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SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



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2008 Third 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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Max Hinson of Liberty High School, winner of the Enterprise College essay contest with Abbas Grammy, Mark Evans (BPA Associate Dean), and John Emery (BPA Dean)

ECONOMY AT A GLANCE!

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB

Advanced estimates released by the Bureau of Economic Analysis indicate that the United States economy declined at an annual rate of 0.3 percent in the third quarter of 2008. The decrease in real GDP primarily reflected negative contributions from personal consumption expenditures, residential fixed investment, and equipment and software. These effects were largely offset by contributions from government spending, net exports, private inventory investment, and nonresidential structures.

The Index of Leading Economic Indicators – a measure of future economic activity – continued its falling trend. The index dropped to 100.7 from 101.9, expecting sluggish growth to continue over the next three to six months. For the fifth consecutive quarter, the rate of unemployment went up. It climbed seven-tenths of one percent to reach 6.0 percent. In the meantime, the cost of living increased at a rapid rate of 6.7 percent; the cost of producing accelerated 10.2 percent; and the cost of employment increased 3.4 percent.

In California, the unemployment rate climbed from 6.6 to 7.6 percent. The state's economy added 17,500 members to its workforce. In the meantime, the number of employed workers declined by 156,100 and the number of jobless employees rose by 173,600. The farm market gained 10,000 jobs, but non-farm industries cut 39,200 paid positions. The industries of construction, manufacturing, wholesale and retail trade, financial activities, professional and business services, leisure and hospitality, and government cut jobs. In contrast, the industries of transportation, warehousing, and utilities, educational and health-care assistance, and information added jobs.

In Kern County, households lost confidence about their employment and financial conditions as the *Consumer Sentiment Index* crumbled 2 percentage points to arrive at 74. In contrast, Kern County businesses became less pessimistic about their employment and financial conditions as the *Business Outlook Index* rose 6 percentage points to reach 88.

In the meantime, the county's economy declined at an annual rate of 1.8 percent. Compared to the previous year, the economy fell 4.1 percent. The county's economy generated \$15.7 billion in personal income, \$70 million less than the previous quarter. With continued growth of the labor force, personal income per worker decreased \$800 to reach \$42,400.

Data on Kern County's labor market indicators were mixed. The county added 5,410 members to its workforce and created 1,690 jobs. This increase in employment consisted of 2,660 *more* farm jobs, 500 *less* nonfarm jobs, and 470 *less* informal jobs (self-employed workers and those working outside the county). Among the nonfarm industries, construction, manufacturing, wholesale and retail trade, transportation, warehousing and utilities, professional and business services, and educational and health-care services had modest employment gains. In contrast, leisure and hospitality reduced employment and local public education reacted to the state's budgetary shortfall with a sizable job cut. In the meantime, the number of unemployed workers increased by 3,720 and the rate of unemployment climbed from 8.8 to 9.0 percent. Still below the county average, the rate of unemployment averaged 6.6 percent in Bakersfield, 7.4 in California City, 5.4 percent in Ridgecrest, and 6.3 in Tehachapi.

Data on Kern County's housing market were mixed. While the median housing price continued to fall, sales volume increased. The county's median sales price for all residential units depreciated \$27,850 (or 13.2 percent) from \$210,250 to \$182,400. In Bakersfield, the median housing price plummeted \$25,600 (or 11.8 percent) from \$216,500 to \$190,900. Depreciation in prices caused housing affordability to rise from 18.7 to 21.9 percent. The number of homes sold in the county increased from 2,667 to 3,190 (or 36.7 percent) in Kern County and from 1,955 to 2,462 (or 44.3 percent) in Bakersfield. The number of building permits issued for the construction of new privately-owned dwelling units declined from 550 to 513. The county's foreclosure activity slowed 39.3 percent from 3,459 to 2,196. As a result, 1,263 less homeowners received notices of loan default from their mortgage bankers.

In commodity markets, the average price of San Joaquin crude oil dropped \$6.70 to reach \$105.55 per barrel. However, the average price of regular gasoline sold in the Bakersfield metropolitan area increased 5¢ to arrive at \$4.08 per

(Continued on page 20)

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB



Data from our recent survey indicate that Kern County businesses have become less pessimistic about local economic conditions. In the third quarter of 2008, the *Business Outlook Index* rebounded from a sharp declining trend over the previous five quarters. The index stood at 88 compared to 82 in the previous quarter and 116 four quarters ago.

To make an in-depth analysis of business confidence, we disaggregated the *Business Outlook Index* into two sub-indexes relating to recent and future business perceptions. The *Current Conditions Index* climbed 6 percentage points to arrive at 87. Likewise, the *Future Conditions Index* gained 7 percentage points to reach 90. Although business managers are still worried about current and future economic conditions, they felt less pessimistic than the previous quarter.

Employment Outlook:

Sixty-seven percent of interviewees reported that the number of jobs in their companies stayed constant this quarter, but 5 percent said more jobs were available in their companies and 28 percent reported reduced employment.

Looking ahead, 71 percent perceive that the number of jobs will stay constant, whereas 3 percent expect their companies to hire more workers next quarter. The re-

maining 26 percent anticipate a smaller workforce next quarter.

Financial Outlook:

Seventy-eight percent of survey respondents reported that the financial conditions (sales and profits) of their companies were constant this quarter, whereas 4 percent indicated increased profits and sales and 18 percent believed profits and sales would be lower.

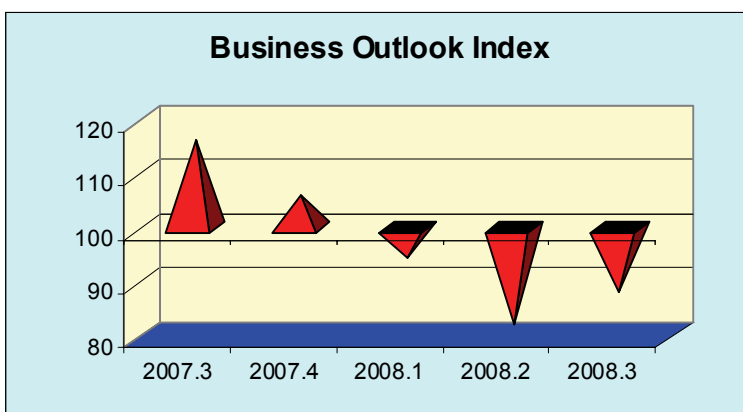
Predicting next quarter, 74 percent expect financial conditions of their companies to remain constant, but 10 percent anticipate increased sales and profits and 16 percent predict lower sales and profits.

Industry Outlook:

Seventy-eight percent perceived that the employment and general business conditions of their industries remained the same as the previous quarter, but only 6 percent felt these conditions improved and 16 percent felt crumbling business conditions.

Thinking one quarter ahead, 77 percent anticipate that the employment and general business conditions of their industries will be unchanged. However, 12 percent expect progress and 11 percent feel otherwise.

(Continued on page 5)



	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	88	82	116
Index of Current Conditions	87	81	115
Index of Future Conditions	90	83	118

BAKERSFIELD CONSUMER SENTIMENT SURVEY

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The Bakersfield Index of Consumer Sentiment declined for the sixth consecutive quarter, reaching its lowest level since CSUB began tracking household expectations in 1999. The slippage was barely perceptible -- to 74 in the third quarter from 76 in the previous quarter. Survey responses were gathered before concerns about the credit crunch reached a fever pitch and the stock market headed south in a serious way. Surprisingly, the University of Michigan's national index of consumer sentiment actually increased from 60 to 65 in the third quarter. The absolute magnitude of the two indices cannot be compared since they have different base years and are tabulated from different questions using different formulas. The local and national indexes are at or near historic lows.

CSUB's Economics Department compiles the Bakersfield Consumer Sentiment Index from telephone surveys administered to a random sample of households listed in the phone book. The index is constructed to help local businesses compare national and local trends and may provide some insight into whether local sales trends reflect broad trends or shifts in market share. You are not alone if your sales are soft.

The Bakersfield index is disaggregated into sub-indexes reflecting recent financial trends over the previous 12 months and expectations for the coming 12 months. The sub-index reflecting recent financial trends increased by one point in the third quarter, while the sub-index measuring future expectations decreased by five points. Both changes are relatively small compared to past fluctuations.

The sub-index measuring recent trends conditions is constructed from questions relating to discretionary spending and financial well-being compared to one year ago. This sub-index increased from 77 to 78, because of a small up tick in the percent of sampled households who reported spending more than usual on discretionary items and a symmetrical decrease in those spending less than usual. A small increase in the percent of households reporting they were worse off than one year ago was offset by a comparable increase in the percent reporting that their acquaintances in Kern County became better off.

The sub-index reflecting expectations for the coming year declined from 75 to 70. This was attributable to two changes. First, the percent of households who expected to be better off in one year was cut nearly in half (from an already paltry 14 percent to 8 percent), while the percent who expected to be worse off increased slightly (from 40 to 42 percent). Second, the percent of households who thought it was a risky time to use savings or incur debt to make a major purchase nearly doubled from 17 to 30 percent.

With recent data suggesting a recession and roll out of a global financial rescue package, the fourth quarter consumer sentiment indices are greatly anticipated and will be closely analyzed, especially the forward-looking sub-index that quantifies expectations.

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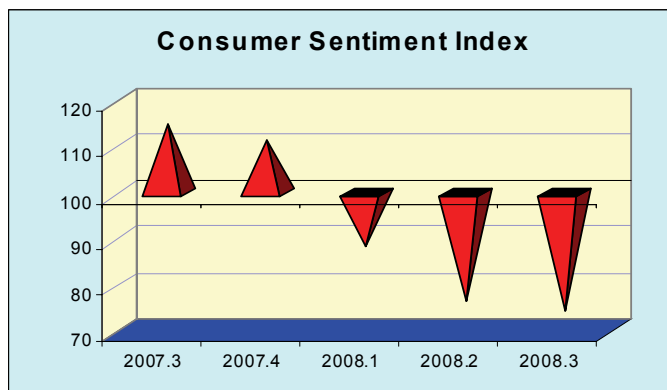


Table 1: Index Values			
	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	74	76	115
Sub-index: Current Conditions	78	77	112
Sub-index: Future Expectations	70	75	119

Table 2: Recent Buying and Financial Trends			
	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	10 %	69 %	21 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	7 %	62 %	31 %
How your acquaintances in Kern County are doing financially compared to one year ago.	11 %	46 %	43 %

Table 3: Future Expectations			
	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now	8 %	50 %	42 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	18 %	32 %	50 %
	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?	6 %	64 %	30 %

Business Outlook (Continued from page 3)

Economic Outlook:

When asked about Kern County’s economy, 81 percent of interviewees perceived no improvement this quarter, but 6 percent felt conditions improved and 13 percent said conditions worsened.

