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KERN ECONOMIC JOURNAL

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In This Issue…

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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.

We wish to gratefully acknowledge the Journal sponsors:

KERN ECONOMIC JOURNAL is a quarterly publication (February, May, August, November) 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. Sources of funding for the journal include university contributions and sponsorship and subscription fees.

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.

Publisher and Managing Editor: Abbas Grammy, CSUB
Design & Production: Sylvia O'Brien, O'Brien Images (661/664-4591)
Content Editor: Emerson Case, CSUB

INSIDE THIS ISSUE:

Letter from the Publisher

We have some exciting news to share with you! First and foremost, we would like to express our appreciation for a generous grant from ChevronTexaco to the CSUB School of Business and Public Administration for the support of *Kern Economic Journal*. We are pleased to welcome two new sponsors: Klein, Denatale, Goldner, Cooper, Rosenlier, & Kimball LLP and Granite Construction Company. We would like to thank advertising support from Valley Public Radio and Klein, Denatale, Goldner, Cooper, Rosenlier, & Kimball LLP.

We collaborated with the Kern Economic Development Corporation and the Greater Bakersfield Chamber of Commerce to organize the fifth annual Kern County Economic Summit. According to feedback from participants, this year's Summit was well organized and highly informative. For our presentation, we published a special edition of the journal. Finally, *Kern Economic Journal* has been named by the California Association of Local Development as an excellent economic development project of 2005. With increased support and greater recognition, we will continue to improve the quality of the journal for its growing readership.

Our assessment of Kern's economic conditions is summarized as follows:

Kern County's economy has shown signs of improvement in the first quarter of 2005. Businesses and households have become more optimistic about local economic conditions. The economy added $150 million of personal income and expanded at an annual rate of 4.3 percent. The labor market data were encouraging. The seasonally adjusted unemployment rate plunged nearly one percentage point, while nonfarm employment increased at an annual rate of 3.7 percent. Weekly wages paid to local manufacturing workers inclined $16 to reach $622.30. The median housing price appreciated $8,400 (or 4.5 percent) to reach $195,200. In dollar value, housing prices appreciated more than 5 percent in Bakersfield, California City, Tehachapi, and Wasco. The construction and real estate boom continued with lower mortgage interest rates and more new building permits for single family homes. Prices of consumer and producer goods and services continued to rise, but at slower rates. Output prices received by farmers fell short of the input prices that they had to pay, which widened the price gap in agriculture.

Econ Brief!

What to Expect in 2005? CSUB Students vs. MU Economists

Abbas P. Grammy, Professor of Economics, CSUB

One of the assignments in the Intermediate Macroeconomics course I teach is to forecast performance of the United States economy with respect to five indicators: economic growth rate (Real GDP), unemployment rate, inflation rate (Consumer Price Index), short-term interest rate (3-month Treasury Bill), and long-term interest rate (10-year Treasury Note).

In Winter Quarter 2005, I asked my class of forty-five students to provide reasoned forecasts for these indicators. Students, *role-playing as economic analysts for a manufacturing company*, had to analyze historical data, observe current economic events, and review forecasts made by professional economists.

CSUB students predicted the year 2005 to be an average growth rate with moderate rates of unemployment, inflation, and interest. However, CSUB students were *less optimistic* than University of Michigan economists in all five areas. Their *less optimistic* forecasts were based on several adverse economic factors including (1) rising fuel costs, (2) volatility of the stock market, and (3) the mounting federal budget deficit. They felt that inflationary and budgetary pressures would force the Federal Reserve System to continue raising the interest rate, hence slowing the pace of job creation and economic growth.

	Economic Growth Rate	Unemployment Rate	Inflation Rate	Short-term Interest Rate	Long-term Interest Rate
University of Michigan	3.5	5.3	2.6	3.0	4.6
CSUB Students	3.4	5.4	2.9	3.5	5.1

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

In the first quarter of 2005, we measured improved business optimism. We administered telephone surveys to a random sample of private-sector managers and public-sector administrators across the county, asking two sets of questions, one set regarding the assessment of local economic conditions in the current quarter and the other set in the forthcoming quarter.

Employment Outlook - The majority of survey respondents (51 percent) reported that the number of jobs in their companies stayed constant this quarter. Likewise, 62 percent of survey respondents expected the number of jobs to remain unchanged next quarter.

Financial Outlook – Nearly 40 percent of survey respondents reported improvements in financial conditions (sales or profits) of their companies this quarter, and 62 percent expected such improvements to continue next quarter.

Industry-wide Business Outlook – About 60 percent of survey respondents perceived that employment and general business conditions of their industries were the same this quarter and are likely to remain constant next quarter. However, the remaining 40 percent reported improvements this quarter and anticipated better conditions next quarter.

County-wide Business Outlook – Nearly 70 percent of survey respondents perceived no improvement in local business conditions this and next quarter. Nonetheless, about 25 percent reported improvements this quarter and anticipated better conditions next quarter.

Business Outlook Index – After three quarters of decline, the Business Outlook Index (BOI) increased 1.4 percentage points from 126.4 in the fourth quarter of 2004 to 127.8 in the first quarter of 2005. This increase indicates that business managers are more *optimistic* about the local economic climate. Also, the BOI was one percentage point higher than that of four quarters ago.

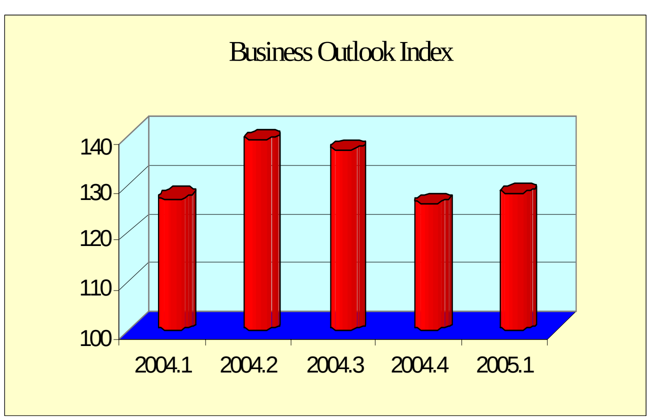
Furthermore, we calculated the index for each of the two sets of questions. The Index of Current Business Conditions climbed 1.3 percentage points and the Index of Future Business Conditions gained one percentage point over the previous quarter. These index values confirm the survey results that survey respondents are more *optimistic* about current and future local economic climate.

Factors Affecting Business Outlook – Survey participants felt several factors brightened the local business outlook:

- Continued real estate and construction boom
- Economic growth fueled by real estate and construction boom
- Business expansion and job creation

However, the survey respondents expressed the belief that several factors darkened the local business outlook:

- Rising fuel costs cutting into business profitability
- Rainy weather reducing outdoor business activity
- Increased incidents of business and individual bankruptcy



Bakersfield Consumer Sentiment Survey

Mark Evans
Interim Dean, Extended University Division and Professor of Economics, CSUB

The Bakersfield Index of Consumer Sentiment reached a value of 146 in the first quarter of 2005, breaking a record for the second consecutive quarter. In the fourth quarter of 2004, the index reached 144, the highest level since we began compiling the index.

