

Stockton in Transition: Embedding Equity in an Emerging Megaregional Economy

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October 2019



Stockton: A Case Study of a Passed Over Regional Economy in Transition

Over the past several decades the U.S. economy has undergone tremendous shifts with the precipitous decline of manufacturing, the rapid growth of digital and automation technologies, and the polarization of job growth between high- and low-wage occupations with middle-wage job growth trailing behind. These changes have predominantly benefitted educated workers, fueling widening inequality and calling into question the future of good jobs for the majority of workers who do not have college degrees. To better understand the relationships between these industry-level changes and their implications for building solid pathways into the middle class, PolicyLink and the University of Southern California Program for Environmental and Regional Equity (PERE) examine these economic changes in the nation’s largest metropolitan areas between 2005 and 2015. This analysis is described in [Regional Economies in Transition: Analyzing Trends in Advanced Industries, Manufacturing, and the Service Sector to Inform Inclusive Growth Strategies](#), which presents a typology that classifies the 150 largest metros into seven types based on: (1) the growth of advanced industries, such as computer systems design and chemical manufacturing; (2) the decline of traditional manufacturing jobs; and (3) the quality of jobs in service-sector industries that generally do not require a bachelor’s degree and are therefore more accessible to economically insecure workers (defined as those with incomes below 200 percent of the federal poverty level).¹ The table below presents a summary of the seven regional types.

This report presents a case study of Stockton, California, nestled in the Northern San Joaquin Valley, 70 miles east of the San Francisco Bay Area, which is classified as Passed Over in our typology. In addition to the data analysis presented in the typology report, this case study includes data illustrating local labor market trends and racial inequities in economic outcomes that are informed by local research and interviews. All data points that are not otherwise cited are based on the PolicyLink and USC-PERE analysis of data from the U.S. Census Bureau in the National Equity Atlas.

Stockton is categorized as Passed Over based on its rapid decline in advanced industries, rapid decline in manufacturing, and moderate-quality service-sector jobs accessible to workers without a bachelor’s degree. In the decade from 2005 to 2015, while neighboring regions in and around the Bay Area enjoyed an ongoing tech boom, the Stockton region lost 17 percent of its jobs in advanced industries and about 11 percent of its manufacturing jobs. Many of the occupations that grew in the region during that time were concentrated among service industries that required relatively little education but provided significantly lower wages.

As Stockton’s economic base and job mix has shifted, its population has continued to grow and become more diverse. Since 1980, the region’s population has more than doubled, growing from about 337,000 to 695,000 by 2015, and the share of the population that is White shrunk from 68 percent to 34 percent. As the third-most diverse region in the nation, and with one of the youngest populations, Stockton is poised to grow to more than one million residents by 2040.²

Regional Typology Overview

Region Type	Decline in manufacturing	Rise in advanced industries	Quality of service jobs accessible without a BA degree	Number of metros
Leading Tech Hub	Slow	Most Rapid	High	7
High Prospects	Slow	Rapid	Moderate	24
Steady, Looking Up	Moderate	Above Moderate	High	10
Steady, Average	Moderate	Moderate	Moderate	66
Steady, Struggling	Moderate	Moderate	Low	13
Passed Over	Rapid	Slow	Moderate	24
Hardest Hit	Most Rapid	Slow	Low	6

Note: “Quality of service jobs accessible without a BA degree” refers to an index based on cost-of-living-adjusted average annual wages, wage growth, and employment growth in service industries in which the majority of entry-level jobs require less than a BA degree.

These demographic changes underscore the importance of fostering racial economic inclusion in the Stockton region, where one in two people of color are economically insecure. The entire region stands to gain from closing racial gaps in income. In 2017 alone, the region's economy would have been nearly \$8 billion stronger with racial equity in wages and employment.³

This case study is structured as follows. First, it describes Stockton's regional profile based on the sectoral employment changes measured in our typology analysis and the broader economic context in which these changes have occurred. Next, it presents data on the economically insecure population in the region and analyzes some of the key barriers to racial economic inclusion. Finally, it presents policy recommendations to advance inclusive growth in Stockton and other Passed Over regions:

- Use cluster-based strategies to focus business supports in the region's strongest sectors.
- Invest in public infrastructure to spur good job creation and support region-wide economic development.
- Engage anchor institutions to create targeted employment strategies and establish inclusive sourcing policies.
- Invest in retraining programs to help displaced workers transition to new careers in growing sectors.