Likewise, 71 percent felt that economic conditions will be unchanged next quarter. However, 8 percent anticipate that the economy will get better and 21 percent feel it will get worse.

Factors Affecting Business Outlook:

We asked business managers to identify factors that have affected employment and financial conditions of their companies. They felt the following factors brightened the business outlook:

- Families spending money on kids going back to school
- Increased tourism and recreation spending during the summer months
- Increased spending during the election months

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

- Continued recession in the housing market and rising foreclosures
- Crisis in the banking system: Tight credit for business operation
- Increased volatility of the Stock Market

THE CEO PROFILE!



Introduction

Bernie J. Herman currently is the Executive Director/CEO of the Bakersfield Museum of Art. Bernie was a health care executive for 25 years, and has been an executive coach assisting top executives and their teams improve their performance, and a consultant facilitating strategic planning and applying the Baldrige criteria. He is a member of the adjunct faculty for the University of La Verne teaching management, leadership, ethics, and human resource classes at both the undergraduate and graduate levels.

Bernie received his undergraduate degree in biology at California State University, Fresno, and his master's degree in Health Care Administration from The George Washington University, Washington, D.C. He is a Fellow in the American College of Health Care Executives and has been actively involved in many professional associations, often serving in a leadership role. His community service includes being a member of the Klassen Corporation Board of Directors, Chair of the "Target Reading First" Collaborative, Past Chair of the Greater Bakersfield Chamber of Commerce, Past President of the Rotary Club of Bakersfield, founding member of Vision 2020, a graduate and past chair of Leadership Bakersfield, past board member of United Way of Kern County, the Bakersfield Music Theater Board of Directors, Youth Leadership Bakersfield, the Friends of Mercy Foundation, and the Boards of Directors for Mercy and Bakersfield Memorial Hospitals.

At Mercy Hospital, Bernie was the President/CEO beginning in 1987. Under his leadership he implemented "Strategy 2000", a plan that included the construction of Mercy Southwest Hospital and renovation of Mercy Hospital. He created the Friends of Mercy Foundation and built the Florence Wheeler Cancer Center, raising more than \$4.5 million for this project. He led the affiliation with Bakersfield Memorial Hospital in 1996 and the acquisition of Mercy Westside Hospital in 1998. Together, the five acute care hospitals and related entities formed CHW Central California, encompassing more than 3100 employees and 600 physicians.

In both 2002 and 2003, he was appointed as one of only 400 National Examiners for the Malcolm Baldrige National Quality Award, managed by the National Institute of Standards and Technology of the U. S. Department of

Commerce. He is also the 2008 recipient of the John Brock Community Service Award given annually by the School of Business and Public Administration of the California State University, Bakersfield. Bernie is married to Joan, lead counselor at Foothill High School, and they have two adult daughters.

Interview

Can you please tell us a brief history of Bakersfield Museum of Art?

Located adjacent to Central Park, the Bakersfield Museum of Art was founded in 1956 as the Cunningham Memorial Art Gallery, in memory of Marion Cunningham. Administered by the Bakersfield Art Association, the gallery was used primarily for local artists to display their works with occasional efforts to bring in traveling exhibits. In 1986 the Bakersfield Art Foundation was appointed by the City Council to administer the Cunningham Gallery. The name was changed to the Bakersfield Museum of Art and the Museum was granted accreditation by the American Association of Museums. In 2001, following a \$2.8 million construction project, the facility was quadrupled in size, encompassing four galleries, two classrooms, a conference room, a banquet room, and administrative offices.

Today, the Bakersfield Museum of Art is a premier arts destination and an important cultural asset for the residents of the southern San Joaquin Valley. Individuals and businesses considering relocation to the area often regard a viable art museum as important to the overall cultural environment of a community. The quality exhibits and art and educational programs are designed to fulfill our mission of providing a broad-spectrum of visual arts experiences and increasing awareness and understanding of the visual arts.

What is the range of services Bakersfield Museum of Art provides for the community?

The Museum offers residents and visitors opportunities to view world-class art. In addition to a permanent collection gallery, the Museum has four galleries that feature multi-cultural exhibitions of various artists that generally run eight to twelve weeks. We offer a Free Friday and a Senior Sunday every month and two Free Family

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Days each year to allow everyone a chance to visit the Museum at no cost.

The Museum also offers a variety of educational opportunities designed to increase awareness and understanding of the visual arts and the important role the arts play in the development of all people. The Museum provides experiential and distance learning programs for children throughout Kern County and educational programs for a broad audience. These include:

- **Art Smart** - A weekly after-school arts enrichment class for elementary and junior high students. During this school year the Museum will offer these classes in 36 schools from Ridgecrest to Delano, Lamont and Bakersfield.
- **Experience Art** - A summer art camp for children 6-12. The camp is designed to teach art lessons where children receive creative art instruction, art history, and an introduction to exhibits.
- **Side by Side** - Arts education in a setting similar to the summer art program for pre-K children. This program encourages parents to become involved in their preschooler's education prior to enrollment in kindergarten.
- **Mano con Mano** – A *free* bilingual community outreach component of Side by Side.
- **Museum on the Move** - Initiated to compensate for the decrease in docent led student tours that resulted from reductions in school funding; this mobile museum provides a portable format designed as an exhibit plus a hands-on arts project.
- **Docent Tours** - Tours led by a trained docent who takes students through the exhibits, followed by a hands-on art project. Tours are offered *free* of charge.
- **Art Works** – A *free* semester-long program designed for high school juniors and seniors who have a strong interest in the visual arts. It is focused on developing and enhancing artistic and leadership skills of students while providing a broad spectrum of hands-on visual arts enrichment activities.
- **Art Classes and Workshops** - Offered most weekends giving adults and high school students a chance to immerse in a studio environment where they will be able to draw from a live model or large scale still life, and study everything from anatomy to the work of other artists. Beginning and advanced classes are available.

The Museum is a unique setting to rent for a wedding, business meeting, or other event. Guests are allowed to tour the Museum galleries and enjoy the beautiful sculp

ture garden surrounding the facility. The Museum also offers the following events:

- **First Wednesday** – Offers a host of educational and social events designed for seniors.
- **Via Arte** - This street painting event transforms the Marketplace into an array of brightly colored squares as hundreds of artists, students, and children create works of art by applying chalk upon the parking lot “canvas”.
- **Winescapes** - A fundraiser involving the auction of beautifully painted six-liter wine bottles and rare wines.

What are the main challenges facing Bakersfield Museum of Art and how would you go about meeting these challenges?

The most significant issue is probably awareness of the Museum despite being in the same location for 52 years. Our exhibits and educational programs are promoted through television, radio and print ads and we are active in community organizations. Weddings, receptions and business meetings are conducted here weekly, and we promote discounted admission throughout the Central Valley and Central Coast.

Although we are a membership organization, unfortunately the number of members does not increase consistent with the community's growth. As with most non-profit organizations, sustainability is an ongoing challenge, especially in this difficult economic climate. We have been blessed with great community support that allows us the opportunity to bring world-class art exhibitions to Bakersfield and to offer valuable art education programs. We continue to develop new programs and fundraising opportunities to support these activities.

We also have a challenge of competing with many other venues that provide arts, culture, and entertainment. Thus we compete for those entertainment dollars that are becoming increasingly scarce.

How do you go about attracting nationally and internationally renowned artists to showcase their works at Bakersfield Museum of Art?

The Bakersfield Museum of Art is part of a network that supports a lively exchange of thoughts and ideas between our curators and those of other museums and galleries. This network, coupled with active research, enable us to generate innovative exhibitions of contemporary and historical art by regional, national, and international artists.

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BUSINESS EDUCATION

STRATEGIC PLANNING IN GOVERNMENT AND BUSINESS

CRAIG W. KELSEY

DEAN, EXTENDED UNIVERSITY DIVISION

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The strategic planning process has been a preferred, well used and significant resource in the field of government and business planning and administration. In fact, for the seasoned manager the process may be second nature as efforts have been established to direct the priorities of the organization and associated staff. However, it may be helpful to revisit, reconsider and freshen up on the fundamentals of this vital and perhaps essential planning tool.

History

Strategic planning as an application tool traces its history to the American military. Efforts were made to create a science to the planning (strategic) and operational (tactical) elements of large scale military maneuvering that would gain a military positional advantage prior to actual engagement. With this beginning, the strategic planning process has a tendency to be top-down driven, time centered, using linear systems and measurement focused. Business and government agencies saw value to the process and, overtime, created additional elements such as the SWOT method, the GAP analysis, the Shareholders Values approach and the Strategic Agility model.

Definition

So what is strategic planning? It is difficult to define. There are so many elements, components, shifts and factors to the process. However, the following may be a starting point. Strategic planning is a (1) formalized process of (2) thinking about the future in (3) an effort to control important components of the organization where (4) interdependent decisions are necessary. The significant difference between conventional planning and strategic planning is that of time and place. Conventional planning is oriented at the study of the organizations problems using current understanding of the immediate pressures and issues. Strategic planning directs its energies on understanding the organizations future and what projections and anticipations will yield a competitive advantage.

