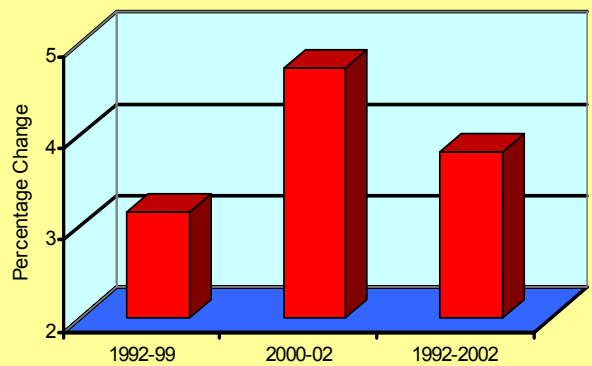


Figure 2: Consumer Credit Outstanding



Cost of Living in Bakersfield: A Comparative Study

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Professor of Economics

Note: Responding to several community requests, I am presenting an update and upgrade of a study published in this journal nearly three years ago. Also, I am enclosing the full database for comparative purposes.

Relocation is a major economic decision. Individual workers and business firms would relocate if, at the margin, the expected benefits equal the actual costs. Relocation imposes both *out-of-pocket expenses* and *psychic costs* on workers and firms. *Out-of-pocket expenses* are monetary payments that account for moving cost, transition cost, and the difference in the cost of living. *Psychic costs* account for personal discomfort or professional pressure that workers and firms feel when they move to a less familiar environment.

In the making of relocation decisions, a major factor is the *cost of living difference* between the two locations under consideration. You must ask for a salary that, at least, maintains your purchasing power in the new location. For example, a cost of living index of 100 in city A compared with 110 in city B indicates that you would need a 10 percent salary increase to maintain your purchasing power in the new location. Indeed, you might want to ask for more than 10 percent in salary increase in order to help fully adjust to the new environment.

The website homefair.com provides a salary calculator, numerating the cost of living difference between cities as of the fourth quarter of 2002. These salary data are compiled by the Center for Mobility Resources, using formulas provided by the Bureau of Labor Statistics. The five major categories for U.S. data are housing costs (33%), utilities (8%), consumables (16%), transportation (10%), and other services (33%). The calculator would not numerate additional cost of living that account for differences in local property tax rates, automobile and homeowner insurance premiums, yard and pool care costs, child care expenses, and clothing costs due to variation in climate.

Assume your household income is $100,000 per year in Bakersfield, and you are contemplating relocation from Bakersfield to another city in California. How much of a salary adjustment do you need to sustain your lifestyle in the new location? To address this question, I have collected and analyzed cost of living differences between Bakersfield and 120 cities in California. Appendix 1 depicts the research results.

Of these 120 cities, only 12 offer average salaries less than Bakersfield. You can afford taking between $12,000 and $1,000 in salary cut when moving from Bakersfield to any of the following cities:

- Imperial
- San Bernardino
- Barstow
- Palmdale
- Merced
- Redding
- Hanford
- Ridgecrest
- Madera
- Inglewood
- Placerville
- Visalia

You need up to $10,000 of additional salary when moving to any of the following 11 cities:

- Riverside
- Selma
- Compton
- Modesto
- Pomona
- Clovis
- Ontario
- Tulare
- Chico
- Lodi
- Fresno

Moving from Bakersfield to any of the following 20 cities requires a salary increase of $10,000 to $20,000

- Fort Bragg
- Rancho Cucamonga
- Eureka
- Lompoc
- Palm Springs
- Anaheim
- Oxnard
- Orange
- South Lake Tahoe
- Stockton
- Paso Robles
- Westminster
- Van Nuys
- San Marcos
- Oceanside
- Sacramento
- Arcata
- Seaside
- Claremont
- Lake Arrowhead

Relocation to any of the following 18 cities requires a salary increase in the amount of $20,000 to $30,000,

- Lake Forest
- Fullerton
- Buena Park
- Yorba Linda
- Simi Valley
- Ventura
- Santa Clarita
- Santa Ana
- Santa Paula
- Davis
- Los Angeles
- Palm Desert
- Napa
- Ojai
- Costa Mesa
- Tracy
- Fairfield
- Santa Maria

You will need between $30,000 and $50,000 extra income when moving from Bakersfield to any of the following 22 cities,

- Salinas
- Tustin
- Laguna Hills
- San Gabriel
- Pasadena
- Sonoma
- Glendale
- Pismo Beach
- Gilroy
- Walnut Creek
- Monterey
- Watsonville
- Oakland
- Hayward
- Valencia
- Thousand Oaks
- Fremont
- Laguna Nigel
- Pleasanton
- San Fernando
- Long Beach
- Encinitas

