CALIFORNIA’S FUTURE

- CLIMATE CHANGE
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CLIMATE CHANGE THREATENS CALIFORNIA’S FUTURE

Increases in global emissions of greenhouse gases (GHGs) are leading to higher air and water temperatures as well as rising sea levels, with serious consequences for California. Air temperatures are projected to increase throughout the state over the coming century. Sea level is expected to rise 17 to 66 inches by 2100, and the frequency of extreme events such as heat waves, wildfires, floods, and droughts is expected to increase. Higher temperatures will result in more rain and less snow, diminishing the reserves of water in the Sierra Nevada snowpack. Even if all GHG emissions ceased today, some of these developments would be unavoidable because the climate system changes slowly.

AIR TEMPERATURES ARE PROJECTED TO RISE IN CALIFORNIA, ESPECIALLY UNDER HIGH EMISSIONS SCENARIOS

In the face of these threats, California has taken the lead in global efforts to reduce emissions. Assembly Bill (AB) 32, the Global Warming Solutions Act of 2006, requires the state to reduce greenhouse gas emissions to 1990 levels by 2020; this would result in emissions roughly one-third less than what would be expected under “business as usual.” An executive order calls for emissions to be reduced to 80 percent below 1990 levels by 2050. Reductions of this magnitude are needed on a global scale to stabilize the earth’s climate. California now faces a twofold policy challenge: finding the least expensive ways to reduce emissions and preparing for the climate changes that are expected even if emissions are successfully reduced.

California is not alone in tackling this global issue. But its actions are crucial because they set an example for other states, regions, and parts of the world. The state must continue to forge new strategies, even though the nature and timing of climate change are uncertain and global efforts to reduce emissions may or may not be successful.
CALIFORNIA IS USING A MULTIFACETED APPROACH TO REDUCE EMISSIONS

The California Air Resources Board (CARB) is responsible for implementing the Global Warming Solutions Act. In late 2008, CARB adopted a Scoping Plan that outlines the programs designed to reach the 2020 target. Because this is the first comprehensive plan of its kind within the United States (and one of the first such plans internationally), many are looking to California as a model. California is on track to meet the 2020 target, and CARB is now updating the Scoping Plan and assessing options for meeting the state’s more ambitious longer term goals. A recent PPIC Statewide Survey (July 2013) found record-high support among Californians (65%) for the state taking action right away to meet its climate goals, even in difficult economic times.

ENERGY AND TRANSPORTATION ARE THE LARGEST COMPONENTS OF THE SCOPING PLAN

- **New standards for passenger vehicles are key**...
  California adopted the first-ever greenhouse gas emission standards for passenger vehicles in 2002. These standards, which began to apply in the 2009 model year, will reduce emissions from new passenger vehicles by approximately 30 percent by 2016. The federal government has set national standards that match California’s.

- **... so are ambitious renewable energy goals.**
  California’s Renewable Portfolio Standard, established in 2002 and expanded in 2006 and 2011, sets one of the nation’s most ambitious targets for expanding renewable energy. The program now requires utilities to provide 33 percent of total procurement from renewable energy resources by 2020. Although certain storage, distribution, and financing challenges remain, considerable progress has been made toward meeting this target.

- **A statewide cap-and-trade program has been adopted.**
  California adopted the first GHG cap-and-trade program in the nation in 2011. Under this program, firms that would need to spend a lot to reduce emissions can trade emission reduction credits with firms that can reduce emissions at lower cost. The auctions—successfully launched in late 2012—initially cover electric utilities and large industrial emitters and will eventually cover 85 percent of the state’s GHG emissions. California’s program will be linked with Quebec’s cap-and-trade program in January 2014, paving the way for other states and regions to link their programs in the future.

NOTE: GWP = global warming potential; gases with high GWP include refrigerants and solvents.
California has also adopted other pathbreaking strategies. Adopted in 2008, Senate Bill (SB) 375 aims to reduce emissions by integrating investments in land use and transportation to reduce driving. This bill provides incentives to achieve these reductions by easing environmental review requirements for qualifying projects. In September 2010, CARB adopted regional per capita GHG emission reduction targets from passenger vehicles for 2020 and 2035. Reduction targets for the four largest regions range from 13 to 16 percent, relative to 2005 levels, by 2035. By mid 2012, Southern California, Sacramento, San Diego, and the San Francisco Bay Area had plans in place to meet these reduction targets. The 15 smaller regions covered by the bill face lower targets, with plans expected to be in place by the end of this year.

California’s local governments are also addressing climate change. Roughly 80 percent of California’s cities and counties are developing plans and programs to address climate change. In many instances, these measures are also being promoted as ways to reduce energy costs and work toward broader sustainability goals. Opinion polls also suggest continued public support for many of these state and local efforts.