Benefits

There are a number of reasons why the strategic planning process is helpful and worthy of consideration as a time

and resource consuming element. It creates a framework or method to redesign the organizations efforts for future directions, priorities, efforts, allocations and even the fundamental structure. It can and actually should establish a way for the organization to have a competitive advantage by being ahead of others yielding better responses to anticipated issues. The process allows for multiple constituency participation engendering a sense of ownership, commitment and involvement to not only the process but the end results. It elevates the new vision to a level of focus so all parties within the organization can more effectively join together in the movement forward. The very process encourages dialogue, intensity of conversation, a sense of creative problem solving and a focus on a common purpose. It also creates an understanding of the organization within the context of both the current and future environment and aligns the needed actions to move from here and now to there and then.

Basic Steps

There are differing strategic planning models that highlight a variety of elements but the following seven components are basic to most methods. Variation from these steps is certainly possible but would be based on unique features of the organization.

1. **Vision and Mission:** A statement is created that articulates the purpose of the organization, its philosophy, goals and objectives and the ideal state that the organization desires to achieve.
2. **Environmental Scan:** The term is used to describe any assessment that the organization undertakes to understand the external and internal environments that exists that impact the organization. The most common tool is the SWOT analysis that investigates the organizations, strengths, weaknesses, opportunities and threats. Usually weaknesses are internal and threats are from external sources. Other types of assessments, studies, surveys and data gathering mechanisms can be used.
3. **Gap Analysis:** This is a study of the current position of the organization on key elements and the differences from the current status and the desired future

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state of affairs. This analysis alerts the organization to some of the strategies that need to be put in place to close the gap.

4. **Benchmarking:** It is useful for the organization to compare the organization, again on key components to reasonably similar other organizations on these same key elements. This effort creates a reference point of best practices or at least the current practices of others and to what extent there are differences.
5. **Issues:** What emerges from the environmental scan, gap analysis and benchmarking are a series of issues or conditions that are either in line with the vision and mission statement or that represent statements were actions need to be taken to better position the organization. These issues should be fundamental, clear and essential so the organization knows its direction.
6. **Action Plans:** This is the heart of the strategic plan. Identified are the specific actions that need to be taken to address the issues that move the organization into the future, addressing the important components that yield the competitive and optimal position. The action plans need to be specific, measurable, attainable, realistic and time and cost sensitive.

7. **Evaluation:** The action plans may consist of both short term and long range strategies. Periodic evaluations assist in monitoring if the actions are being achieved and if adjustments need to be made. It is typical for strategic plans to reach out to five and ten year efforts and semi-annual to annual evaluations help to keep the process crisp and focused.

Conclusion

Strategic planning has been a well used and adopted method of long range thinking in the field of government and business. Taking time to refresh ones awareness of the process is helpful and perhaps will regenerate interest in this process. Early strategic planning efforts emerged from the military system that highlighted a model based on top-down thinking, with time sensitive elements, linear directions and significant measurement devices. Many different models have been developed over time but most include vision and mission statements, environmental scans, gap analysis, benchmarking, issue identification, action plans and evaluation efforts. Strategic planning has many benefits ranging from organizational design to priority setting, from involvement to commitment, and from initial dialogue to futuristic planning.

Econ Brief!

Bakersfield Riding out Recession

A recent study published by *Forbes.com* places Bakersfield as a metropolitan area having difficulty to ride out a recession. The main reasons are high foreclosure activity, loss of home equity, and a high rate of unemployment. *Forbes.com* provides the following synopsis of the Bakersfield metropolitan area:

Underwater homes: 50.6%
Median home equity: -\$1,276
Unemployment rate: 9.5% (+2% from a year ago)
Median income: \$27,076

The list of top ten metropolitan areas having serious difficulty to ride out a recession includes:

Riverside, CA	Reno, NV
Cape Coral/Ft. Myers, FL	Detroit, MI
Las Vegas, NV	Miami, FL
Bakersfield, CA	Tampa, FL
San Diego, CA	

California, Florida, and Nevada have been hit the hardest by the housing-market slump and rising unemployment. Because residential real estate boom contributed to their recent economic boom, the ensuing housing-market slump would make it harder for them to recover from a general recession. The study indicates that more than 50 percent of residents of San Diego, Bakersfield, and Riverside owe more on their homes than their homes are worth. In addition, 40 percent of home sales in Fresno and Bakersfield are foreclosure sales. These distressed sales, flooding real estate markets, make it more difficult for normal housing market activity.

Source: *Forbes.com*, October 15, 2008.

INCREASED BUSINESS VALUATIONS BASED UPON PATENTS



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KLEIN DENATALE, GOLDNER, COOPER, ROSENLIB &
KIMBALL, LLP

Increased business valuation acknowledges the concept that the securing of patents increases the underlying valuation of the business. Patents are, however, difficult to value, as they are intangible intellectual property. Thus, as real estate appraisers can provide different valuations for a building, even more so can patents be subject to varying assignments of worth.

Article 1, Section 8, of the U.S. Constitution grants a property right to inventors in exchange for the public disclosure of their inventions. Interestingly, these intellectual property rights are the only property rights specifically granted in the Constitution. The disclosure of the invention must provide sufficient detail for a person skilled in the art of the area to practice the invention without undue experimentation. This public disclosure furthers the knowledge base, as the idea is not maintained as a trade secret but is fully disclosed. In return for this disclosure, the patent holders are granted a monopoly to exclude others from the making, using, selling or importing of the disclosed invention for a limited period of time². This exclusive period provides time for inventors to recoup the money invested in developing the invention.

This exclusionary right has caused patents to be thought of as either swords to be used offensively to deter competition, or shields to protect the business from encroachment. This is a rather narrow view of the rights granted by a patent. An alternate manner of thinking is to treat patents as assets that increase the business's value, based not upon the brick and mortar structural value but upon the intellectual or knowledge value of the enterprise.

Since Thomas Jefferson as patent examiner issued the first patent to George Washington for a method of producing potash, patents have been filed and issued at an accelerated pace. The first spike in the patenting process occurred in the 1880s when Alexander Graham Bell,

Thomas Edison and others filed patents to cover the development of improvements to the telegraph, telephone and other industrial processes³. The next spike in patents occurred in the early 1900s as a result of the developments of airplanes and automobiles. The next two spikes were closer together, and resulted from advances in the aerospace and high tech industries. Patent Office data from 1987 through 2007⁴ indicates that the increase in filings and issuances has continued, with a greater increase in filings than issuances resulting in a backlog.

As patents enter the market at increased rates, more and more businesses are putting acquired patents to use, recovering the development costs of the inventions. Businesses have increased research and development funding as well as the number of patent filings, and have more aggressively sought to capture lost profits through licensing agreements based upon their intellectual capital.

Patent valuation is based upon a complex series of factors. Generally patents must be valued when a business seeks funding or is in merger talks. You would also determine the value of a patent if the patent was allegedly infringed by your company. In these valuations, the extrinsic worth⁵ of the patent would be valued, or what they bring to the bottom line. Therefore, one of the factors to consider when valuing a patent is the context of the evaluation.

Other factors to consider while valuing a patent, or patent portfolio, include prior royalties paid for the patent, as well as if any licensing agreements exist with a current or potential competitor. Also important is the area of the invention, because how crowded the field of invention is can provide an indication of the possible scope of coverage, as well as the potential for infringement. An infringement evaluation should consider infringement by others and the potential for infringement by the potential

(Continued on page 11)

¹Charlette M. Crissman is an associate attorney with Klein, DeNatale, Goldner, Cooper, Rosenlieb & Kimball, LLP, and is registered as a patent attorney before the United States Patent and Trademark Office.

²Although based upon *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006) the possibility of an injunction issuing against an infringer based upon past violations is questionable.

³Data from *Unlocking the Hidden Value of Patent: Rembrandts in the Attic*, Harvard Business School Press; November 1999.

⁴Based upon preliminary data for 2007 from the Patent and Trademark Office

⁵Intrinsic worth, or improvement in reputation is also valuable but harder to quantify.

purchaser. If the patent is a “blocking” patent, or one that impairs the patents of a competitor, the potential for a licensing agreement should be evaluated. Likewise, the impairment of the patent should be determined by searching for patents that themselves block the utility of the patent.

Another factor is the remaining life of the patent, which is currently 20 years from the filing date. The life of any foreign patents is also important, as these patents can issue after the U.S. patent issues. The status of maintenance fee payments, both foreign and domestic is also crucial.

Patents can contribute significantly to a business’s bottom line. While some companies are almost entirely based upon intellectual property, Microsoft for example, other companies can still profit from the integration of protection of their knowledge assets by the filing of patents and protection of their research and development expenditures. Gillette files patents not only for the razors and other products they develop, but also for the package they are wrapped in and the machinery to produce them.

Businesses have not always undertaken the protection of their assets through the filing of patents. Xerox failed to file a patent for the graphical user interface that forms the basis for the current computer operating systems because they could not see how it would be useful.

A possible explanation of the lack of protection for inventions might lie in an undervaluation of the basic worth of patents as property, based upon an under-

⁶From *IBM's Annual Reports*. Beginning in 2000, IBM began including a statement about its "IP and licensing royalties" which have generally run over \$1 billion annually.

appreciation of the value of the invention. In 1876, the telephone was the subject of a patent dispute between Alexander Graham Bell and Elisha Gray, a Chicago electrician. Although Gray had invented the basic technology in 1874, he did not believe the device was marketable and failed to apply for a patent. When Bell demonstrated his version of the invention in 1876, Gray changed his mind, and applied for a patent based upon his prior invention. In the end, Bell won in the courts because Gray’s assumption of lack of utility was fatal. Similarly, Edison initially failed to appreciate the value of the phonograph when he first developed it. It was not until competitors developed competing products that he returned to a device he had neglected for more than five years.

Another possible explanation for the lack of protection is that, unfortunately, the imagery of patents as swords has been extended into patents as cudgels, wielded by “patent trolls” as a means to scare people into a view of patents as inherently bad for business. The theory is that there are companies that only hold patents to gain licensing fees from those who unwittingly wander across the patented bridge. In reality, while there have been anecdotal cases, the bulk of licensing fees go to large businesses, such as IBM⁶, who are rightfully receiving fees for the patents they have developed. Additionally, the free market upon which American business is based should accept that patents, as property, are freely transferable. Therefore, for inventors without sufficient funds to fully enforce their patents, under free market economics, it is possible and even encouraged for inventors to sell their patents, either outright or through licensing, to another who can fully enforce the patent.