Challenges and Opportunities in a Changing Regional Labor Market

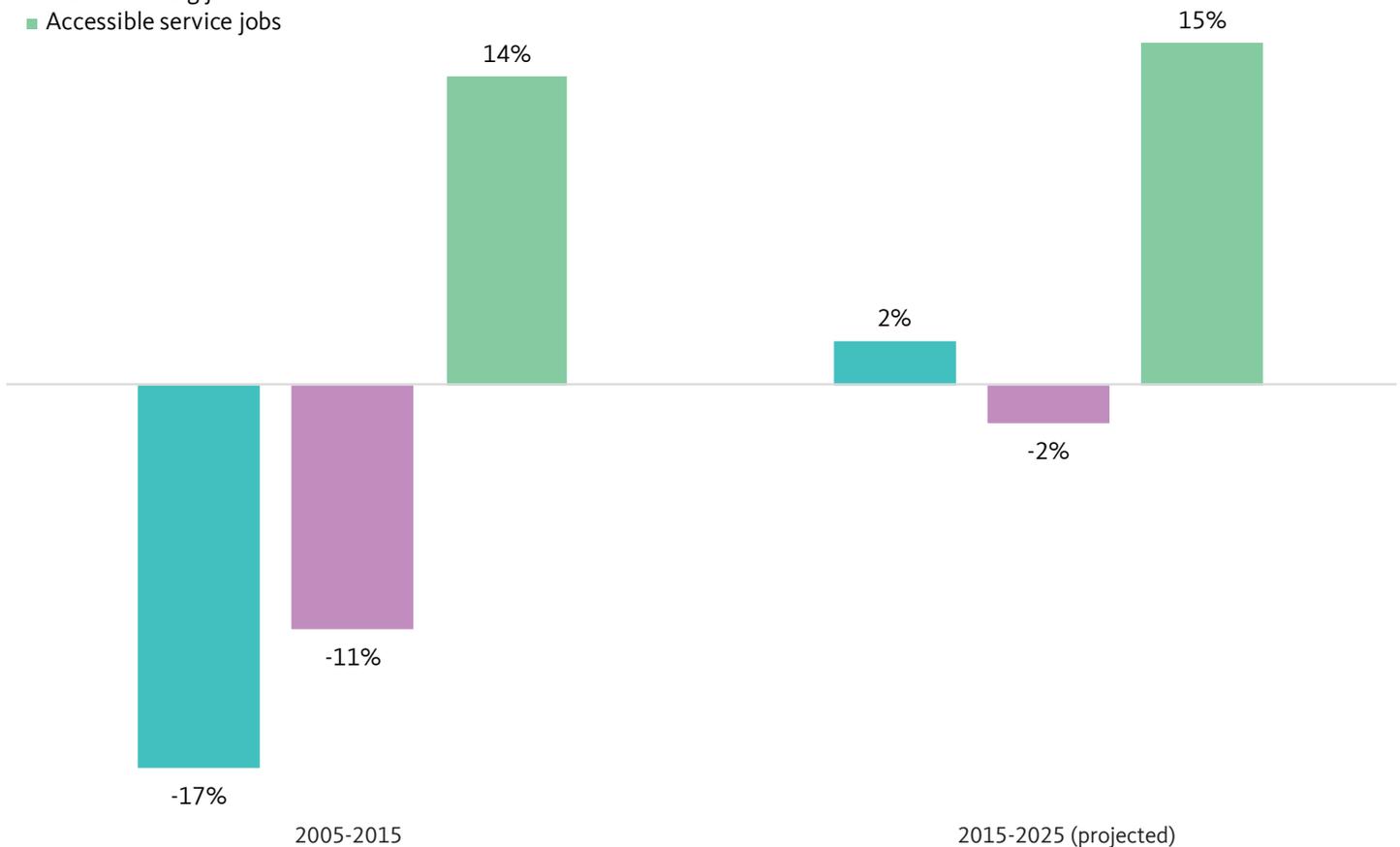
In our analysis of three key sectoral trends shaping regional economies in the United States today, Stockton was one of 24 regions classified as Passed Over—those hit the hardest by the loss of jobs in advanced industries and traditional manufacturing jobs, but still providing moderate job quality in accessible service industries based on average wages, wage growth, and employment growth. Key trends include the following.

- Accessible service industry jobs showed strong growth from 2005 to 2015, increasing by 14 percent, and in the decade from 2015 to 2025 they are projected to continue growing at 15 percent, with health services, retail trade, transportation and warehousing, and other services seeing the greatest growth in employment.
- Manufacturing employment, on the other hand, fell by 11 percent from 2005 to 2015 while advanced industries jobs (advanced manufacturing, advanced services, and energy and utilities) declined by 17 percent, even as the region's population continued to grow.
- The decline of manufacturing jobs is projected to slow to a 2 percent loss from 2015 to 2025 and the loss of advanced industries employment is likely to halt, with projected growth of 2 percent.

Employment in advanced industries and manufacturing jobs declined over the last decade while employment in accessible service-sector industries increased.