We have compiled the Bakersfield Consumer Sentiment Survey since 1999 from telephone surveys administered to a random sample of households listed in the phone book. The index is designed to help local business leaders determine whether a change in sales reflects aggregate income trends or shifting market share. The economic data that would be required to make this determination is not available on a timely basis at the local level.

The index is disaggregated into sub-indexes relating to recent trends and future expectations. The sub-index measuring recent 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 attained a value of 124 in the first quarter, similar to the value of 126 in the previous quarter. The sub-index registers a value this high only 10 percent of the time. Nearly one-half of the respondents reported spending more than usual on discretionary items in the first quarter, while only one-in-seven spent less than usual. For every household that reported it was worse off financially compared to one year ago, nearly two reported that it became better off.

To assess future expectations, households are asked how they think the financial situation of their families will 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 debt. The sub-index measuring future expectations attained a value of 167 in the first quarter, breaking the record that was set in the previous quarter. There were very few pessimists. While 70 percent expected the financial situations of their households to improve over the coming year, only four percent expected things to worsen. Only one percent perceived their acquaintances to be pessimistic about the coming year compared to more than half who reported their acquaintances were optimistic. Only two percent thought this was a risky time to use savings or incur debt, compared to a whopping 87 percent who thought it was a safe time to make a major purchase.

Summarizing, the Bakersfield Index of Consumer Sentiment has recorded an extraordinarily high value for the second consecutive quarter. As in the previous quarter, the high reading results from solid outcomes in recent months combined with very optimistic expectations for the coming year.

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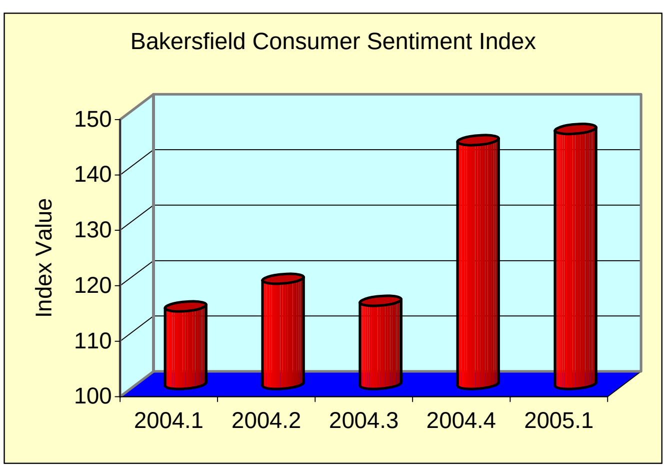


INDEX VALUES			
	Most Recent Quarter	**Previous Quarter**	**One Year Ago**
Consumer Sentiment Index	146	144	114
Index of Recent Buying & Financial Trends	124	126	113
Index of Consumer Expectations	167	161	114

Consumer Sentiment *(Continued from page 4)*

Survey Results	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	48%	38%	14%
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	42%	35%	23%
How your acquaintances in Kern County are doing financially compared to one year ago.	36%	47%	17%
	Better	Same	Worse
The most likely financial situation of your family one year from now.	70%	26%	4%
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	52%	47%	1%
	Safe	Same	Risky
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	87%	11%	2%

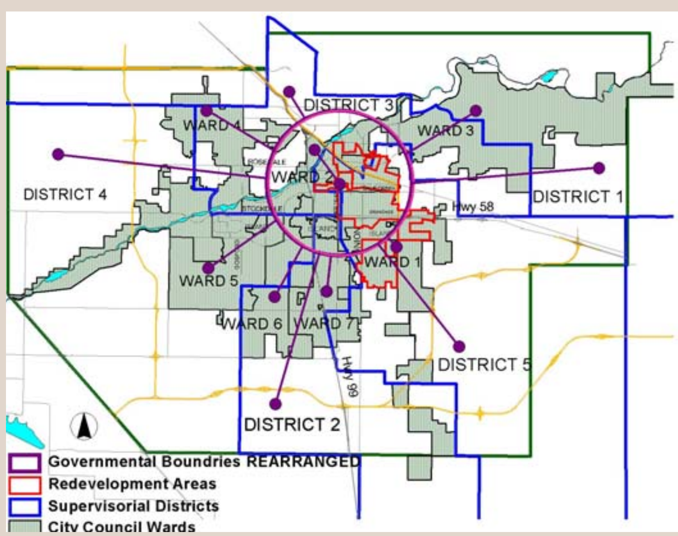
Econ Brief!

Reforming Greater Bakersfield Political Boundaries

Troy Hightower and Marina Ikonnikova, CSUB Urban Planning GIS Lab[1]

A light has been focused on bipartisan gerrymandering of California State legislative and congressional districts of late. A brighter light should be focused on Greater Bakersfield for similar reasons. Assembly Republican leader Kevin McCarthy of Bakersfield is introducing Governor Schwartzenegger's constitutional amendment for more competitive political districts. So should Greater Bakersfield Districts be redrawn?

Present decision-maker district boundaries limit the ability for collaborative voting practices to make decisions for Greater Bakersfield. Each decision-makers' wisdom and knowledge is unknown on issues that should be transparently and openly debated. Elected decision-makers should be better informed on expected changes to downtown, suburbia, rural areas, agricultural land, transportation, budgets and our region. Greater Bakersfield's taxpayers should believe that all decision-makers are acting together willfully for the good of us all. It is they to whom we entrust our future urban development.



The geography of district boundaries should compliment one another. To achieve this we should request that a panel of judges be given the task of creating these new boundaries. Arranging decision makers' boundaries to the middle of the Downtown Redevelopment Area should provide a better mechanism to draw upon each decision maker for agreements in the areas of concern. These boundaries should create high-quality growth for the region.

[1]For more information and GIS assistance contact Troy Hightower at (661) 664-3173

The Path to Sustainable Prosperity—Kern County's Economic Development Strategy

Egon Terplan
ICF Consulting

The purpose of the Kern County Economic Development Strategy is to guide economic development activities in the County over the next five years while preparing for the major issues that will affect it for decades. When resources are limited, focus and coordination are even more necessary. This strategy thus requires that the County's economic actors (government, businesses, schools, unions, chambers, residents) collaborate in promoting economic development.

The strategy has two sections. First are a set of overall goals and objectives that public and private actors should apply as a "lens" in decision making. Second are the five strategic initiatives which require existing institutions to think and act in new ways. Together, the goals and the initiatives put the County on a path towards sustainable prosperity – economic growth which benefits all without compromising existing resources.