When moving to any of the following 15 cities, your raise must amount to $50,000 and $75,000,

- San Leandro
- San Diego
- Arroyo Grande
- Irvine
- Huntington Beach
- Castro Valley
- Santa Rosa
- Burbank
- South Pasadena
- San Luis Obispo
- Alameda
- Berkeley
- San Clemente
- Santa Barbara
- Manhattan Beach

(Continued on page 15)

Cost of Living *(Continued from page 14)*

You will need an extra $75,000 to $100,000 in annual income to sustain your living standard in any of the following 10 cities,

- Cambria
- Laguna Beach
- Lafayette
- Santa Monica
- San Jose
- Santa Clara
- Belmont
- Redwood City
- Cupertino
- Sunnyvale

If you consider moving to any of the following 12 cities, you must have at least an additional $100,000 in annual income to stay financially solvent,

- Del Mar
- San Mateo
- La Jolla
- San Francisco
- Santa Cruz
- San Rafael
- Newport Beach
- Beverly Hills
- Menlo Park
- Palo Alto
- Los Altos
- Carmel

These salary adjustments, which take into account cost of living differences, have important implications for workers and firms. For example, a college professor transferring from San Jose State University to California State University, Bakersfield with equal annual salary could expect to gain nearly 90 percent in buying power. Likewise, a manufacturing factory relocating from Los Angeles to Bakersfield could save over 25 percent in payrolls because of the cost of living difference between the two cities.

As illustrated above, Bakersfield is one of the most affordable cities of California. It ranks 13 among the 120 cities of this study. Also, Bakersfield is the 6th most affordable city of the San Joaquin Valley; it is less affordable than Merced, but more affordable than Fresno.

In calculating salary adjustments, it seems more accurate to compare cities with similar demographic, social, and economic conditions. In doing so, I use the homefair.com life style calculator to identify "the best cities" in California with the following characteristics:

1. Medium size population (125,000 to 250,000)
2. Medium crime rate (less than 200)
3. Low to medium range household income (less than $45,000)
4. Medium range housing price ($100,000 to $200,000 for a three bedroom home)

The calculator lists only two cities with all of the above characteristics: Ontario and Bakersfield. Compared with Bakersfield, Ontario has a smaller population and a higher average household income. However, it has a higher crime rate and a less affordable housing price.

City	Population	Crime Index	Household Income ($)	Housing Price ($)
Ontario	158,000	159	42,500	191,000
Bakersfield	247,000	104	40,000	133,000

Finally, homefair.com creates a report card for cities with summary demographic, social, economic data. The following table depicts the report card for Bakersfield:

Population	247,000
Median Household Income	$40,000
Cost of Living Index (U.S. average =100)	104.7
Averae Home Price (3-bedroom houe)	$133,000
Average Rent (2-bedroom apartment)	$576
Property Tax Rate (percent)	1.25
Sales Tax Rate (percent; state & local)	7.0
Unemployment Rate (percent)	6.7
Crime Index	104
Student-Teacher Ratio	25/1
Expenditures per Pupil	$5,028
Hospitals	8
Physicians	788
Winter Temperature Range	38/64
Spring Temperature Range	46/85
Summer Temperature Range	64/99
Fall Temperature Range	45/90
Annual Precipitation (inch)	5.72

In summary, once you are established in Bakersfield, you should require a large increase in salary when considering moving outside the San Joaquin Valley. If you do not mind its arid climate, Bakersfield offers an affordable lifestyle.