Change in employment 2005–2015 and 2015–2025 (projected) for advanced industries, manufacturing, and accessible service industries, Stockton CA metro area

- Advanced industry jobs
- Manufacturing jobs
- Accessible service jobs



Source: PolicyLink/PERE analysis of Detailed Estimates of County Employment and Output from Moody's Analytics.

Note: Data in each year are from the month of December.

Global Market Forces Hit the Stockton Region Hard

The loss of manufacturing jobs in the Stockton region was driven by global, national, and interregional economic upheavals. The massive spike in global oil prices beginning in 2007 and the simultaneous consumer credit crunch fueled a crisis in the U.S. automotive industry, and Stockton's manufacturing sector felt the shockwaves. In 2010, the last remaining automobile plant in California—the New United Motor Manufacturing Inc. (NUMMI) factory in the city of Fremont—shut down operations in the wake of plunging auto sales and the bankruptcy filing of General Motors.⁴ Manufacturing firms established as suppliers to the NUMMI plant shut down in turn, including several in San Joaquin County. Jeff Michael at the University of the Pacific estimates that the NUMMI closure alone eliminated about 5 percent of manufacturing employment in the Stockton region.⁵

Service Industry Growth Has Been an Insufficient Foundation for Economic Recovery

While jobs in service industries that were generally accessible to workers without a four-year degree grew by 14 percent from 2005 to 2015, the wages for those jobs remained stagnant. Despite the region's strong population growth, Thomas Pogue, associate director of the Center for Business and Policy Research at the University of the Pacific, cautioned that the region's workforce is not adequately prepared to attract high-quality, middle-skills jobs, and that the consumer services jobs being spurred by regional growth dynamics—including educational services, health services, and leisure and hospitality—cannot provide a sustainable economic base for the growing region.

The “gravity defying”⁶ economic juggernaut of the Bay Area is now the 19th largest economy in the world, underscoring the power of the tech sector and opportunities for complementary economic development, but also intensifying already staggering wealth and income inequality and the displacement of low-income residents and people of color. These effects are radiating to further and further distances, including the Northern San Joaquin Valley.

Based on the Economic Policy Institute's family budget calculator, six of the 12 most expensive metro areas in the United States are located in and around the Bay Area.⁷



We don't want to have good jobs in one place and good places to live in another; this is the challenge of the way growth dynamics are playing out between Stockton and neighboring regions.

Thomas Pogue, University of the Pacific Center for Business and Policy Research

And, because of the relative affordability of housing in the Stockton region and the relatively higher wages in San Francisco and other Bay Area cities, Stockton leads the nation in the share of workers who are “super commuters” (defined as traveling more than 90 minutes each way to work).⁸

Interregional Development Dynamics Are Shaping the Future of Stockton

These dynamics are unfolding in the context of not only deepening connections between San Joaquin County and the Bay Area, but also the ongoing integration of a much larger geographical footprint known as the Northern California Megaregion, which includes the San Francisco Bay Area, the Greater Sacramento Area, the Northern San Joaquin Valley, and the Monterey Bay Area on the Central Coast.⁹

The emergence of this megaregion, with overlapping markets for labor, goods, services, and jobs, has clearly created certain challenges in San Joaquin County. But it also represents some unique opportunities to strengthen Stockton's economy and advance inclusive growth.

While the Great Recession officially ended in mid-2009, recovery has been slow in the Stockton region, compounded by the bankruptcy of the central city. More than 15 percent of the region's workforce now commutes out to jobs in other places.¹⁰ The number of Northern San Joaquin Valley workers who commute to the Bay Area more than doubled from 1990 to 2013, driven in part by the in-migration of workers from Sacramento and the Bay Area attracted by Stockton's low real estate prices and also by Stockton residents seeking opportunities for higher pay elsewhere because of stagnant wages within the region.^{11, 12}

As Stockton's manufacturing and advanced industries employment have declined while the region faces growing market pressures from its more prosperous neighbors, more than four in 10 residents are now economically insecure.