Strategy Goals

Goal 1: Expand Jobs and Overall Prosperity
The way to increase jobs and arrive at greater prosperity is to focus on the County's economic drivers – its industry clusters – to help grow the overall economy. Industry clusters are agglomerations of export-oriented industries, specialized local suppliers, and inputs like human resources and infrastructure. The research behind this report identified seven significant industry clusters in Kern County. These are:

- Value-Added Agriculture: Established Cluster
- Transportation, Logistics & Warehousing Services: Established Cluster
- Energy and Chemicals: Transforming Established Cluster
- Aerospace and Defense: Transforming Emerging Cluster
- Health Services and Medical Technologies: Emerging Cluster
- Business and Professional Services: Emerging Cluster
- Tourism, Recreation and Entertainment: Emerging Cluster

A Growth-Share Matrix shown below is a useful way to summarize the competitive performance of Kern

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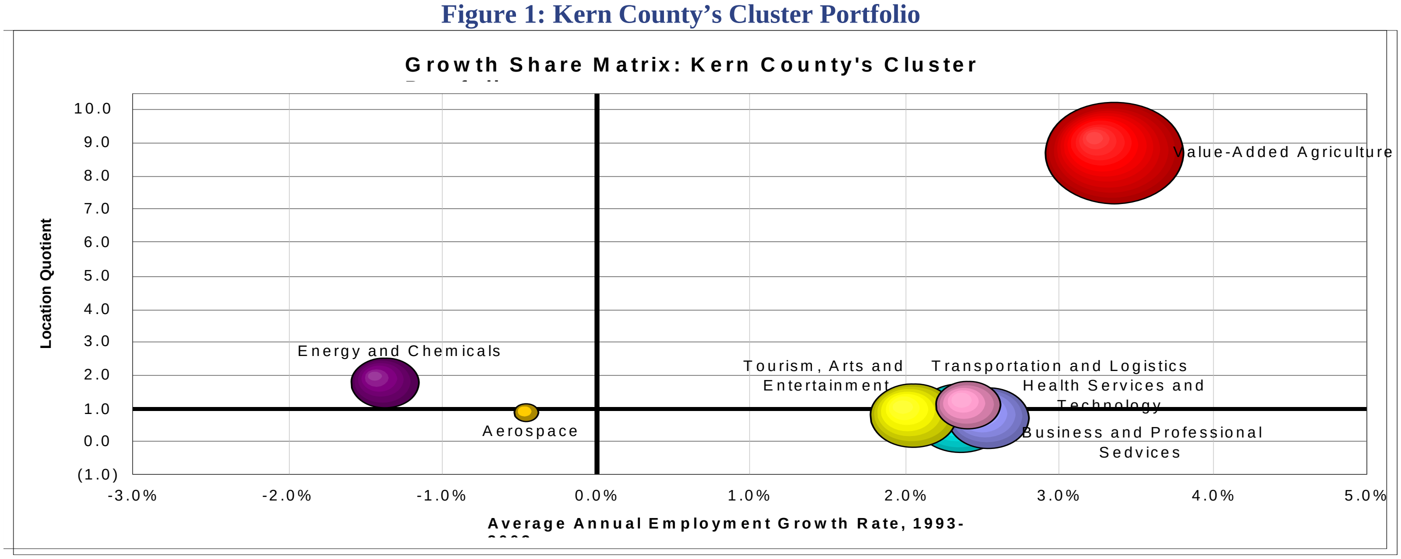
Figure 1: Kern County's Cluster Portfolio



Note: Aerospace employment in the graph only includes airplane manufacturing. This is due to the difficulty in isolating aerospace activities in federally-defined employment classifications (NAICS). Additional aerospace and defense contractor employment is included within clusters such as Business and Professional Services (Software) and Energy and Chemicals (Engineering). This results in a perceived lower employment total for the specific aerospace portion.

Sustainable Prosperity (Continued from page 6)

County's industry clusters. It shows three things simultaneously: the County's level of specialization in each cluster, indicated by the height on the vertical axis (the location quotient); a 10-year growth rate, and the total employment, shown by the size of the bubble.

Goal 2: Foster Inclusion and Increased Equity

A healthy economy provides opportunities for people at all ends of the wage spectrum. Ongoing or rising disparity is a drag on economic growth and social cohesion. Moving forward, the County should support industries with high quality jobs and family-supporting wages that provide career ladder opportunities. The County should also encourage high adoption of technology among students and the workforce to ensure higher skilled and quality jobs come to and remain in Kern.

Goal 3: Promote Sustainability and High Quality of Life

There is a strong relationship between maintaining a clean environment, strengthening quality of life, and continuing to attract new residents and businesses. The current pattern of growth is leading to rising conflicts over land uses as encroachment threatens economically viable activities from farming to manufacturing to aerospace. The County should plan for growth in a smart way that reduces sources of conflict as well as encourage industries and firms to incorporate practices that result in reduced air/water pollution and overall environmental impact.

Strategic Initiatives

The Kern County Economic Development Strategy is built around the idea that the public and private sector must collaborate in a bottom-up, market-focused process to grow and sustain Kern's diversified economy.

To implement the Kern County strategy, there are five strategic initiatives:

Flagship 1: Cluster Network Development Strategies

Private and public sector leadership must have a structure to work together. The strategy proposes using networks to convene the clusters to collaborate on shared competitive challenges. This strategic initiative requires Kern EDC to establish and staff networks for five additional clusters while reorienting its business attraction, retention, and expansion program to respond to the needs of each industry cluster network.

Flagship 2: Human Resources and Skills Development

This flagship proposes that all education and training providers throughout the County align their efforts with the needs of the industry clusters in order to foster greater expansion of skilled employment in the clusters. The Workforce Investment Board has already initiated a process to align training provided with Workforce Investment Act funds.

Flagship 3: Land Use and Infrastructure Planning

This flagship proposes that the County's planning department become the lead entity in coordinating comprehensive land use, transportation, and basic infrastructure planning in a way which responds to the needs of the clusters by establishing an advisory group that is directly involved in the planning process and oversees major investment and land use decisions. This comprehensive approach to planning will take place in coordination with other local planning departments across the County.

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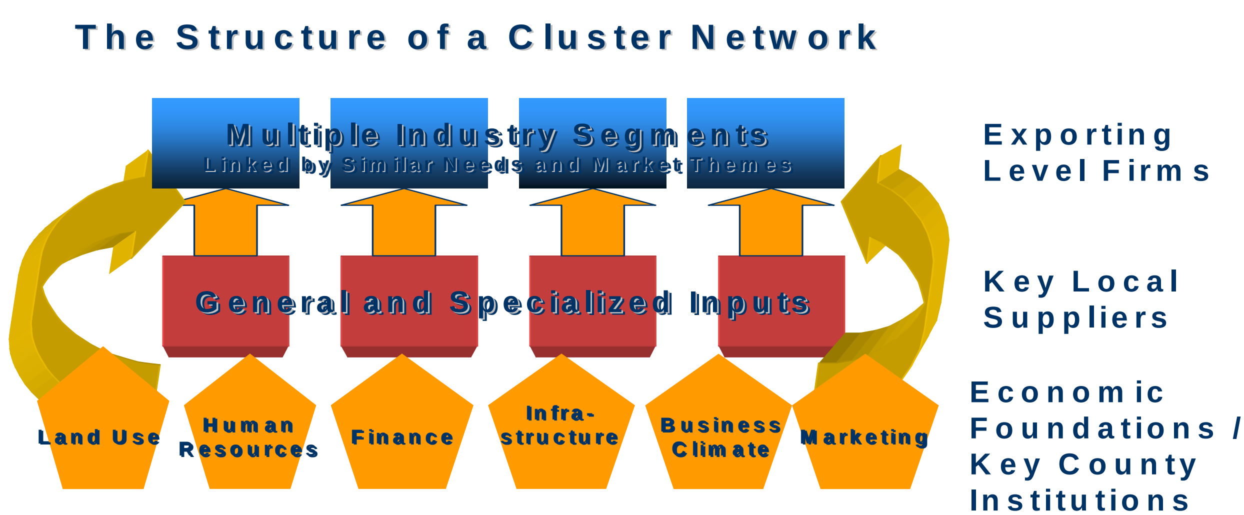
Figure 2. The Structure of a Cluster Network



The Feasibility of CSUB Athletic Program Moving to NCAA Division I

David J. Berri
Assistant Professor of Economics, CSUB

March Madness has become a staple of the sports fan's yearly diet. Each spring sixty five universities compete for the NCAA Division I Men's Basketball title. Although the media focuses much of its attention on schools like Duke, North Carolina, and Illinois, the "Big Dance" is also an opportunity for smaller schools like Utah State and Pacific to ascend to the national stage. In essence, Division I basketball is the ultimate melting pot of large and small universities. Those outside of Division I though are like children pressing their noses to the candy shop window. The sweet treats are in sight, but very much out of reach.