Appendix 1: Cost of Living Differences

Bakersfield = $100,000

City	Cost of Living ($)	Cost of Living Difference ($)	Cost of Living Difference (%)	City	Cost of Living ($)	Cost of Living Difference ($)	Cost of Living Difference (%)	City	Cost of Living ($)	Cost of Living Difference ($)	Cost of Living Difference (%)
Imperial	87,508	-12,492	-12.5	Seaside	119,474	19,474	19.5	San Fernando	146,708	46,708	46.7
San Bernardino	88,438	-11,562	-11.6	Claremont	119,484	19,484	19.5	Long Beach	147,979	47,979	48.0
Barstow	91,333	-8,667	-8.7	Lake Arrowhead	119,551	19,551	19.6	Encinitas	148,323	48,323	48.3
Palmdale	94,419	-5,581	-5.6	Lake Forest	120,115	20,115	20.1	San Leandro	150,272	50,272	50.3
Merced	95,136	-4,864	-4.9	Fullerton	121,615	21,615	21.6	San Diego	151,228	51,228	51.2
Redding	96,168	-3,832	-3.8	Buena Park	122,570	22,570	22.6	Arroyo Grande	151,352	51,352	51.4
Hanford	96,512	-3,488	-3.5	Yorba Linda	123,335	23,335	23.3	Irvine	152,097	52,097	52.1
Ridgecrest	98,194	-1,806	-1.8	Simi Valley	123,488	23,488	23.5	Huntington Beach	153,751	53,751	53.8
Madera	99,388	-612	-0.6	Ventura	123,688	23,688	23.7	Castro Valley	153,970	53,970	54.0
Inglewood	99,694	-306	-0.3	Santa Clarita	123,870	23,870	23.9	Santa Rosa	158,920	58,920	58.9
Placerville	99,771	-229	-0.2	Santa Ana	124,501	24,501	24.5	Burbank	159,761	59,761	59.8
Visalia	99,924	-76	-0.1	Santa Paula	124,730	24,730	24.7	South Pasadena	160,153	60,153	60.2
Riverside	101,128	1,128	1.1	Davis	125,275	25,275	25.3	San Luis Obispo	163,650	63,650	63.7
Selma	101,644	1,644	1.6	Los Angeles	125,896	25,896	25.9	Alameda	165,705	65,705	65.7
Compton	102,198	2,198	2.2	Palm Desert	126,918	26,918	26.9	Berkeley	168,275	68,275	68.3
Modesto	102,762	2,762	2.8	Napa	128,027	28,027	28.0	San Clemente	168,610	68,610	68.6
Pomona	103,669	3,669	3.7	Ojai	128,466	28,466	28.5	Santa Barbara	169,687	69,687	69.7
Clovis	105,351	5,351	5.4	Costa Mesa	128,743	28,743	28.7	Manhattan Beach	173,942	73,942	73.9
Ontario	106,269	6,269	6.3	Tracy	128,858	28,858	28.9	Cambria	175,136	75,136	75.1
Tulare	106,737	6,737	6.7	Fairfield	128,887	28,887	28.9	Laguna Beach	178,022	78,022	78.0
Chico	108,084	8,084	8.1	Santa Maria	129,298	29,298	29.3	Lafayette	179,943	79,943	79.9
Lodi	108,333	8,333	8.3	Salinas	130,272	30,272	30.3	Santa Monica	186,125	86,125	86.1
Fresno	109,785	9,785	9.8	Tustin	130,578	30,578	30.6	San Jose	189,326	89,326	89.3
Fort Bragg	110,072	10,072	10.1	Laguna Hills	130,712	30,712	30.7	Santa Clara	189,326	89,326	89.3
Rancho Cucamonga	111,027	11,027	11.0	San Gabriel	131,132	31,132	31.1	Belmont	189,489	89,489	89.5
Eureka	111,037	11,037	11.0	Pasadena	132,193	32,193	32.2	Redwood City	192,164	92,164	92.2
Lompoc	111,161	11,161	11.2	Sonoma	132,496	32,496	32.5	Cupertino	192,451	92,451	92.5
Palm Springs	111,753	11,753	11.8	Glendale	134,314	34,314	34.3	Sunnyvale	198,194	98,194	98.2
Anaheim	112,441	12,441	12.4	Pismo Beach	135,031	35,031	35.0	Del Mar	203,851	103,851	103.9
Oxnard	112,671	12,671	12.7	Gilroy	140,382	40,382	40.4	San Mateo	205,676	105,676	105.7
Orange	113,273	13,273	13.3	Walnut Creek	140,449	40,449	40.4	La Jolla	208,982	108,982	109.0
South Lake Tahoe	114,410	14,410	14.4	Monterey	140,592	40,592	40.6	San Francisco	209,021	109,021	109.0
Stockton	114,544	14,544	14.5	Watsonville	140,850	40,850	40.9	Santa Cruz	209,603	109,603	109.6
Paso Robles	114,811	14,811	14.8	Oakland	142,054	42,054	42.1	San Rafael	222,943	122,943	122.9
Westminster	115,480	15,480	15.5	Hayward	143,564	43,564	43.6	Newport Beach	228,638	128,638	128.6
Van Nuys	115,614	15,614	15.6	Valencia	143,660	43,660	43.7	Beverly Hills	232,117	132,117	132.1
San Marcos	115,624	15,624	15.6	Thousand Oaks	145,533	45,533	45.5	Menlo Park	235,786	135,786	135.8
Oceanside	116,254	16,254	16.3	Fremont	146,278	46,278	46.3	Palo Alto	244,979	144,979	145.0
Sacramento	116,589	16,589	16.6	Laguna Nigel	146,488	46,488	46.5	Los Altos	267,673	167,673	167.7
Arcata	119,331	19,331	19.3	Pleasanton	146,632	46,632	46.6	Carmel	324,061	224,061	224.1