Fostering Economic Security For All Is Key to Stockton's Prosperity

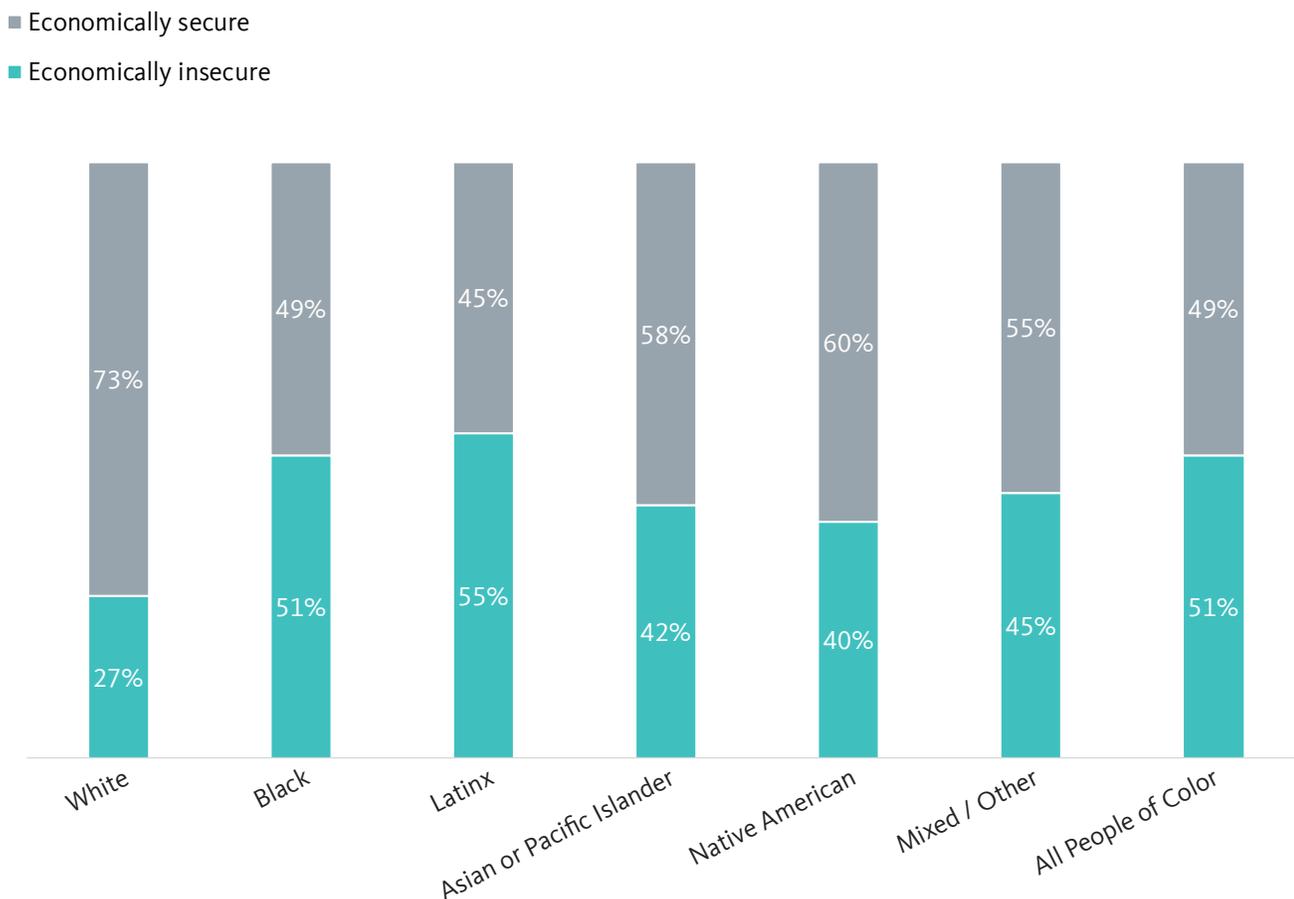
The Stockton regional economy has been marked in recent years by deep challenges. Prior to the Great Recession, the region's housing market boomed: home prices in Stockton more than tripled from January 2000 to January 2006, and the city made substantial investments in infrastructure.¹³ But when the subprime mortgage crisis struck a couple of years later, developer investments and increased property tax revenues dried up, and the city's pension fund plummeted along with the stock market. By the time the dust of the recession had settled, Stockton had the second-highest rate of foreclosures in the country,¹⁴ and in June of 2012 it became the largest U.S. city in history to file for bankruptcy protection.¹⁵

Between 2005 and 2015, the region's GDP per capita declined by about 7.5 percent, reflecting the aggregate impact of Stockton's economic woes. Over the last few decades, the share of the population who are economically insecure in the Stockton region, defined as living below 200 percent of the federal poverty level, or about \$38,000 for a family of three, has grown steadily, reaching 43 percent by 2015—well above the national rate of one in three.

High unemployment remains a stark reminder of how much Stockton's recovery has lagged behind the rest of California and the nation as a whole. The official unemployment rate reached 18 percent in January 2011 before declining to a 10-year low of 5 percent in September 2018 but has since bounced between 5 and 7.2 percent, with a rate of 6.0 percent in June 2019.

Latinx residents in Stockton—the largest racial/ethnic group in the region—are more than twice as likely as their White counterparts to be economically insecure.

Population by economic security status and race/ethnicity, Stockton, CA Metro Area, 2015



Source: Integrated Public Use Microdata Series.

Note: Data for 2015 represent a 2011 through 2015 average.