CEO Profile (Continued from page 7)

A board-level Exhibits Committee evaluates proposed art and artists that could be brought to this community. Once selected, we obtain art directly from the artist, from other museums, or from art collectors throughout the country. We often curate our own exhibitions, and on occasion have a travelling exhibit or use a guest curator to present a special exhibit.

What would you like for K-12 educational institutions to do in promoting visual arts among the youth?

The fine arts are one of the first areas to be cut in schools in tight economic times. This comes at the cost of creativity and culture, both vital components of a child’s education. Teachers need to creatively integrate

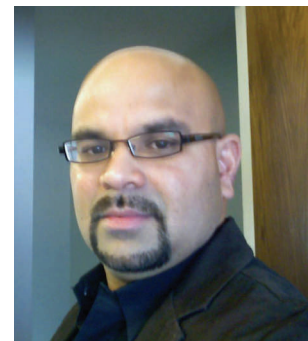
art standards into the core curriculum and we invite teachers to view the Museum of Art, the Arts Council and other art organizations as a resources for successfully accomplishing this.

We would like to see more school tours at the Museum, especially since there is not cost, and more participation from the high school and college art programs. Arts educators can encourage their students to enter the Kern County Student Art Show each spring and to apply for the Museum’s Art Works program. Students can also intern at the Museum’s summer art camp and apply for an annual college art scholarship.

PROPOSED TAX POLICIES OF PRESIDENT-ELECT OBAMA

ASRON HEGDE

ASSISTANT PROFESSOR OF ECONOMICS
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“Read my lips: no new taxes” is one of many phrases etched in American history. Former president George H.W. Bush uttered this infamous phrase during the 1988 Republican National Convention. As history also indicates, it was a promise that was hard to keep. Proponents argued the semantics and said that Bush the Elder’s administration did not raise ‘new’ taxes, while detractors point to the fact that taxes were nonetheless raised. Either way, it does underscore the fact that campaign promises often tend to be different than actual policies.

President-elect Obama has promised that he would permanently extend the 2001 and 2003 tax cuts for households with incomes less than \$250,000, and repeal them for those making more; increase the maximum tax rate on capital gains; and enact new tax breaks for workers, retirees, homeowners, and students among others. He also proposed to increase the estate tax exemption and reduce current estate tax rates. How much of this promise he is able to keep remains to be seen. It would be prudent at this juncture to consider more closely some selected tax proposals in more detail while considering the impact they may have on the economy.

Corporate Taxes

The campaign promised to give employers a \$3,000 tax credit per new employee, for each new employee hired over the current employees. The idea behind this was to encourage more hiring. As the job loss numbers from the past few weeks have indicated, the economy is still in a significant slowdown. While tax credits for new employees might give a little boost to hiring, unfortunately the proposed tax credit may not be sufficient enough to affect employers’ hiring decisions, especially at the expense of adding to the debt.

Household Income

Under the Obama proposal, the top marginal tax rate will return to 39.6 percent and 35 percent, levels previously found under the Clinton administration. However it is only expected to affect single people making over \$200,000 or a couple making over \$200,000. These thresholds are perhaps not etched in stone, as President-

elect Obama has changed the threshold during the campaign. Table 1 indicates the expected impact on various households in Kern County.

Income Bracket ¹	Percent HH in Kern County	Expected Change in HH Taxes
Less than \$19,000	22% (52,000)	-\$567
\$19,001 to \$38,000	24% (57,000)	-\$892
\$38,001 to \$66,000	22% (52,000)	-\$1,118
\$66,001 to \$112,000	19% (45,000)	-\$1,264
\$112,000 and above	13% (31,000)	+\$4,600
\$603,000 and above	<1% (<2,000)	+\$121,689

Source: Tax Policy Center, American Community Survey (2007), Los Angeles Times

A \$4,000 tax credit for college tuition, which will benefit mostly middle-class families, is expected to cost \$10 billion. In exchange for this refundable tax credit, college students are expected to provide 100 hours of community service. Even with the dominant position enjoyed by the Democrats, it is hard to imagine that Congress would pass such a tax credit with the economy in its current shape. While the community service component is admirable, the bigger impact to the economy would be the cost of this proposal.

For those who do not itemize their tax returns, a 10 percent refundable tax credit on mortgage interest, up to a maximum of \$800 is proposed. For single workers, the earned income tax credit of up to \$555 a year will be available. A child care credit of 50 percent, up to \$6,000, of expenses a year is also a part of this package. A clean car tax credit of up to \$7,000 for certain vehicles will be available. Critics feel that some of these tax credits would amount to welfare, as some low-income taxpayers would essentially get a refund above what they pay in taxes. The Obama campaign had argued that it would credit the lower-income individuals with their payroll tax. Economic theory would indicate that this may have some income effects when it comes to labor force participation decisions by these households.

(Continued on page 13)

¹Income brackets are quintiles based on the income distribution of the entire population.

Capital Gains

For households with incomes above \$250,000, the maximum tax on capital gains and dividends would increase from the current 15 percent to 20 percent. After the current tax cuts expire in 2010, dividends would have been taxed at the higher income tax rate of 39.6 percent.

Obama would also make permanent R&D credit and the renewable energy development credit. The impact of this policy may actually be positive. Institutional investors own approximately two-thirds of equity traded on the NYSE. The higher tax rates would apply to stocks held for less than a year and would decrease as the length of equity ownership increases, thus giving an incentive to the institutional investors to buy and hold for longer periods. They would not want to have lower after-tax returns in an underperforming market. This may lead to a decrease in the flow of money out of the stock market, as was common during the months of September and October.

Impact

It is estimated that Obama’s proposals would increase the national debt by \$3.6 trillion over the next 10 years, increasing the current debt by a third. Tax revenues are

expected to be 18.2 percent of GDP, assuming they do not decrease in size over the next couple of years. The largest tax cuts are directed toward the lowest taxpayers. The objective of this policy is to reduce the income inequality that has been rising over the past twenty years. The universal mortgage credit is assumed to add \$13 billion to the amount already given toward mortgage interest deduction. This may exacerbate the housing situation by encouraging people who probably should not do so, to own homes. The EITC would affect the labor force participation decisions of some people; probably those at the bottom end of the distribution, but probably not as much on how many hours are worked by those who do not qualify for the EITC.

Whether these proposals become policy or remain as one of perhaps many, campaign promises to fall under deliberation in Congress is to be seen. While Mr. Obama did not request voters to read his lips regarding his tax cuts, one hopes that he is able to keep his promise nonetheless. How successful he is in making sure his tax platform does not just become ‘lip-service’ depends on the co-operation he will receive from Congress.

Econ Brief!

Bakersfield: A Top Performing City

A recent study by The Milken Institute ranked the Bakersfield metropolitan area in the top 20 best performing large cities in the country. Bakersfield’s ranking improved to 12 in 2008 from 17 in 2007.

With a metropolitan area population of 790,710, Bakersfield showed a performance index of 198.6 compared to 100 for Utah’s Provo-Orem metropolitan area. The list of top 20 best performing cities is shown below:

Ranking	Location	Composite Index
1	Provo-Orem, UT	100.00
2	Raleigh-Cary, NC	125.40
3	Salt Lake City, UT	141.82
4	Austin-Round Rock, TX	146.74
5	Huntsville, AL	150.64
6	Wilmington, NC	152.48
7	McAllen-Edinburg-Mission, TX	158.84
8	Tacoma, WA	163.34
9	Olympia, WA	183.19
10	Charleston-North Charleston-Summerville, SC	192.26
11	Orlando-Kissimmee, FL	192.74
12	Bakersfield, CA	198.63
13	Killeen-Temple-Fort Hood, TX	205.52
14	Lafayette, LA	220.21
15	San Antonio, TX	220.76
16	Houston-Sugar Land-Baytown, TX	220.93
17	Seattle-Bellevue-Everett, WA	227.87
18	Ogden-Clearfield, UT	228.31
19	Myrtle Beach-North Myrtle Beach-Conway, SC	238.50
20	Greeley, CO	239.65

Researchers evaluated cities according to job growth, wages and salaries growth, and high tech concentration and growth in order to construct a composite index of performance. Among 200 large metropolitan areas, Bakersfield ranked 17 with respect to job growth during 2006-07 and wages and salaries growth during 2001-06. However, it ranked 161 with regard to high tech concentration in 2007.

Job Growth (2002-2007)	Score: 110.25	Rank: 17
Job Growth (2006-2007)	Score: 101.17	Rank: 32
Wages & Salaries Growth (2001-2006)	Score: 113.72	Rank: 17
Wages & Salaries Growth (2005-2006)	Score: 102.93	Rank: 20
Job Growth (Mar07 - Mar08)	Growth: 1.39 %	Rank: 44
Relative High-Tech Growth (2002-2007)	Score: 111.81	Rank: 35
1-yr Relative High-Tech Growth (2006-2007)	Score: 103.19	Rank: 25
High-Tech LQ - 2007	Score: 0.51	Rank: 161
No. of High-Tech LQ > 1 - 2007	Score: 4.0	Rank: 121

Source: The Milken Institute/Greenstreet Real Estate Partners Best Performing Cities Index.

Note: LQ stands for location quotient, which is a measure of concentration relative to the same industry nationwide.