Now, CSUB is considering a proposal to participate in Division I athletics. To understand the merit of this proposal, we must first understand the history of athletics at CSUB. Over the past thirty years, CSUB has become the premier school in Division II athletics. Roadrunner teams have won thirty national championships. More than 200 individual titles have been awarded to CSUB athletes. In 1998, CSUB won the prestigious Sears Directors' Cup, awarded annually to the nation's premiere overall athletic program. CSUB became the first and only university in the CSU system to receive this award.

In a recent study that I conducted with Abbas Grammy, we investigated the financial feasibility of CSUB joining the Big West Conference. In particular, we projected the revenues needed to support a Division I athletic program at CSUB and measured the economic impacts of this decision on the community.

We found the move to Division I is beneficial to CSUB in many ways:

1. Support the university's *Partnership for Excellence* vision
2. Improve the university's image in the community and academy
3. Attract more and better student athletes supported by increased scholarships
4. Generate greater enrollments for various academic programs
5. Enhance the university's national, regional, and local exposure
6. Foster closer ties to the university's alumni across the state and nation
7. Enlarge financial contributions to the university
8. Increase business in Bakersfield and Kern County

The highlights of the study are as follows:

1. With a modest conference winning percentage of 0.400 in the first year of Division I competition, we expect the average basketball attendance to rise 12.5 percent from 2,400 to 2,700 per contest. We anticipate total attendance at all CSUB sporting events to increase from 54,500 to 62,800.

2. CSUB would need an extra $2.7 million to support a Division I athletic program. The needed additional funds could come from various sources:

Institutional Support	$419,922
Ticket Sales	$52,744
Sponsorships & Memberships	$959,775
Fundraising Events	$11,650
Student Activities Fee	$1,200,000
NCAA & Conference Distributions	$85,000
Others	$4,050
Total	**$2,733,141**

3. CSUB visitors would spend more than $869,000 annually in Kern County. They will generate additional revenues for various local businesses:

Hotel Rooms	$272,349
Retail Trade	$140,460
Dining	$280,920
Automotive	$70,230
Miscellaneous	$105,345
Total	**$869,304**

4. The additional $2.7 million of CSUB expenditure and $869,000 of visitors' spending are expected to generate $5.7 million annually of total economic benefit for Kern County. Knowing this information, the community would be willing to increase donations to the university to support this move.

(Continued on page 9)

Division I (Continued from page 8)

University's Economic Impact	$4,810,328
Visitors' Economic Impact	$1,350,589
Total Economic Impact	$6,160,918
Total Economic Impact Retained Locally	**$5,666,044**

We concluded the study with the following observations:

1. Attendance and wins are related in Division I basketball. If CSUB wins only 40 percent of its conference games, we predict attendance will exceed what we currently observe in Division II.

2. We do not observe a large positive correlation between winning percentage and student enrollments. Smaller universities can be successful in Division I.

3. Our research demonstrates that the move to Division I will generate substantial economic benefits for Kern County. An additional $3.6 million of spending by the university and visitors is expected to generate $5.7 million of total economic benefit annually.

4. Community support will be needed to make a successful transition to Division I. If we demonstrate to the community the economic benefits of this move, the request for additional donations can prove successful.

Sustainable Prosperity (Continued from page 7)

Flagship 4: Tourism Marketing and Branding Kern County

This flagship proposes that the Board of Trade become the leading voice for tourism and tourism marketing by establishing a new countywide brand and working closely with the various local communities on their tourism and marketing strategies.

Flagship 5: Financing Entrepreneurship and Innovation

This flagship proposes that CEDD and Kern EDC develop new programs which respond to the finance needs of Kern County's innovative entrepreneurs. One program will provide micro-enterprise funding for small scale start-ups. The second program will develop access to high risk capital to provide support for technology-based ventures. This may be accomplished through expanding the *Tomatoes on Steroids* program, establishing a finance advisory/mentorship team, or producing a Kern County venture forum and angel network.

Conclusion

The overall strategy will only be effective if local officials apply the strategy principles to all decisions by asking themselves:

- How will this investment support the growth of Kern's economic engines, its industry clusters? (Goal 1: Expand Jobs and Overall Prosperity)
- How will this activity or policy result in increasing the participation of Kern's LMI population? (Goal 2: Foster Inclusion and Increased Equity)
- How are these decisions helping us preserve our agricultural heritage and open spaces while moving us into a sustainable 21st Century? (Goal 3: Promote Sustainability and High Quality of Life)

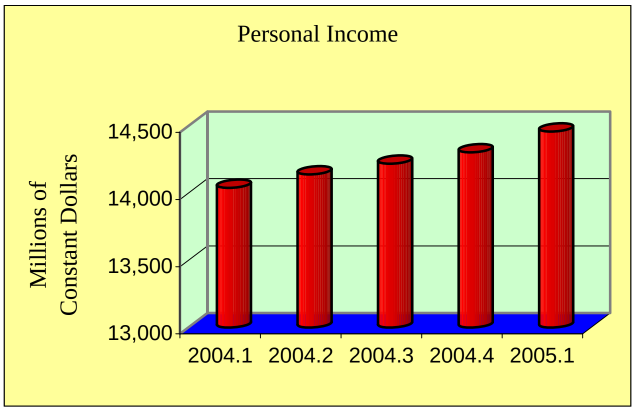
Cluster-based economic development strategies are not about reports or committees. Successful strategies are about learning how to change again and again. With this strategy, Kern County is on its way to developing a more prosperous, equitable, sustainable, and innovative economy. Moving forward, we must reinforce countywide thinking, focus on our clusters and their local inputs, and reward collaboration and innovation. This will enable us, 10 years from now, to affirm that we have indeed achieved a sustainable and prosperous future.