By comparison, unemployment in California measured 4.2 percent for the same month, and the national rate was 3.7 percent.¹⁶ Because the unemployment rate only reflects individuals who are actively looking for work, it can understate the extent of joblessness, indicating that the region is not out of the woods just yet, despite recent job growth that has outpaced the nation as a whole.

Stockton has one of the nation’s highest rates of economic insecurity. As of 2015, a total of 299,000 people in the Stockton metro (43 percent) were economically insecure, up from 209,000 (38 percent) in 2000. However, in this region with a large people-of-color majority, the experience of economic insecurity varies significantly by race/ethnicity. The economically insecure rate is highest among Latinx residents, at 55 percent. More than half of Black residents are also economically insecure, compared with 27 percent of White residents.

In Stockton, as in all large regions, both overall economic insecurity and racial economic inequities are driven by multiple and interrelated factors. Declining wages, rising housing costs, a spatial mismatch between job centers and affordable housing, and inadequate investment in talent and skills development are among the most pressing challenges confronting the region.



Everybody I know either works fast food or a warehouse, which aren’t even good jobs, or they work for a temp agency. A lot of companies use the temp agencies and they never actually hire you on. It’s pretty horrible.

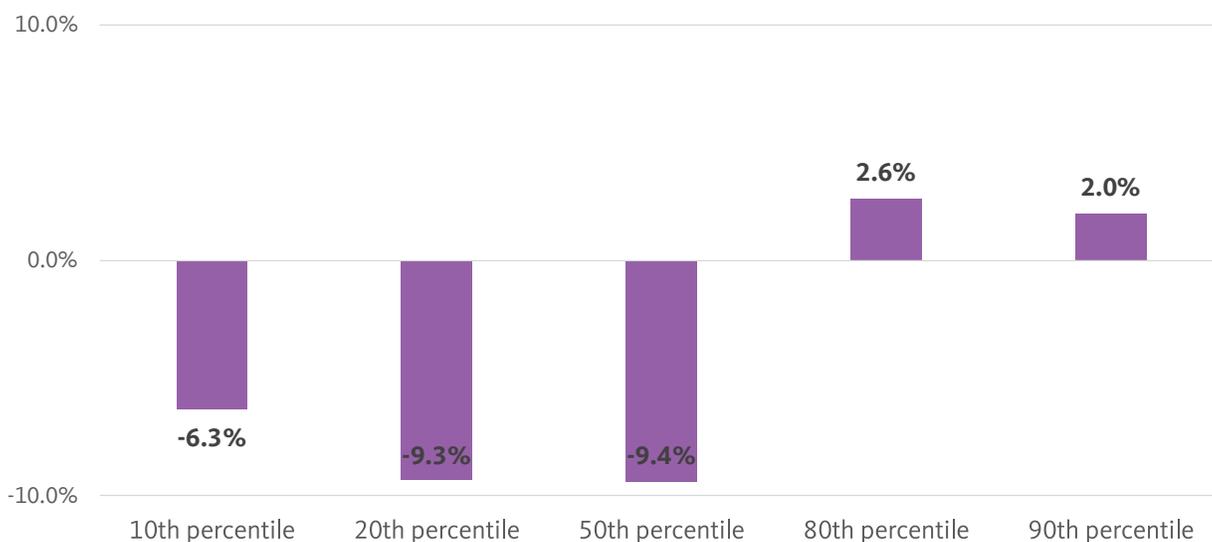
S. (focus group participant)

As the Stockton metro’s much-improved unemployment rate suggests, San Joaquin County has added a significant number of jobs over the last several years. The Stockton region has posted five consecutive years of job growth over 3 percent (though this rate is expected to slow in the coming years).^{17,18} Yet the region has struggled to grow the middle-wage jobs that can provide basic economic security, offer workers and families a pathway to the middle class, and serve as the cornerstone of a thriving regional economy. Much of recent employment growth has been in low-wage jobs in services and logistics and warehousing, and the wages of workers in the bottom half of the income distribution have fallen since 2000. (In 2015, California’s state minimum wage increased to \$10 per hour, buffering the decline at the very bottom of the income distribution.)

As a result, about one in five full-time workers in the Stockton metro and almost one in three Latinx full-time workers are economically insecure.¹⁹

Incomes have declined for workers in the bottom half of the income distribution since 2000.

Earned income growth for full-time wage and salary workers: Stockton, CA Metro Area, 2000–2015



Source: Integrated Public Use Microdata Series. Universe includes civilian noninstitutional full-time wage and salary workers ages 25 through 64.

Note: See the National Equity Atlas for more detail on the analysis of growth in jobs and earnings by wage level, at https://nationalequityatlas.org/indicators/job_and_wage_growth.