### Growing Numbers of Local Governments Are Addressing Climate Change

<table>
<thead>
<tr>
<th>Year</th>
<th>In progress/plan to do</th>
<th>Already done</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2010</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>2011</td>
<td>80%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Sources:** 2008 data from Ellen Hanak et al., “Climate Policy at the Local Level: A Survey of California’s Cities and Counties” (PPIC, 2008) (sample size 309); 2010 data from Louise Bedsworth, Ellen Hanak, and Elizabeth Stryjewski, “Views from the Street: Linking Transportation and Land Use” (PPIC, 2011) (sample size 347); 2011 data from Office of Planning and Research, “Annual Planning Survey Results 2012” (OPR, 2012) (sample size 451). The 2008 survey refers to climate action plans; the 2010 survey refers to climate action plans or similar plans that address climate change; and the 2011 survey refers to policies and/or programs to address climate change and/or reduce greenhouse gas emissions.

### Californians’ Support for the State’s Climate Policies Is Strong

<table>
<thead>
<tr>
<th>Policy</th>
<th>% Favor (all adults)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Warming Solutions Act of 2006</td>
<td>67</td>
</tr>
<tr>
<td>Emission standards for new passenger vehicles</td>
<td>80</td>
</tr>
<tr>
<td>Increasing the use of renewable energy</td>
<td>79</td>
</tr>
<tr>
<td>Requiring local governments to change land-use patterns so people drive less</td>
<td>76</td>
</tr>
<tr>
<td>Requiring an increase in energy efficiency for residential and commercial buildings and appliances</td>
<td>76</td>
</tr>
<tr>
<td>Requiring industrial plants, oil refineries, and commercial facilities to reduce emissions</td>
<td>80</td>
</tr>
<tr>
<td>Requiring oil companies to produce transportation fuels with lower emissions</td>
<td>81</td>
</tr>
<tr>
<td>Setting stricter emissions limits on power plants</td>
<td>76</td>
</tr>
</tbody>
</table>

**Source:** Mark Baldassare et al., PPIC Statewide Survey: Californians and the Environment, July 2013.
California Needs to Prepare for the Effects of Climate Change

California is ahead of other states in developing information on the effects of climate change, but much work must be done to prepare for these effects.

- **The effects of climate change are already being seen around the state.**
  Spring runoff from snowpack is occurring earlier now than it did in the first part of the 20th century. Some plant and animal species normally found in the southern part of the state have been observed in more northern locations.

- **Sea level rise threatens coastal infrastructure, homes, and habitat.**
  A 2012 National Research Council study projected that sea levels in California south of Cape Mendocino will rise by 17 to 66 inches by 2100. The Pacific Institute found that near the higher end of this range (55 inches), 1,750 and 1,800 miles of highways and roads along the ocean coastline and San Francisco Bay, respectively, are at risk of inundation. Coastal armoring (e.g., sea walls or breakwaters) can help protect infrastructure and homes along the coast, but this is an expensive remedy and would eliminate some recreational and ecological uses of the coastline.

- **Water management faces challenges.**
  The diminishing mountain snowpack reduces water storage and increases the risk of Central Valley flooding. Rainfall variability is also expected to increase, leading to more frequent droughts and floods. In addition, sea level rise threatens fragile Delta levees, which are important for the state’s water supply.

- **Public health will be at risk.**
  An increase in extreme events—heat waves, wildfires, and floods—will pose challenges to public health and the state’s emergency preparedness agencies and health care infrastructure. Case in point: a prolonged heat wave in 2006 resulted in more than 140 confirmed deaths and a significant increase in emergency room visits and hospitalizations.

- **Air quality will worsen.**
  The San Joaquin Valley and the Los Angeles area already have some of the worst air quality in the nation. Increasing temperatures and other effects of climate change will worsen air quality, likely requiring additional pollution controls to attain state and federal air quality standards.

- **Biodiversity is under threat.**
  Climate change places an additional burden on many of the state’s plants and animals. As temperatures rise, many species will need to migrate to more hospitable areas. Current development patterns could hinder this movement and threaten extinction for some species.

- **Readiness to cope is variable.**
  Water and electric utilities have begun to consider climate change in their long-range planning and have tools available to develop adaptation strategies. The Natural Resources Agency has developed a statewide adaptation strategy, and some regions are taking the lead in thinking about adaptation (e.g., San Diego and the Bay Area). But in areas such as ecosystem management and flood control, the institutional and legal frameworks are ill equipped to handle the changes.

**Sea Level Rise Threatens the Bay Area**

[Sources: Map from San Francisco Bay Conservation and Development Commission; inundation data from N. Knowles, “Potential Inundation Due to Rising Sea Levels in the San Francisco Bay Region” (California Climate Change Center, 2009).]

NOTE: The map illustrates the potential inundation with 16 inches and 55 inches of sea level rise, toward the upper end of the range expected by 2050 and 2100, respectively.
• New tools may help local governments prepare for climate change effects.