TRACKING KERN'S ECONOMY

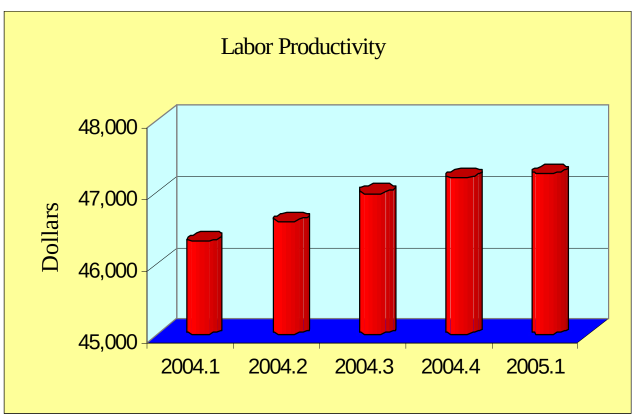
ABBAS P. GRAMMY
PROFESSOR OF ECONOMICS, CSUB

Economy

Personal Income - Kern County's Personal Income (in constant 1996 dollars) increased from $14.31 billion in the fourth quarter of 2004 to $14.46 billion in the first quarter of 2005. The county's economy expanded $150 million or at an annual rate of 4.3 percent. Over the last four quarters, Kern's economy has created $420 million of income.

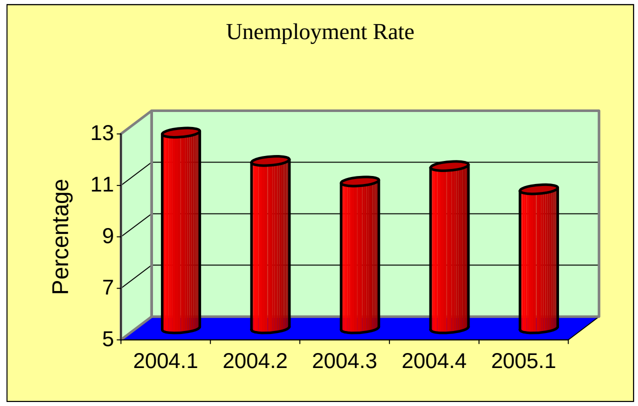


Productivity - Labor productivity is measured as Personal Income divided by Labor Force. In constant dollars, labor productivity inclined $60 from $47,200 in the fourth quarter of 2004 to $47,260 in the first quarter of 2005. Compared to four quarters ago, labor productivity in Kern County has increased $440.

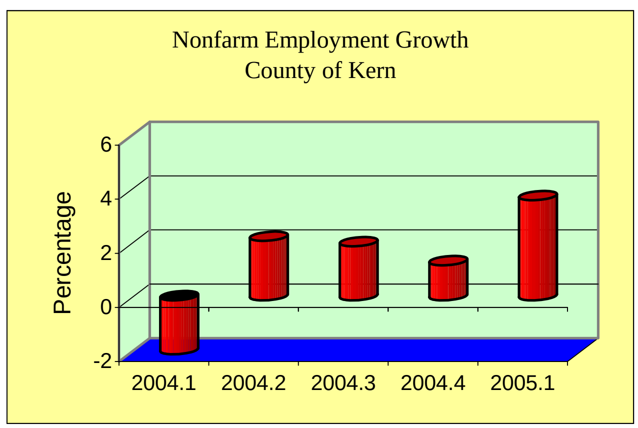


Labor Market

Unemployment Rate – A sharp decline in farm employment was offset by gains in nonfarm employment and residual employment (i.e., self-employed workers and those who work outside the county of residence), resulting in a lower rate of unemployment. When adjusted for seasonal variations, the rate of unemployment in Kern County declined nearly one percentage point from 11.3 percent in the fourth quarter of 2004 to 10.4 percent in the first quarter of 2005. The county's unemployment rate was 2.2 percent lower relative to four quarters ago. Kern County's unemployment rate was 5.0 percent higher than the state average and 5.1 percent greater than the national average.



Employment Growth – Nonfarm employment grew at a faster rate than the previous quarter. When adjusted for seasonality, nonfarm employment increased at an annual rate of 3.7 percent. Among the nonfarm industries, information, professional and business services, state government, and public education added jobs. However, construction, manufacturing, wholesale trade, retail trade, financial activities, and federal government reduced employment.



Manufacturing Wages – Weekly wages paid to local manufacturing workers inclined nearly $16 from $606.31 in the fourth quarter of 2004 to $622.30 in the first quarter of 2005. This wage increase was attributed to both the rise in the hours of work and average hourly earnings. Compared with four quarters ago, local manufacturing workers earned $12.41 more per week.

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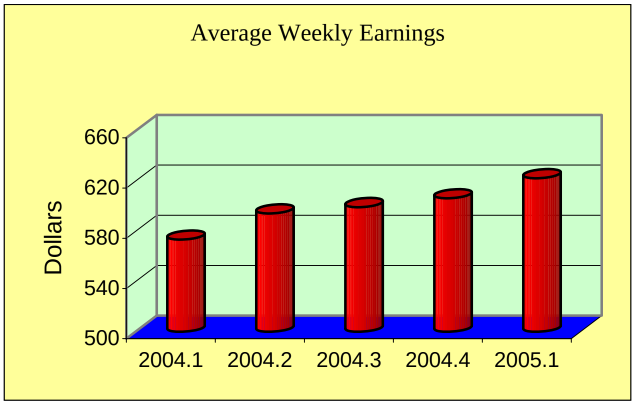
Tracking (Continued from page 10)

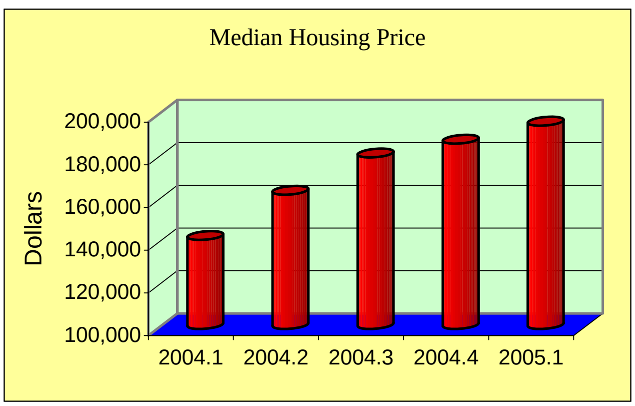


Area	Fourth Qtr. 2004 ($)	First Qtr. 2005 ($)	Quarterly Change ($)	Quarterly Change (%)
Kern County	195,200	186,800	8,400	4.5
Bakersfield	219,600	200,200	19,400	9.7
California City	147,000	137,400	9,600	7.0
Delano	130,800	127,300	3,500	2.7
Ridgecrest	126,000	130,300	-4,300	-3.3
Rosamond	220,700	218,300	2,400	1.1
Taft	83,000	90,800	-7,800	-8.6
Tehachapi	240,000	222,500	17,500	7.9
Wasco	124,800	117,500	7,300	6.2

Source: California Association of Realtors, www.car.org

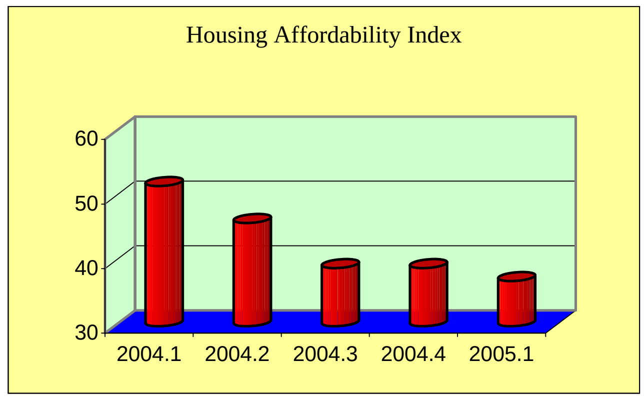
Housing Market

Housing Prices - The median sales price of all homes (i.e., new and existing condominiums and single-family detached homes in current dollars) soared $8,400 or 4.5 percent in the first quarter of 2005. It climbed from $186,800 in the fourth quarter of 2004 to $195,200 in the first quarter of 2005. Since the fourth quarter of last year, the county's median price has appreciated $53,530 or 39 percent.