A closer look at worker pay in the region reveals that as overall income levels have fallen, racial wage gaps have persisted: in 2015, the median hourly wage was \$25 for White workers, \$22 for Black workers, \$20 for Asian or Pacific Islanders, and just \$16 for Latinx workers. If left unaddressed, these inequities will have substantial consequences for Stockton’s future economy, given the demographic trends reshaping the region, as a larger share of the White workforce is nearing retirement age and the Latinx community is driving the bulk of population growth.

As declining wages have coincided with increased housing costs, Stockton now has the 10th highest rate of rent burden among the nation’s 150 largest metro areas: 58 percent of renter households in the city spend more than 30 percent of their income on housing costs.²⁰

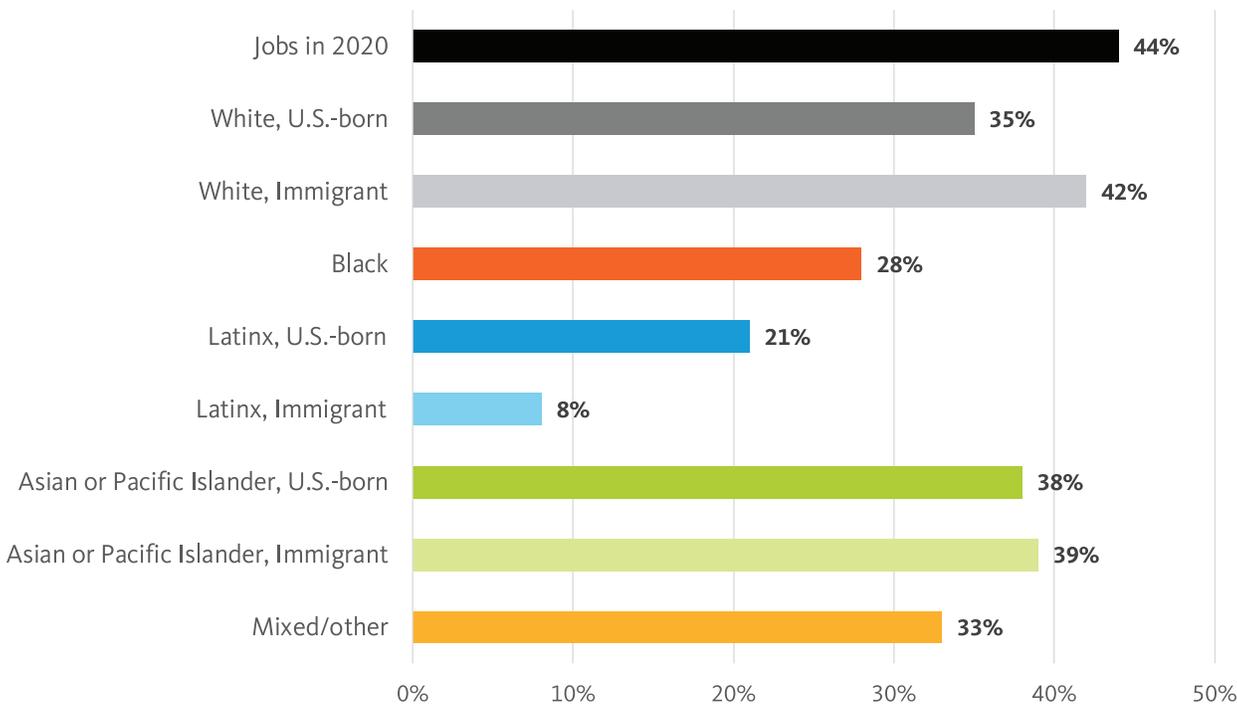
Lack of transportation is another significant hurdle for many workers and job seekers in the region. Job growth throughout San Joaquin County is geographically diffuse, with opportunities spread from Tracy, Lathrop, and Manteca in the southern part of the county to industrial parks near Lodi and outside the Stockton city limits. The San Joaquin Regional

Transit District operates extensive bus service in the city of Stockton, intercity routes within the county, and even interregional service for commuters heading to Sacramento or the Bay Area.²¹ But for residents traveling from certain neighborhoods or workers on non-traditional schedules who do not own a vehicle, it can be difficult to access job, schools, and other amenities. About 14 percent of economically insecure households in Stockton do not have a car, including 28 percent of economically insecure Black households.

Finally, Stockton is likely to face significant disadvantages in attracting middle-wage businesses because of low educational attainment, as the region lags far behind its Northern California neighbors. Less than 30 percent of adults ages 25–64 years in Stockton have at least an associate’s degree, compared to more than 40 percent in the Sacramento area, about 54 percent in the Bay Area, and 57 percent in the San Jose area. Without strong regional workforce development systems to bridge the gap, this workforce profile puts Stockton at a disadvantage for attracting businesses that can provide middle- and high-wage jobs, and makes it harder to retain college-educated youth and adults who may choose to seek work elsewhere.

Fewer than a third of adults in Stockton have a college degree.