TRACKING KERN'S ECONOMY

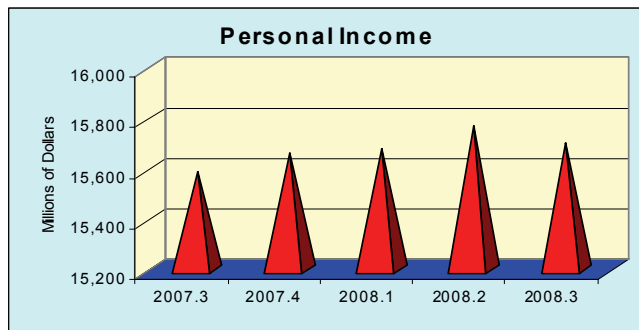
THIRD QUARTER OF 2008

ABBAS P. GRAMMY

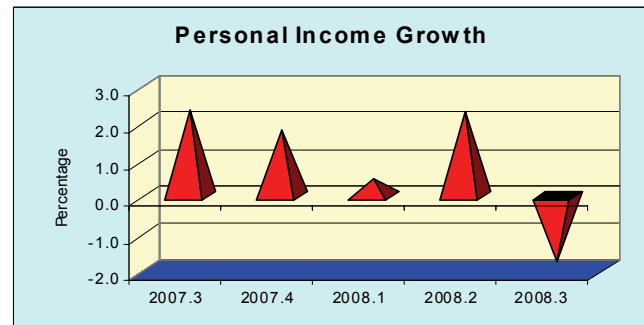
PROFESSOR OF ECONOMICS, CSUB

Economy

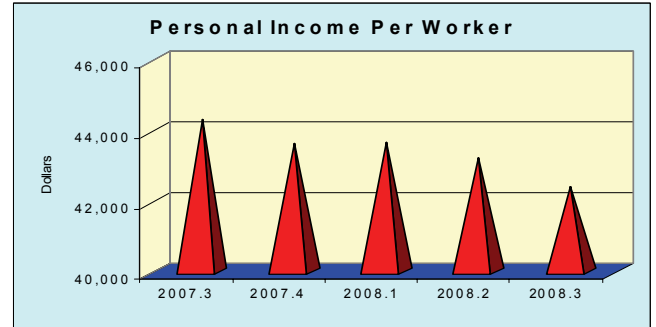
Personal Income - Kern County's personal income (in constant 1996 dollars) decreased from \$15.77 billion in the second quarter to \$15.70 billion in the third quarter of 2008. The county's economy lost \$70 million of income this quarter. However, Kern County's economy has added \$110 million of personal income since the third quarter of 2007.



Growth of Personal Income - In the third quarter of 2008, Kern's economy declined at an annual rate of 1.8 percent, 4.1 percent slower than that of the previous quarter. Likewise, this quarter's growth rate was 4.0 percent slower than that of four quarters ago.



Personal Income Per Worker - Labor productivity is measured by personal income per worker. Economic decline coupled with labor force growth caused personal income per worker to fall \$800 to reach \$42,400. Likewise, personal income per worker was \$1,890 less than that of four quarters ago.

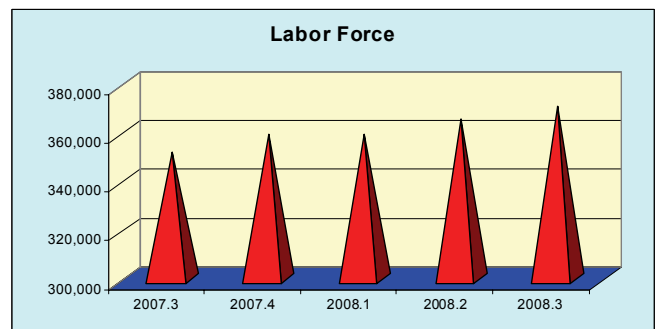


Labor Market

The seasonally-adjusted changes in labor market indicators are shown below:

Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
5,410	1,690	3,720	2,660	-500	1,470	1,970

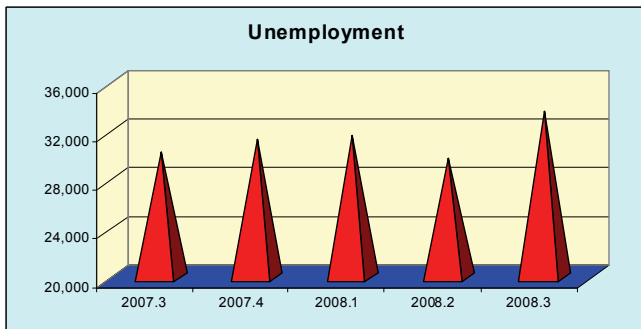
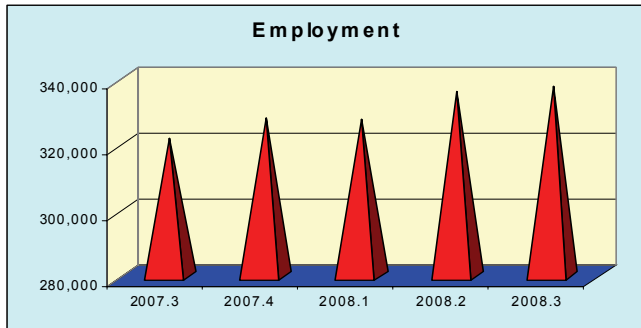
Labor Force - The civilian labor force increased by 5,410 workers from 365,090 in the second quarter to 370,500 in the third quarter of 2008. Compared with four quarters ago, the labor force has increased by 18,530 workers.



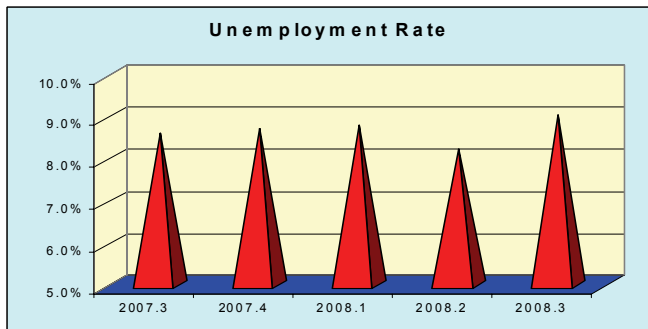
Employment - In the third quarter of 2008, Kern County's economy gained 1,690 jobs as total employment inclined from 335,910 to 337,600. Likewise, the county employed 15,910 more workers since the third quarter of last year.

Unemployment - In the meantime, the number of jobless workers increased by 3,720 as unemployment rose from 29,780 in the second quarter to 33,500 the third quarter of 2008. Similarly, 3,220 more workers were unemployed this quarter than four quarters ago.

(Continued on page 15)



Unemployment Rate - The rate of unemployment inclined 0.8 percent from 8.2 percent in the second quarter to 9.0 percent in the third quarter of 2008. However, this quarter's unemployment rate was four-tenths of percent lower than that of four quarters ago.

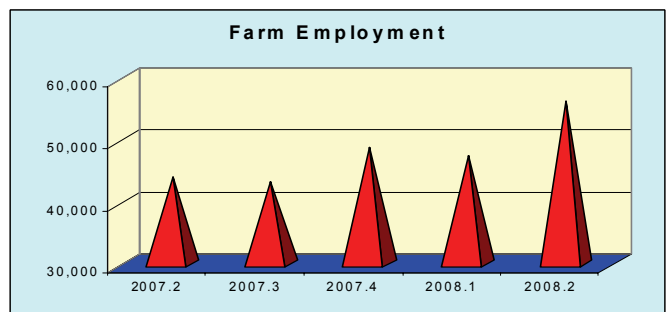


Using non-seasonally-adjusted data, the rate of unemployment varied considerably across cities. It ranged from 3.8 percent in Kernville to 26.0 percent in Arvin. The rate of unemployment was below the county's average in Kernville, Lebec, Ridgecrest, Tehachapi, Inyokern, Bakersfield, California City, Rosamond, and Frazier Park. In contrast, the rate of unemployment was above the county average in Taft, Oildale, Lake Isabella, Mojave, Shafter, Lamont, Wasco, McFarland, Delano, and Arvin.

Farm Employment - In the third quarter of 2008, Kern County added 2,660 farm jobs as employment increased from 56,040 to 58,700. Similarly, the county's farm employment this quarter was 15,610 greater than that of four quarters ago.

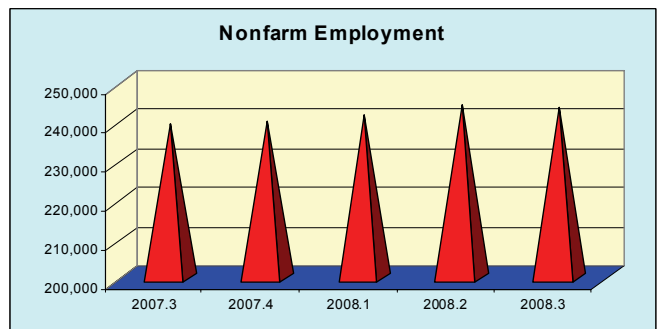
Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	3.8	Taft	9.3
Lebec	4.2	Oildale	10.0
Ridgecrest	5.4	Lake Isabella	11.5
Tehachapi	6.3	Mojave	12.0
Inyokern	6.4	Shafter	17.2
Bakersfield	6.6	Lamont	17.3
California City	7.4	Wasco	17.9
Rosamond	7.7	McFarland	20.2
Frazier Park	8.3	Delano	25.4

Note: City-level data are not adjusted for seasonality.



Nonfarm Employment - Kern County lost 500 jobs in the market for nonfarm labor. The number of jobs in this market decreased from 244,000 in the second quarter to 243,500 in the third quarter of 2008. However, nonfarm industries have added 5,590 jobs since the third quarter of 2007.

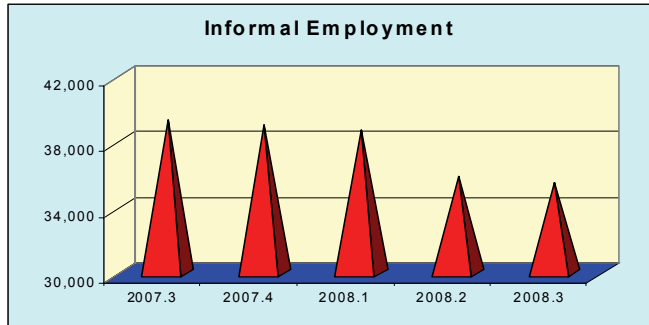
Among the nonfarm industries, construction, manufacturing, wholesale and retail trade, transportation, warehousing and utilities, professional and business services, and educational and health-care services had modest employment gains. In contrast, leisure and hospitality reduced employment and local public education reacted to the state's budgetary shortfall with a sizable job cut.