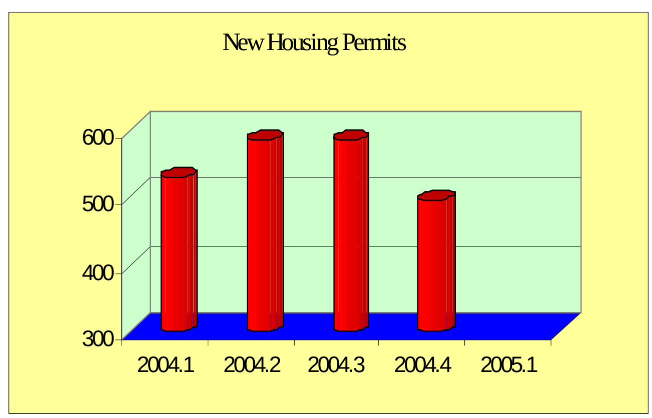


In the first quarter of 2005, housing prices appreciated in all of the major cities of Kern County, except Ridgecrest and Taft. Housing prices appreciated the highest in Bakersfield, where the median price climbed $19,400 or 9.7 percent. Other cities with considerable home price appreciation were California City, Tehachapi, and Wasco.

Housing Affordability - The index of housing affordability fell from 39 percent in the fourth quarter of 2004 to 37 percent in the first quarter of 2005. Over the past four quarters, the county's index has fallen 15 percentage points. The current index value indicates that a family earning the median household income has 37 percent of the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing single-family home.



Building Permits – The construction and real estate boom continued in the county as the monthly average of new building permits for single-family homes climbed from 496 in the fourth quarter of 2004 to 563 in the first quarter of 2005. Relative to the first quarter of 2004, 34 more building permits were issued.

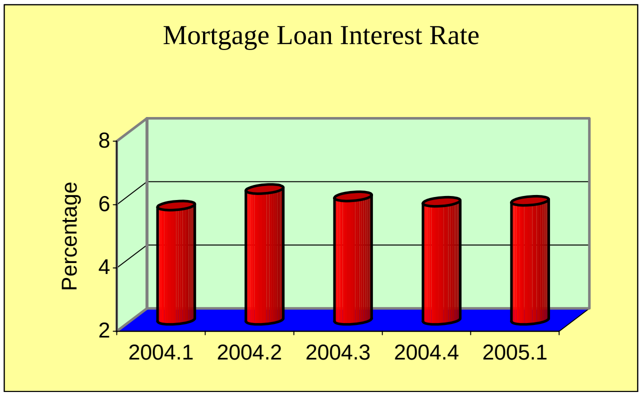


Interest Rate - The interest rate of thirty-year conventional mortgage loans decreased slightly from 5.73 percent in the fourth quarter of 2004 to 5.63 percent in the

(Continued on page 12)

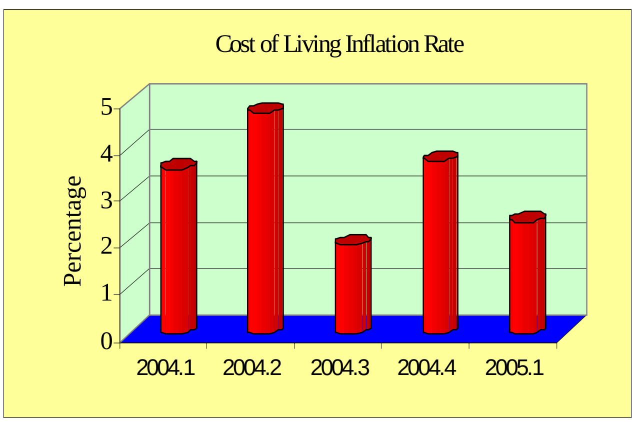
Tracking *(Continued from page 11)*

first quarter of 2005. Relative to four quarters ago, the mortgage loan interest rate has risen 0.15 percent.



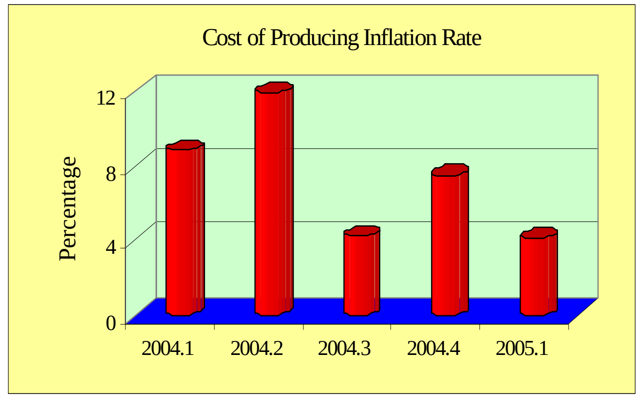
Commodity Prices

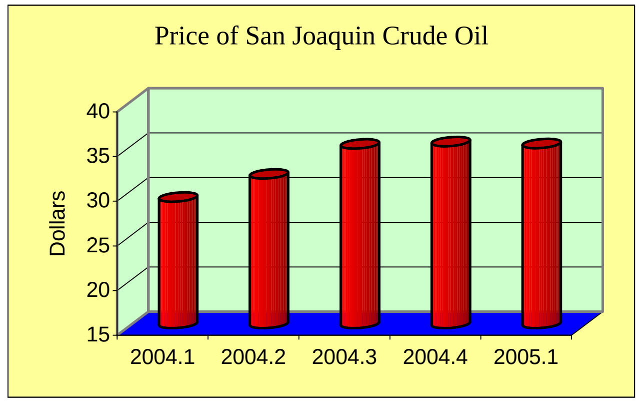
Cost of Living - The Consumer Price Index for all urban areas (1982-84 =100) rose from 191.1 in the fourth quarter of 2004 to 192.2 in the first quarter of 2005. The annual cost of living inflation decelerated from 3.4 in the fourth quarter of last year to 2.4 percent in the first quarter of this year. Relative to the fourth quarter of the previous year, the cost of living inflation rate was 1.1 percentage point lower.



Cost of Producing - The Producer Price Index for all commodities (1996 =100) jumped from 150.4 in the fourth quarter of 2004 to 152.0 in the first quarter of 2005. The annual cost of producing inflation rate decelerated from 7.5 percent in the fourth quarter of last year to 4.1 percent in the first quarter of this year. Relative to the fourth quarter of the previous year, the cost of producing inflation was 4.7 percentage points lower.