Current educational attainment and projected state-/national-level job education requirements by race/ethnicity and nativity: Stockton, CA Metro Area, associate’s degree or higher, 2015



Source: Georgetown Center for Education and the Workforce; Integrated Public Use Microdata Series. Universe for education levels of working-age population includes all persons ages 25 through 64.

Note: Data on education levels by race/ethnicity and nativity represent a 2011 through 2015 average for Stockton Metro Area while data on educational requirements for jobs in 2020 are based on statewide projections for California.

The Path Forward for Stockton: Building an Equitable Economy

In *Regional Economies in Transition: Analyzing Trends in Advanced Industries, Manufacturing, and the Service Sector to Inform Inclusive Growth Strategies*, we describe priority solutions to advance equitable growth for regions based on where they fall within our typology. The boxed text suggests how the typology can be used to help identify and prioritize strategies to advance inclusive prosperity in Passed Over metros like Stockton, which should explore ways to use cluster-based strategies and public infrastructure investments to grow good jobs, engage anchor institutions, invest in retraining programs to create career pathways, and champion inclusive sourcing policies to support entrepreneurs.

Stockton's geographic, economic, and social connections to the high-tech hubs of San Francisco and Silicon Valley, the seat of state government in Sacramento, and the breadbasket of California's Central Valley represent a unique opportunity to develop complementary, interregional strategies to grow good jobs. By pairing these efforts with upstream education and training investments and workforce development systems that center on racial and economic equity, leaders in the region can put Stockton on the path to sustainable growth. Some key strategies to achieve these results are described below.

Target economic development efforts to increase sectoral synergy with other hubs in the megaregion and leverage Stockton's geography to grow good jobs. As the cost of doing business in San Francisco and Silicon Valley continues to grow, many firms in the area are expanding their out-of-state operations, or relocating altogether. With its geographic proximity and shared regulatory environment, the Stockton region could provide a competitive alternative, leveraging its more affordable commercial space and economic development tools to attract and grow knowledge- and tech-driven businesses priced out of the Bay Area, as well as the complementary business and professional services they require. By supporting these businesses to adopt innovative and equitable hiring and training practices, the region could accelerate the development of a highly skilled workforce while pulling down career ladders in growing industries for economically insecure residents. The Stockton region occupies a strategic geographical position in the Northern California megaregion and is conveniently situated along four freeways, two railroads, and the San Joaquin River with one of the largest ports in the state of California, which moves \$1.5 billion worth of cargo each year.²² The regional airport is poised to add daily

Key Strategies to Build an Equitable Economy in Passed Over Regions

To grow good jobs, Passed Over regions should:

Use cluster-based strategies to focus business supports in the region's strongest sectors. City and regional leaders can promote inclusive prosperity by focusing business supports in traded clusters—those that export goods and services outside of the region and can effectively leverage the assets of core cities.

Invest in public infrastructure to spur good job creation and support region-wide economic development.

To create accessible career pathways for economically insecure workers, Passed Over regions should:

Engage anchor institutions to create targeted employment strategies and establish inclusive sourcing policies. Given their large economic footprints, regional anchor institutions are important partners in implementing strategies to expand access to economic opportunities through targeted hiring and training.

Invest in retraining for displaced workers, which can help former manufacturing workers transition to new careers in growing sectors.

To support an equitable entrepreneurial ecosystem, Passed Over regions should:

Work with anchor institutions to establish inclusive sourcing policies. Large organizations like hospitals, universities, and other institutions anchored in place can accelerate racial equity by developing inclusive supply chains and contracting practices that support and sustain local enterprises owned by people of color, women, and other disadvantaged business owners.

service to Los Angeles,²³ a sign of Stockton's growing connections to other large regional economies. Taken together, these features give Stockton a distinct advantage as an interregional and interstate logistics hub. As part of a larger megaregional approach to development, growing the productive capacity of warehousing, transportation, and distribution firms in the region could provide an opportunity for workers and policymakers to improve the quality of accessible jobs in those sectors.

Increase access to post-secondary education. Only 8 percent of Latinx immigrants, 21 percent of U.S.-born Latinx residents, and 28 percent of Black residents in the Stockton region have earned a college degree. While San Joaquin Delta College enrolls over 20,000 students,²⁴ many of them leave Stockton after graduation—heading to a state university or moving out of the region to work. Interrupting this cyclical out-migration of the region's talent and increasing economic security for residents will require both growing good jobs and increasing educational attainment for residents. Stockton is the largest city in California without a four-year public university and was recently ranked as one of the least educated metros in the nation.²⁵ California State University Stanislaus operates a satellite campus in Stockton, but it serves only a small number of students. The efforts of local advocates to encourage the state university system to establish a campus in San Joaquin County are starting to pay off, as Governor Gavin Newsom proposed a budget of \$2 million to study the feasibility of such a project. A major public research institution in Stockton could help address both the human capital needs of the region and support the growth of research-and-development business ventures.