Informal Employment - Informal employment is the difference between total employment and industry em-

(Continued on page 16)

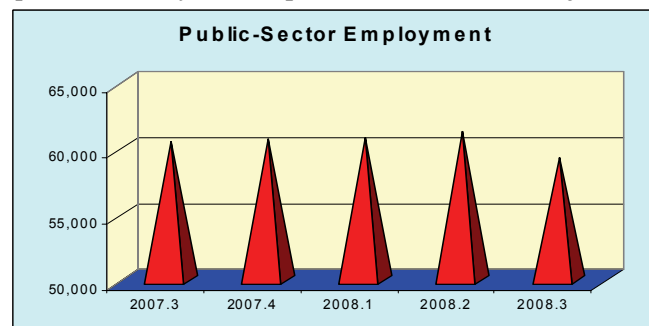
ployment. It accounts for self-employed workers and those who work outside their county of residence. In the third quarter of 2008, the number of workers engaged in this market decreased by 370 from 35,880 to 35,510. Likewise, the informal labor market had 3,830 less jobs relative to the third quarter of last year.



Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the third quarter of 2008, private companies added 1,470 jobs as their employment rose from 182,730 to 184,200. The private sector has added 5,390 jobs since the third quarter of last year.

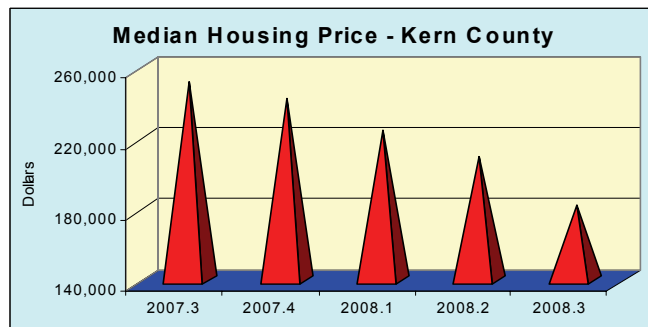


Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the third quarter of 2008, government agencies cut 1,970 jobs as their employment fell from 61,270 to 59,300. Since the third quarter of last year, the public-sector lost 1,150 jobs.

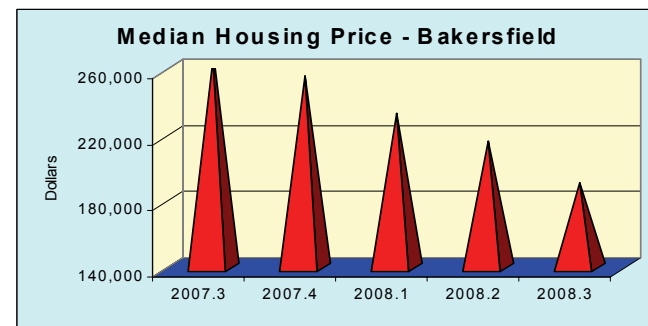


Housing Market

Housing Price - In the third quarter of 2008, Kern County's housing prices continued to fall. The median sales price for all residential units depreciated \$27,850 (or 13.2 percent) from \$210,250 to \$182,400. The county's median housing price has plunged \$69,600 (or 27.6 percent) since the third quarter of last year.



In Bakersfield, the median housing price depreciated \$25,600 (or 11.8 percent) from \$216,500 in the second quarter to \$190,900 in the third quarter of 2008. The city's median housing price has depreciated \$77,800 (or 29.0 percent) since the third quarter of 2008.

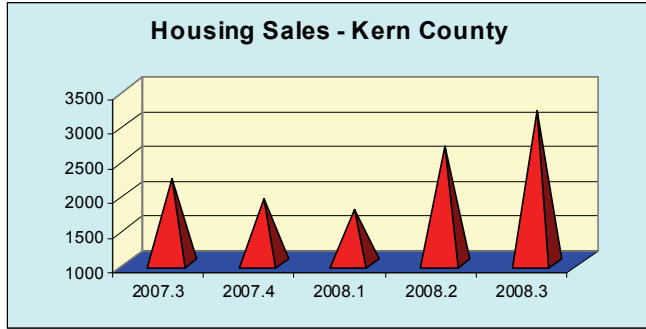


Housing price changes varied across the county. Among selected locations shown below, the median housing price depreciated in all areas, except Ridgecrest and Taft. In particular, Delano, Bakersfield, Tehachapi, California City, and Rosamond recorded sizable depreciation rates.

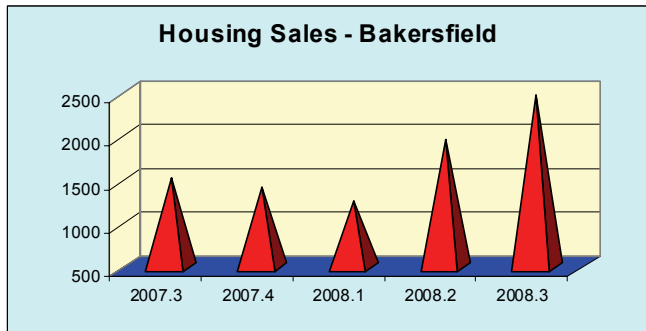
Location	Median Price 2008.2	Median Price 2008.3	Median Price Change	Median Price Change
Kern County	\$210,250	\$182,400	-\$27,850	-13.2
Bakersfield	\$216,500	\$190,900	-\$25,600	-11.8
California City	\$137,100	\$115,500	-\$21,600	-15.8
Delano	\$209,300	\$144,900	-\$64,400	-30.8
Ridgecrest	\$175,600	\$176,400	\$800	0.5
Rosamond	\$200,700	\$178,300	-\$22,400	-11.2
Taft	\$108,800	\$110,200	\$1,400	1.3
Tehachapi	\$266,000	\$231,700	-\$34,300	-12.9

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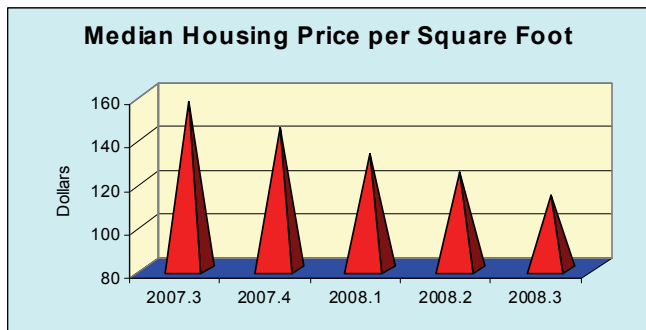
Housing Sales - Interestingly, Kern's sales increased considerably as 523 more homes were sold. The number of residential units sold jumped from 2,667 in the second quarter to 3,190 in the third quarter of 2008. Also, the number of units sold this quarter was 980 more than that of four quarters ago.



In Bakersfield, sales inclined by 507 units. The number of all residential units sold climbed from 1,955 in the second quarter to 2,462 in the third quarter of 2008. Since the third quarter of last year, sales have risen by 940 units.

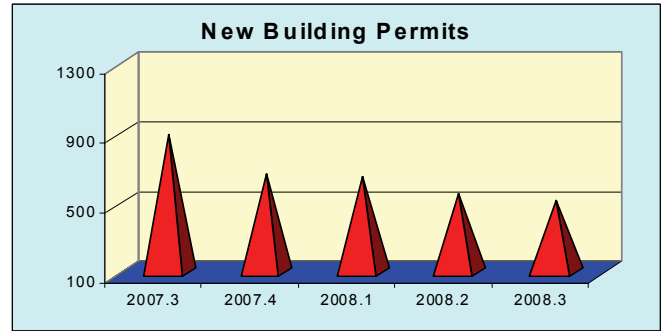


Median Housing Price per Square Foot - The median sales price per square foot of housing area declined \$10 from \$124 in the second quarter to \$114 in the third quarter of 2008. Since the third quarter of last year, the median housing price per square foot has dropped \$42 from \$156 to \$114.

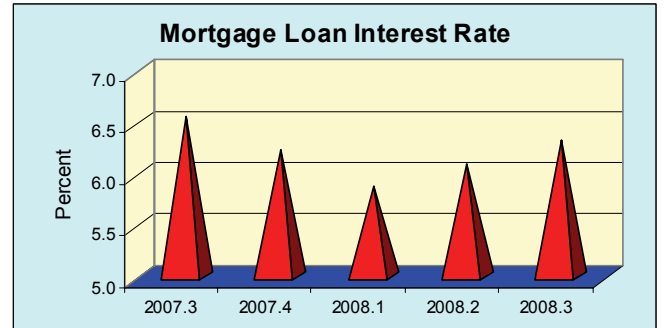


New Building Permits - In the third quarter of 2008, the number of building permits issued for the construction of new privately-owned dwelling units fell by 37

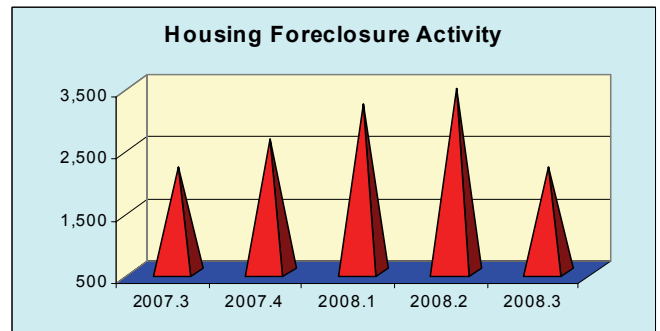
from 550 to 513. Relative to four quarters ago, 380 less building permits were issued this quarter.