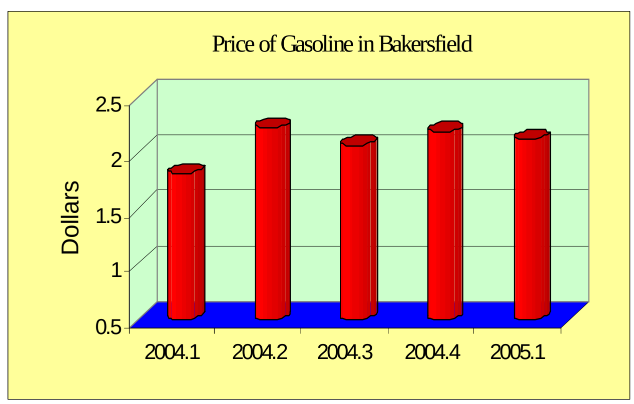
Price of Oil - The average price of San Joaquin Valley heavy crude dropped 22 cents per barrel from $35.35 in the fourth quarter of 2004 to $35.13 in the first quarter of 2005. However, relative to four quarters ago, the average price of crude oil was $5.98 per barrel higher.





Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon declined 6 cents from $2.19 in the fourth quarter of 2004 to $2.13 in the first quarter of 2005. Compared with four quarters ago, the price of gasoline was 31 cents higher.

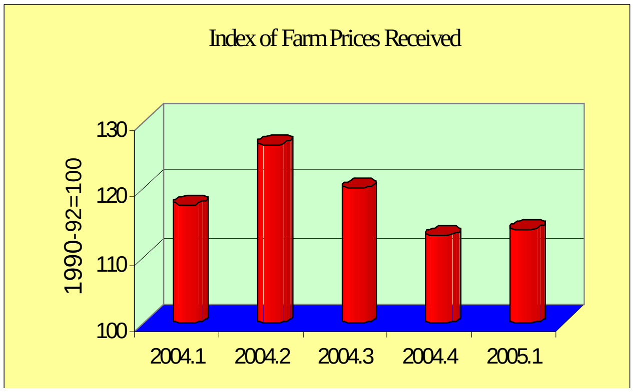
We detected from the monthly data a steep rise in the price of gasoline in March 2005, ranging between $2.16 in the first day of the month to $2.40 in the last day of the month.

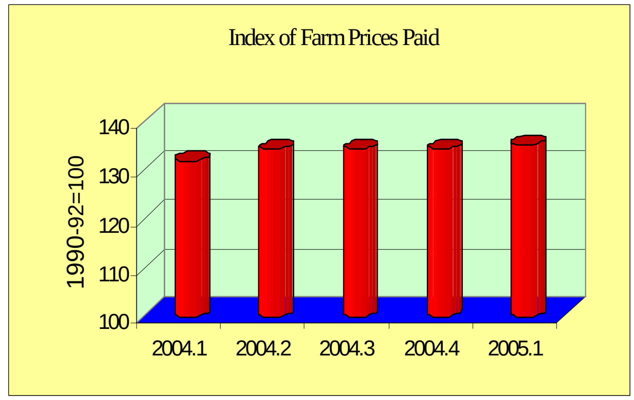


Farm Prices - The national Index of Prices Received by Farmers for all farm products (1990-92 = 100) soared one percentage point from 113 in the fourth quarter of 2004 to 114 in the first quarter of 2005. The Index was four percentage points lower relative to the first quarter of the previous year.

(Continued on page 13)

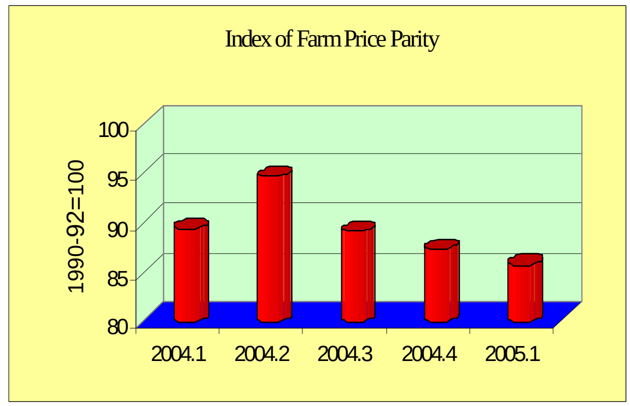
Tracking *(Continued from page 12)*





Likewise, the national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents rose one percentage point from 134 in the fourth quarter of 2004 to 135 in the first quarter of 2005. Relative to four quarters ago, this Index has gained three percentage points.

Here, we measure the Index of Price Parity as the ratio of the Index of Prices Received to the Index of Prices Paid. Values of this index less than 100 illustrate the imbalance between prices farmers pay for their inputs and prices farmers receive for their outputs. In the first quarter of 2005, the Index of Price Parity fell one percentage point from 87 to 86.



Econ Brief!

Smart Growth vs. Sprawl

A survey conducted by the National Association of REALTORS® and Smart Growth America found that the majority of respondents prefer smart growth over sprawl. In this survey, 1,130 adults were interviewed between August 26 and September 6, 2004.

A *smart growth community* was defined as a mix of apartments, condos, townhouses, and single-family detached houses on various-sized lots with sidewalks and places to shop, eat, read, and go to school within walking distance. It was also described as a community where public transportation is nearby and a one-way commute is less than 45 minutes.

A *sprawling community* was described as one in which there are only single-family detached houses on one-acre lots, there are no sidewalks, and places to shop, eat, read and go to school are within a few miles by car. Public transportation such as train, bus, or light rail is distant or unavailable and a one-way commute is 45 minutes or more.

Other survey highlights were as follows:

- 79% said commute times of 45 minutes or less were somewhat important or very important factors in deciding where to live
- 75% indicated that access to a highway was important
- 72% preferred a walkable community
- 65% said it is important to live in a community with people of all ages
- 57% percent said it is important to have a large house on more than one acre of land
- 51% percent said it is important to be within walking distance of stores and restaurants
- 46% said it is important to be within walking distance of schools and public transportation
- 40% said it is important to be within walking distance of places of religious worship

Source: *Inman News,* Friday, October 22, 2004

University Helping the Community

Henry Lowenstein
Dean, School of Business and Public Administration, and Professor of Management, CSUB

The CSUB School of Business and Public Administration (BPA) houses the Volunteers in Tax Assistance (VITA) program. I am pleased to announce that Professor Jim Patten and his team of 25 student volunteers, working with Jim St. Amour of the Internal Revenue Service, set a new record again this 2005 tax season in our VITA program.

The VITA is a joint venture between non-profit organizations, the IRS, and the California Franchise Tax Board. The program is staffed by accounting students who volunteer their time over 10 weekends during the tax season. Tax returns are completed in the VITA lab, which has the capacity to electronically file tax returns. The electronic filing of tax returns significantly reduces paperwork and expedites refunds to the taxpayers.

This year, the VITA team completed 743 tax returns compared with 731 last year. Two of the key numbers from the program are the *Earned Income Credit* and the *Total Refunds Generated*. The first number helps low-income taxpayers and the second puts money back into the taxpayer pockets and our area economy.