In 2010, only a quarter of local governments had begun efforts to reduce their vulnerability to climate change (according to the Governor’s Office of Planning and Research). Two new state-supported tools may help them prepare. The online tool Cal-Adapt allows users to identify potential climate impacts in specific geographic regions. Knowledge of these risks can help localities begin to determine and plan for their own vulnerabilities. Another online source, the California Climate Adaptation Policy Guide, provides an overview of climate effects and vulnerabilities by geographic region, along with adaptive measures that are within the jurisdiction of local governments.

• Californians support action to address climate change effects.

A strong majority of residents (82%) think it is very or somewhat important for the state to pass regulations and spend money now to prepare for the future effects of climate change (PPIC Statewide Survey, July 2013).

CALIFORNIANS ARE CONCERNED ABOUT THE EFFECTS OF CLIMATE CHANGE

Looking Ahead

California is on track to meet its own emission reduction goals for 2020, and the state has begun to assess actions needed to meet its more ambitious goals for 2050. But to lessen the impact of climate change on California, emission reductions will be needed on a global scale; large reductions will be needed soon to avoid the most severe effects. Even with these reductions, the state needs to prepare for some inevitable effects of climate change.

• Develop an integrated climate change policy.

An integrated climate change policy that includes efforts to reduce emissions and plans to prepare for climate change will ensure that mitigation and adaptation policies are complementary.

• Achieve near-term greenhouse gas emission reductions.

Actions taken today will affect the concentration of greenhouse gases in the atmosphere several decades from now. Therefore, near-term emission reductions are needed to work toward future climate stabilization.
• **Undertake some “no regrets” measures now.**
  In some areas, accounting for future climate changes in current planning will head off unacceptably high costs. For example, considering climate change in today’s land-use planning decisions could facilitate species’ migration as the climate changes. And limiting development in areas at increasing risk of flooding will avoid future costs.

• **Tap into local enthusiasm for undertaking climate action.**
  Local governments’ experience and learning will be especially important in meeting the greenhouse gas emission reduction targets set under SB 375, the state’s transportation and land-use law.

• **Continue to develop information to reduce policy uncertainties.**
  Better information is needed to assess progress toward meeting emission reduction goals and the cost-effectiveness of policy options. More detailed assessments of local climate effects will help pinpoint vulnerabilities and develop priorities for adaptation.

• **Continue to play a leadership role.**
  California has long been a leader on environmental policy, and climate change is no exception. This leadership is important in encouraging other governments to address climate change. Without global cooperation to reduce emissions, California’s economy and society may face severe consequences.

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This series is funded by PPIC’s Donor Circle and the S. D. Bechtel, Jr. Foundation.
CALIFORNIA IS PURSUING HISTORIC CHANGES TO ITS ADULT CORRECTIONS SYSTEM

The past 30 years have seen dramatic changes in California’s prison system. Between 1980 and 2006, the adult prison population increased more than sevenfold. The number of prisons also increased during that time, from 12 to 33, but crowding worsened and cost became an issue. Spending on corrections rose from 2.9 percent of the state’s General Fund in the 1980 fiscal year to 10.5 percent in fiscal year 2010. Felony crime rates dropped by 52 percent between 1980 and 2010, fueling debate about whether mass incarceration has been an effective remedy or a costly response to a now-diminished problem.

A lawsuit filed in 2001 citing the state’s “grossly inadequate” provision of prisoner health care prompted a May 2011 U.S. Supreme Court decision that gave the California Department of Corrections and Rehabilitation (CDCR) two years to reduce its institutional population to 137.5 percent of design capacity—equivalent to a reduction by some 33,000 prisoners. Assembly Bill (AB) 109, signed that spring by Governor Brown, shifted responsibility for many non-serious, non-violent, and non-sexual offenders to county jail and probation systems. As of October 1, 2011, many felons who would have gone to state prison are now incarcerated in county jails or given alternative sanctions. And many parolees from the state system are now supervised by the counties. This unprecedented policy shift—known as realignment—has had a substantial impact at the state, county, and community levels.

CALIFORNIA’S STATE INSTITUTIONAL AND PAROLE POPULATIONS PEAKED IN THE LAST DECADE

![Graph showing California's state institutional and parole populations](image)


**NOTES:** “Institutional” refers to the population housed in the 33 adult institutions within California; it does not include inmates in fire camps, private facilities, or facilities out of the state. Institutional populations for 1985 and 1986 are imputed.
THE STATE PRISON AND PAROLE POPULATIONS ARE DECREASING—AND CHANGING

• **Realignment has reduced the state prison population.**
  By the beginning of October 2012, the institutional population had declined from 144,500 to 119,900—a 17 percent decrease in the first full year of realignment. But the population has leveled off since then, leaving the institutional population at 148 percent of design capacity—more than 8,000 inmates over the 137.5 percent target. Another 8,500 inmates are housed in private prison facilities in Arizona, Mississippi, and Oklahoma; this total has not changed significantly in the past three years.