Build robust workforce training programs for disadvantaged workers and people of color. The Center for Budget and Policy Research at the University of the Pacific has estimated that the Northern San Joaquin Valley, which includes San Joaquin County (the Stockton metro), Stanislaus County, and Merced County, has the second lowest Human Capital Index in California: “The Human Capital Index is a measure of resident labor, skill, and knowledge. By way of example, educational attainment by Stockton residents is considerably lower than seen throughout the State.”²⁶ The mayor's office in Stockton has led the development of a skills taskforce and action plan not only to address the mismatch between current skills and jobs in the region, but also to prepare Stockton workers for the jobs of the future, which may look quite different from those available today. This plan calls out the need to “increase participation in the knowledge economy through inclusive skills development that maximizes residents' opportunities for upward mobility” and to “position Stockton and surrounding areas an R&D testbed of new automation technologies” that will create complementary new jobs.²⁷ Employers can also implement innovative training models to reduce the opportunity gap for workers without a degree. Apprenticeship programs like Apprenticeship 2020—which grew out of the Chicago Apprenticeship Network—are pulling down career pathways in nontraditional sectors. Community colleges and companies like Aon and Accenture have partnered to increase access to good jobs for underrepresented groups and to provide a sustainable and scalable workforce pipeline for businesses.²⁸ Through the program, high school students are matched with companies for two-year “earn-and-learn” apprenticeship placements, earning credentials and gaining experience to help them transition into full-time positions.

Conclusion

As globalization and technological advancement continue to transform the U.S. economy, accelerating the decline of traditional manufacturing and the growth of service-sector employment, equitable development planning in the Stockton region and across the broader Northern California megaregion should focus on aligning business and workforce development strategies, infrastructure investments, and public policy priorities to ensure all residents have access to good jobs and good schools close to stable and affordable homes. To increase economic security, foster racial equity, and position Stockton for inclusive growth, local and regional leaders can develop complementary strategies to grow businesses that provide high-quality career pathways while preparing local residents to succeed in those jobs.

Advancing racial and economic equity in Stockton is both a moral imperative and an economic imperative. In 2017 alone, the region's economy would have been \$8 billion stronger if there had been no racial gaps in wages or employment. Latinx and Black residents stand to make the greatest gains in income—74 percent and 49 percent, respectively—with racial equity. On average, incomes for people of color would increase to more than \$41,000, enough to lift a family of three out of economic insecurity.²⁹

By 2040 the region's growing population is projected to be 80 percent people of color. Given Stockton's demographic profile and inter-regional growth patterns, growing good jobs and advancing racial equity in education and the workforce are essential strategies to foster economic security for residents and economic vitality for the region. By implementing transformative, equity-centered solutions today, Stockton can lay the groundwork for a regional economy in which all can participate, prosper, and reach their full potential.

Racial equity in income and employment would strengthen the Stockton regional economy.

Income by race/ethnicity: Stockton, CA Metro Area, 2017



Source: Integrated Public Use Microdata Series.

Note: Data represent a 2013 through 2017 average.

Notes

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Acknowledgments

Many thanks to the PolicyLink staff who contributed to this report, including Sarah Treuhaft, Josh Kirschenbaum, Michael McAfee, and Angela Glover Blackwell, who helped shape the research; Sarah Treuhaft, for thoughtful review and feedback; Milly Hawk Daniel and Heather Tamir, for editorial and communications support; Rosamaria Carrillo, for help with manuscript preparation; and Jacob Goolkasian for design. Thank you to Sabrina Kim at the Program for Environmental and Regional Equity at the University of Southern California for data support and meticulous review. Much appreciation to Dr. Thomas Pogue at the University of the Pacific for lending his extensive expertise to this project and providing thoughtful feedback. Sincere gratitude to Mayor Michael Tubbs; to Max Vargas, Sheba Person-Whitley, and Stephanie Ocasio at the City of Stockton; to Sammy Nunez and the staff at Fathers and Families of San Joaquin; and to the residents of the Stockton region who shared their stories and experiences in focus group interviews. Special thanks to Carlos Delgado and Jess Zimbabwe at National League of Cities and the expert panel who advised the Stockton team of the Equitable Economic Development Fellowship Program: Robert Burns of Citi Community Development; Jenice Contreras of the Northeast Ohio Hispanic Center for Economic Development; Louis David of the New Orleans Business Alliance; Rudy Espinoza of LURN; Rachel Harmon of the City of Birmingham, Alabama; Autumn McDonald of New America; Valerie Patton of the St. Louis Regional Chamber; and Todd Rufo of Bloomberg Associates.

Special thanks to the Mastercard Center for Inclusive Growth for generously supporting this research.

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