Earned Income Credits	**$296,003**
Total Tax Refunds	**$829,673**

Using the multiplier effect of taxpayer spending, the VITA helps add over $3.3 million to the local economy. Other key statistics of the VITA are :

	2005 Total	Increase from 2004
Adjusted Gross Income	$18,241,188	5.1%
Earned Income Credits	$296,003	7.3%
Tax Refunds	$829,673	10.9%
Taxable Income	$9,480,306	3.7%
Taxes Paid	$1,156,684	8.7%

The VITA serves primarily low-income taxpayers whose refunds are spent immediately in the economy. The average income level of taxpayers serviced by VITA is shown below:

Single	$16,408
Married (Joint)	$41,010
Married (Separate)	$18,546
Head of Household	$21,719

The contribution of VITA in assisting low-income taxpayers was recognized by Congressman Bill Thomas in a recent letter to Professor Patten. Likewise, I want to congratulate Jim Patten, our student volunteers, Jim St. Amour, and members of the accounting faculty who helped the VITA for their important community service.

Business Education:

Protecting your Organization Against Fraud

Mary S. Doucet
Professor of Accounting, CSUB

The former treasurer of a non-profit pleaded guilty to embezzling from the organization more than $310,000 over a four year period.

An employee of an upscale department store was found guilty of stealing (one bottle at a time) more than $330,000 in Chanel merchandise over a five year period.

An employee of the Washington State Gambling Commission was convicted of embezzling $70,000 to cover gambling debts.

Regardless of whether you own/operate a profit-seeking or a non-profit organization, or run a governmental agency, fraud can occur and go undetected in your organization unless you take pro-active steps to prevent, detect, and correct the situations that can lead to it. Accountants usually classify frauds as either fraudulent financial reporting or misappropriation of assets. Because of limited space, I will restrict the discussion here to misappropriation of assets by employees.

There are three factors that lead to fraud against organizations: incentives/pressures, opportunities, and attitude/rationalization. Understanding these fraud risk factors will help you to identify the risks that may occur in your organization. Implementing strong internal controls should help reduce the opportunities available to commit fraudulent actions.

The incentives/pressures employees face that can lead to misappropriation of assets include, but are not confined to, such things as high personal debt, financial losses, living beyond one's means, excessive gambling, perceived inequity in the organization, and corporate or peer pressures. While most of these pressures are beyond the control of the organization, the concerned owner/manager can set the tone for helping employees deal with the personal issues that might lead them to commit fraud. An open communication system is one step in the right direction. This may allow you to know employees well enough to determine when they may be facing what appears to them to be insurmountable problems. You may then be able to help them get counseling and guidance before a fraud occurs.

The opportunities to misappropriate assets can be reduced significantly by recognizing where the opportunities are and designing your internal control system to prevent or detect the fraudulent acts when they occur. Some opportunities are created by individual employees; however, most opportunities are organizational practices that make it easier for employees to commit fraud. Some of the more basic opportunities are created when organizations fail to adequately screen when hiring or promoting individuals into positions of trust; placing too much trust in certain key employees without verification of their work product; allowing employees to develop too close an association with suppliers or others with which the organization does business; failing to inform employees about the organization's vision, goals, code of conduct, policies, and procedures; and having dishonest or unethical management.

The last two opportunities listed can lead employees to rationalize their actions. If an employee's direct supervisor/manager is dishonest or unethical and the employee sees this, the employee could very well rationalize his/her own dishonest/unethical behavior. Without a firm understanding of the organization's vision, goals, code of conduct, policies, and procedures, the tempted employee has nothing to fall back on. The "everybody's doing it" mentality can survive and even thrive in this environment.

In summary, while owners/managers do not have control over all incentives/pressures (other than those that relate to disaffection with the organization), they do have the means to recognize when these might be affecting their employees and can take action to help employees work things out. Owners/managers can have a great deal of control over the internal control environment in their organizations by taking simple steps to hire competent, honest employees; to inform employees about the organization's vision, goals, code of conduct, policies, and procedures; to monitor employees' work product (such as performing an independent bank reconciliation); and, most importantly, leading by example. The tone at the top is critical. Employees are always watching owners/managers. Conducting oneself with the utmost integrity will serve your organization well.

Economic Education:

Have you had a COLA Lately?

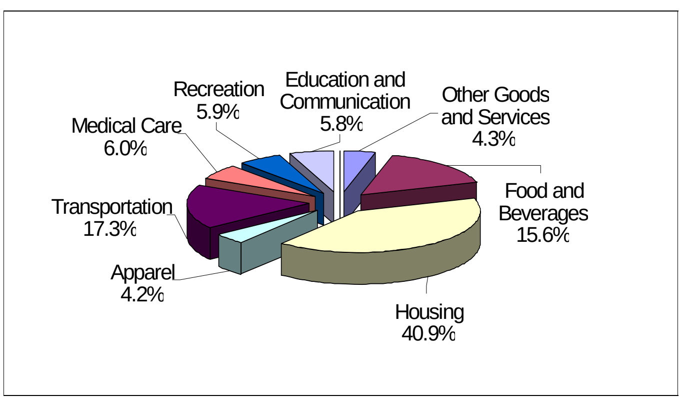
We use various indices to measure the general level of price. The price index that pertains to consumer goods and services is the Consumer Price Index (CPI). This index is computed each month by the Bureau of Labor Statistics using a *market basket* of goods and services purchased by urban consumers. Variation of the CPI measures the cost of living inflation.

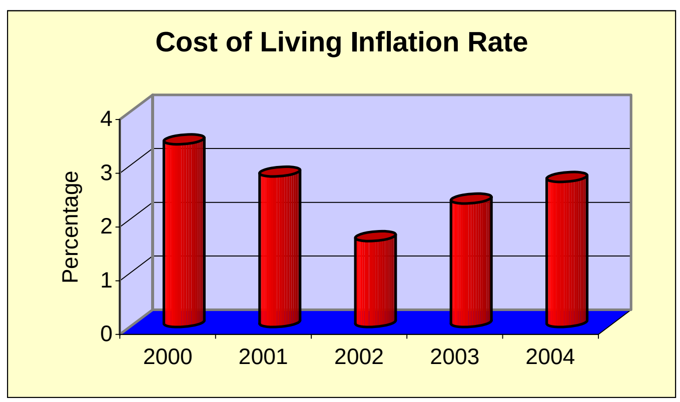
The CPI illustrates how consumers allocate their monthly spending budget. As shown below, housing is the largest expenditure item in the *market basket*, taking nearly 41 percent of the consumer budget. Transportation receives more than 17 percent of the consumer budget, food and beverages about 16 percent, and medical care, recreation, and education and communication about 6 percent each. Apparel and other goods and services account for the remaining 8 percent of the consumer budget.

The cost of living inflation rate is the percentage change of the CPI. Using 1982-84 as the base year (CPI = 100), the CPI climbed gradually from 172.2 in 2000 to 188.9 in 2004. The cost of living inflation fell from 3.4 percent in 2000 to 1.6 percent in 2002, but rose to 2.3 percent in 2003 and 2.7 percent in 2004.

Knowing the rate of inflation is important to wage-earners. Workers using this information ask for a Cost of Living Adjustment (COLA) in order to keep their buying power from falling. However, wage increases do not keep pace with price increases. There is at least a one-year delay for workers to receive a COLA. In my work, I cannot recall the last time I had a COLA! Have you had a COLA lately?

Summary: Abbas Grammy. Source: Karl Case and Ray Fair, *Principles of Macroeconomics*, Prentice Hall, 2004.





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