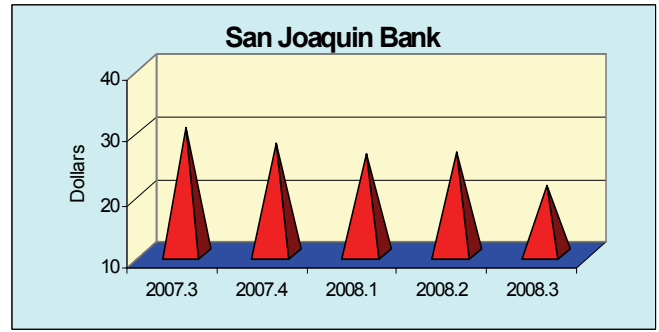
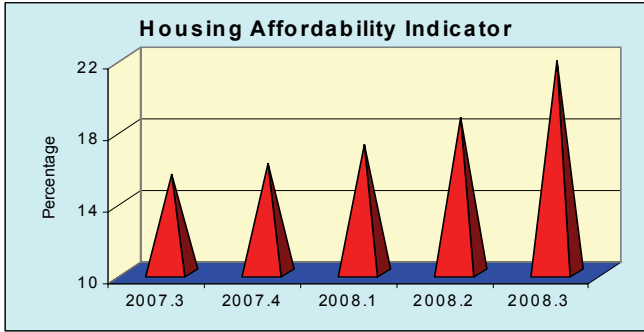
Mortgage Interest Rate - In the third quarter of 2008, the interest rate of thirty-year conventional mortgage loans increased from 6.09 to 6.32 percent. Since the third quarter of last year, the mortgage loan interest rate has fallen 0.23 percentage points.



Housing Foreclosure Activity - In the third quarter of 2008, the county's foreclosure activities slowed from 3,459 to 2,196. As a result, 1,263 (or 39.3 percent) less homeowners received notices of loan default from their mortgage bankers. Compared with four quarters ago, the foreclosure activity remained constant.

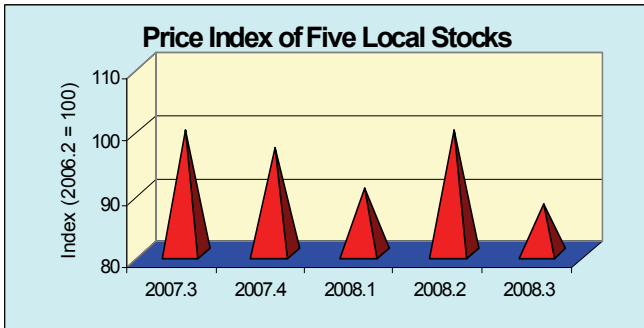


Housing Affordability - The housing affordability indicator improved from 18.7 percent in the second quarter to 21.9 percent in the third quarter of 2008. Compared with four quarters ago, the affordability index gained 6.4 percentage points.

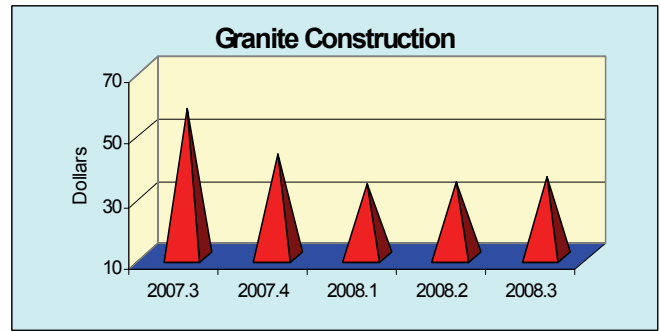


Stock Market

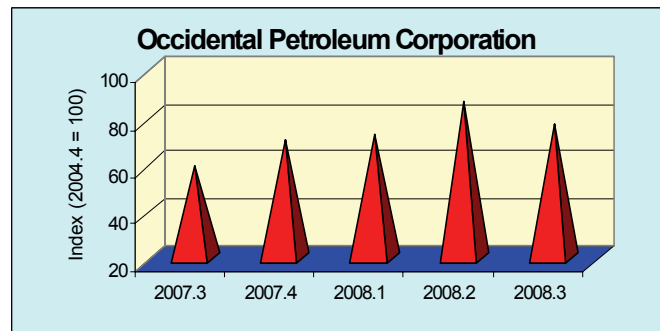
In the third quarter of 2008, the composite price index (2007.3 = 100) of the top five locally traded stocks declined 11.8 percentage points from 99.9 to 88.1. The index was 11.9 percentage points lower than that of the third quarter of 2007. These top five local *market-movers* are Chevron Corporation, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



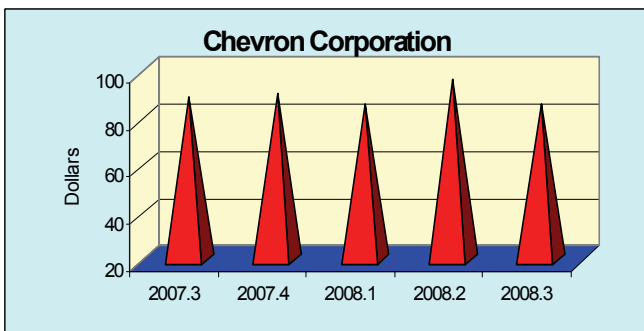
Granite Construction: GVA gained \$1.17 (or 3.4 percent) per share in the third quarter of 2008 as its stock price jumped from \$34.19 to \$35.36 per share. Nevertheless, GVA has lost \$22.12 (or 38.5 percent) since the third quarter of 2007.



Occidental Petroleum Corporation: OXY lost \$14.27 (or 19.7 percent) per share as its stock price declined from \$86.67 in the second quarter to \$77.31 in the third quarter of 2008. Nevertheless, OXY has gone up \$18.15 (or 30.7 percent) since the third quarter of 2007.

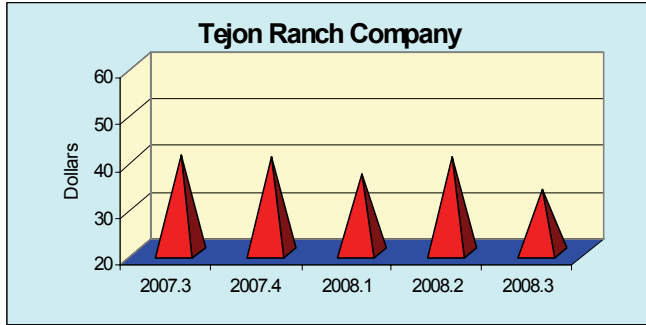


Chevron Corporation US: CVX lost \$10.17 (or 10.6 percent) per share as its price dropped from \$96.08 in the second quarter to \$88.91 in the third quarter of 2008. Similarly, CVX has lost \$2.96 (or 3.3 percent) since the third quarter of 2007.



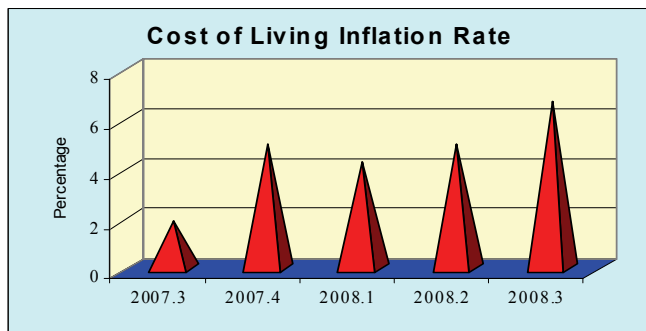
Tejon Ranch Company: TRC lost \$6.79 (or 16.8 percent) per share as its stock value dropped from \$40.35 in the second quarter to \$33.56 in the third quarter of 2008. Likewise, TRC was down \$7.26 (or 17.8 percent) relative to the third quarter of 2007.

San Joaquin Bank: SJQU lost \$5.28 (or 20.0 percent) per share as its price fell from \$26.45 in the second quarter to \$21.17 in the third quarter of 2008. Likewise, SJQU has lost \$9.33 (or 30.6 percent) since the third quarter of 2007.

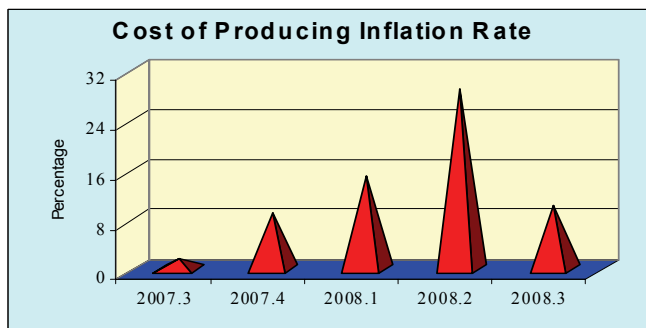


Commodity Prices

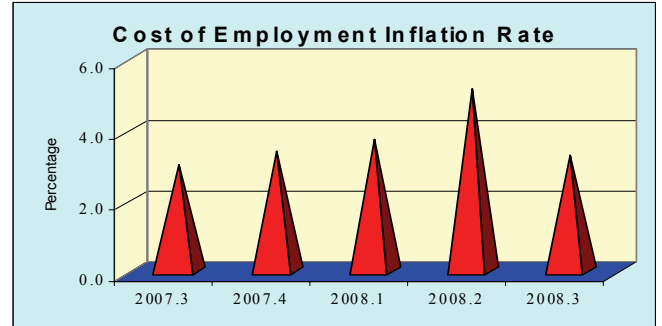
Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) inclined from 215.4 in the second quarter to 219.0 in the third quarter of 2008. In annual rates, the rate of inflation for cost of living accelerated from 5.0 to 6.7 percent. Since the third quarter of last year, the cost of living inflation rate has risen 4.8 percent.



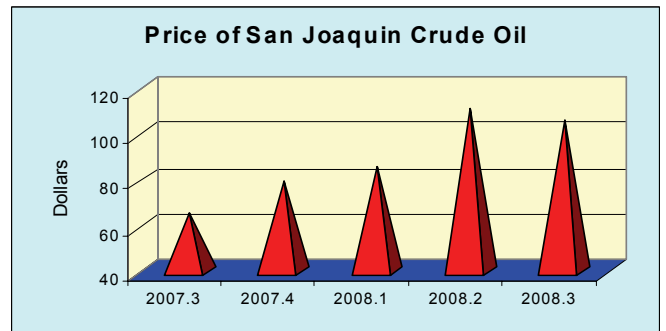
Cost of Producing - The Producer Price Index for all commodities (1996 = 100) climbed from 196.0 in the second quarter to 200.9 in the third quarter of 2008. In annual rates, the inflation rate for cost of producing accelerated at a sharp rate of 10.2 percent. The cost of producing inflation rate was 8.3 percent higher than that of the third quarter of 2007.



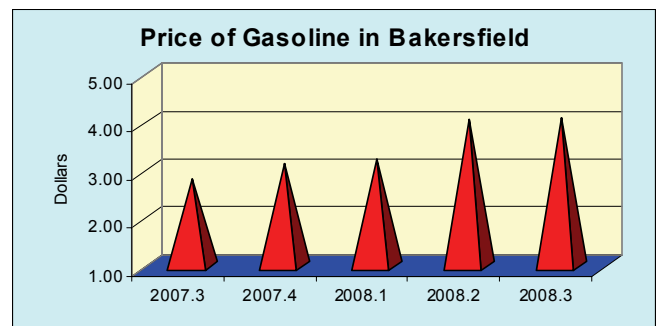
Cost of Employment - In the third quarter of 2008, the Employment Cost Index (ECI; December 2005 = 100) increased at an annual rate of 3.4 percent as the index value rose from 109.7 to 110.6. The ECI inflation rate was slightly higher than that of four quarters ago.



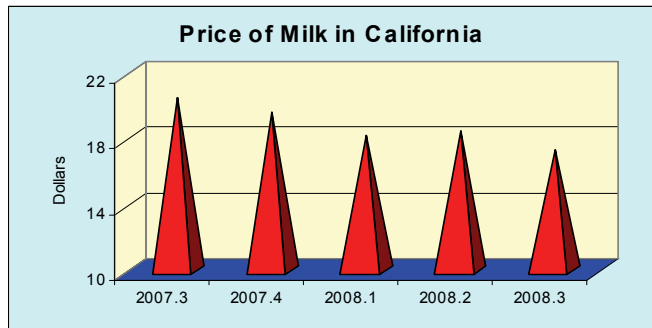
Price of Oil - The average price of San Joaquin Valley heavy crude was down \$5.70 (or 5.1 percent) per barrel from \$111.25 in the second quarter to \$105.55 in the third quarter of 2008. Nevertheless, the average price of crude oil was up \$40.12 (or 61.3 percent) per barrel relative to the third quarter of 2007.



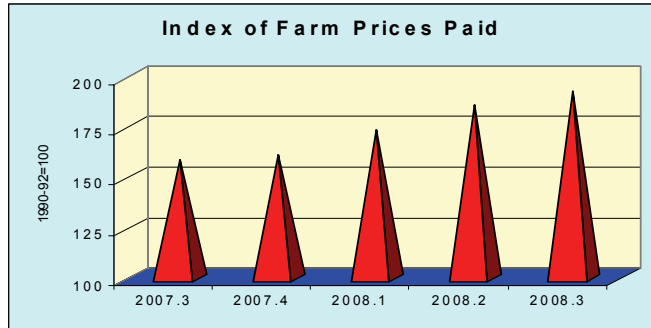
Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon rose 5¢ (or 1.2 percent) per gallon from \$4.03 in the second quarter to \$4.08 in the third quarter of 2008. However, the average gasoline price was up \$1.26 (or 44.7 percent) relative to the third quarter of 2007.



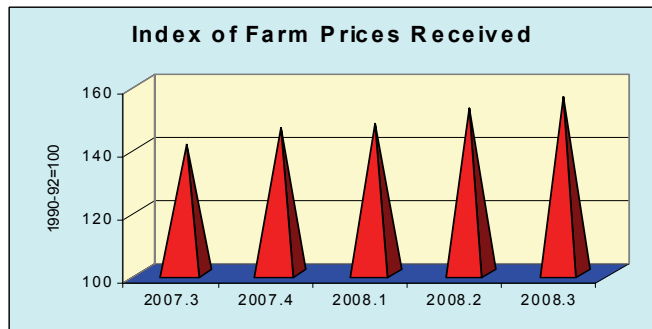
Price of Milk - The average price of California's Class III milk decreased \$1.12 per cwt from \$18.40 in the second quarter to \$17.28 in the third quarter of 2008. Likewise, the price of milk has gone down \$3.23 since the third quarter of 2007.



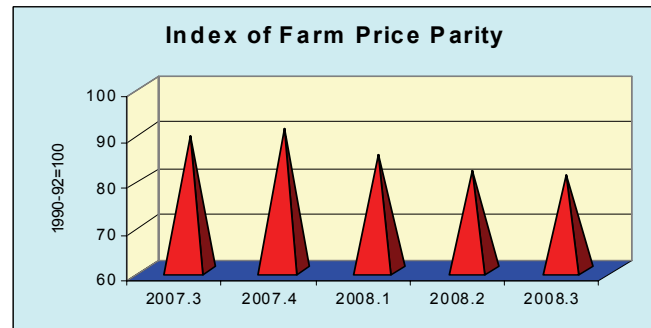
The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents rose 7 percentage points to reach 192. Similarly, the index has gained 34 percentage points since the third quarter of last year.



Farm Prices - In the third quarter of 2008, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) rose 4 percentage point to arrive at 156. This index was 15 percentage points higher than that of four quarters ago.



The Index of Farm Price Parity is the Index of Prices Received by Farmers as a percentage of the Index of Prices Paid by Farmers. In the third quarter of 2008, the Index of Farm Price Parity fell one percentage point to reach 81. Likewise, the gap between prices paid and prices received by farmers has widened 8 percentage points since the third quarter of last year.



Economy at a Glance (Continued from page 2)

gallon. The unit price of California's Class III milk edged down \$1.12 to attain \$17.28. The index of prices farmers received for their outputs climbed 4 percentage points to reach 156, and the index of prices farmers paid for their inputs rose 7 percentage points to arrive at 192. As a result, the parity between output prices farmers received and input prices farmers paid widened one percentage point to reach 81.

In the third quarter of 2008, the composite price index (2007.3 = 100) of the top five locally traded stocks declined 11.8 percentage points from 99.9 to 88.1. Relative to four quarters ago, the composite price index of stocks for these *market-movers* edged 11.9 percent lower. While shares of Occidental Petroleum Corporation gained value, average stock prices fell for Chevron Corporation U.S., San Joaquin Bank, Granite Construction, and Tejon Ranch Company.

BOOK REVIEW

THE HR VALUE PROPOSITION, DAVID ULRICH AND WAYNE BROCKBANK (HARVARD BUSINESS SCHOOL PRESS: BOSTON, MA, 2005)

REVIEWED BY: KIMI RAMOS, MBA STUDENT, CSUB



For several decades, Human Resources (HR) have been perceived as a paper pushing, benefits administering, and legal woe of the company. Many have attempted, with some success, to transform HR into a more respected profession. HR professionals are seen as more of an asset today. They have been able to attend seminars and coaching courses that have assisted learning all sides of the organization in order to grasp the concept of being intangible. They must also live and breathe an ethical way of life in order to succeed.

Through *The HR Value Proposition*, David Ulrich and Wayne Brockbank provide a proposition that focuses on HR activities with their true and actual role in the business world. The authors begin with the statement, “We like Human Resources”. In order to fully comprehend what exactly the authors like about HR, you have to view HR as a talent. Talent in recruiting: Disneyland wouldn’t have boring employees or “cast members” as they like to call them to represent their brand, so why should HR be any different? HR deals with people and their performance. HR must either develop or recruit the best possible talent. To create an infrastructure that affects people positively would be a good investment. That is where *The HR Value Proposition* comes into play.

Time and time again, the authors argue that HR value requires a deep understanding of external business realities and how key stakeholders both inside and outside the company define value. To create value, you must know what value is. So what is value? Is value having the mind set on what a company needs to be competitive? Does value reflect the standards of the firm? The book elaborates upon value: HR professionals add value when their work helps someone reach their goals. Value is worth obtaining when an employee receives worth out of the 8 hour long orientation, not just the fact that there was a presentation prepared. When others receive value from HR work, according to the authors, HR will be credible, respected, and influential.

The authors clearly state that this is not a basic “HR for dummies” book; this book is a complex performance evaluation of HR, which includes the challenging factors that are relevant in today’s competitive marketplace. The book includes a complete set of practical guides, action plans, and tools necessary for proper implementation of an HR professional. Examples are given in the development

process along with recommendations. This book is an essential tool for HR professionals, consultants, and executives looking for the true function of HR.

Ulrich and Brockbank outline the path HR professionals must take in order to help lead their organization into the future. With their in-depth examples and bulleted questions, HR professionals should be able to cogently discuss external realities after reading this book.

The book emphasizes that HR professionals are to develop customer literacy. They must think and act like a customer to gain the internal perspective. They must learn that keeping a customer is more profitable than attracting a new one. Ways to ensure the external stakeholders (investors and customers) have a clear employee value proposition are to resolve misconceptions of HR, build relationships of trust, focus on deliverables, not-do-ables, prioritize capabilities and create an action plan for delivering them. HR professionals must listen and learn to understand the logic, language, and concepts. HR professionals represent the “soul of the enterprise” when they have accomplished creating an employee value proposition. Organizations and people become intangible assets: readers must have a clear understanding on how to focus on people to organizations where people work.

HR helps employees build personal ability. By creating an employee value proposition that represents the employee’s interests, support is given between the employee and organization. The book explains how to implement the value proposition in the HR field. The nature of the book is quite advanced; however, examples on HR Practices that add value, development, and strategy can be attainable for any organization. Readers who are entering the world of HR may need clarification of the text on how HR is valued today. It is a must read for those seeking to develop their organization into something more than inputs and outputs. People don’t plan to fail, they simply fail to plan. That is why this wonderful blueprint is given; as professionals we are to plan it out ourselves. Your organization isn’t going to achieve everything overnight; you must be a student before you are a leader. By grasping the concepts laid out by Ulrich and Brockbank, you are on a blueprint of success.

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