• **Violent offenders are a growing majority of the prison population.**
  The number of violent offenders in state prisons has been climbing steadily for the past 20 years. Their proportion of the whole has increased as the numbers of other types of offenders have stagnated or dropped off. As realignment has begun to send nonviolent felony offenders to county jurisdiction instead of to state prison, the midyear share of violent criminals has risen from 59 percent in 2011 to 70 percent in 2013.

• **As the parole population declines, the proportion of serious, violent, and sexual offenders remaining on parole is increasing.**
  By the beginning of October 2013, the state parole population had declined from 89,200 to 47,900—a 46 percent decrease in the first two years of realignment. As counties take responsibility for less-serious offenders, the state parole population now has a greater proportion of serious, violent, and sexual offenders. On June 30, 2011, parolees with a serious or violent current or prior offense made up 46 percent of the state parole population; two years later they constituted 71 percent.

COUNTIES VARY IN THEIR RESPONSES TO REALIGNMENT

California’s 58 counties each have a unique set of corrections resources, attitudes toward incarceration, and public safety realities.

• **Counties have differing jail capacities ...**
  All counties in California except Alpine County have their own jail facilities. The smallest capacity is in Sierra County, which has one jail built to hold 14 inmates, and the largest is in Los Angeles, with multiple facilities for a total of 14,024 inmates. In all, the state’s 58 counties have a jail capacity of around 77,000.

• **... and differing jail populations.**
  In September 2011, the state’s county jails had an average daily population of about 72,000. In the 12 months before realignment was implemented, 14 counties maintained average daily populations in their jails that exceeded their capacities, and 32 counties released inmates because of a lack of capacity. As of June 2013, 18 counties were operating under court-imposed caps limiting the number of inmates in their jails. Counties that consistently run their jails under capacity often rent out space to state or federal corrections agencies, so the number of available jail beds at the county level is difficult to estimate. As of June 2013, the average daily population in the state’s county jails had increased to about 82,200.

• **Some counties are focusing on alternatives to incarceration ...**
  Since many counties are not inclined, or able, to incarcerate all of the additional offenders, some jurisdictions are putting resources into programs and alternative sanctions. Returning parole and probation violators to state prison is no longer an option, so counties are relying on jail terms or alternatives such as “flash incarceration” (sending violators to jail for a few days at a time), substance abuse treatment, work release, electronic monitoring, and community-based residential programs.

• **... while others are augmenting their jail capacity.**
  AB 900, passed in 2007, provided funding for jail construction, and 21 counties have received a total of $1.12 billion. Calaveras and Madera Counties are the first to complete AB 900 projects, opening new facilities in late 2013. SB 1022, passed in 2012, provides an additional $500 million for jail construction, with conditional awards to be announced in early 2014. The nearly $1.7 billion total funding provided by the state could create up to 14,000 new jail beds over the next decade (an expansion of about 18 percent). However, some counties, such as Contra Costa, San Francisco, and Santa Cruz, have chosen to manage their jail populations without applying for jail construction funds, focusing instead on alternatives to incarceration.
FEWER DRUG AND PROPERTY OFFENDERS ARE GOING TO STATE PRISON

![Maps showing new admissions for drug or property crimes](source: New Felony Admissions and Parole Violators with a New Term, CDCR, 2010–2012.)

REALIGNMENT’S IMPACT IS UNCERTAIN

- Crime rates have increased slightly—but is this due to realignment?
  California’s crime rates have recently started to increase but remain at historically low levels, substantially below those of a decade ago. Nonetheless, with the significant decrease in incarceration that followed realignment, concerns have been raised about increases in crime. Strong evidence suggests that changes in incarceration caused by realignment increased property crime somewhat, especially motor vehicle thefts, but finds no evidence that the most serious crimes, murder and rape, have increased as a result of realignment.

- Recidivism patterns are changing.
  Recidivism rates are measured in three ways—as the percentage of released prisoners who are rearrested, convicted, or returned to prison. The first two measures have seen only small changes since realignment began. But returns to state prison have dropped dramatically. Only 7 percent of post-realignment releases have been returned to prison after realignment, compared to 40 percent before realignment. This decline is a direct result of AB 109’s requirement that county jails oversee those whose parole has been revoked and those who have been convicted for non-serious, non-violent, and non-sexual offenses.
• County jail populations are increasing.

As the state prison population has decreased, county jail populations have increased. The average daily jail population reached 82,200 by June 2013—higher than just before realignment began, but still lower than the peak of 83,000 in July 2007. Despite the increase, overall incarceration levels statewide are now lower than they were before realignment, because the increase in the jail population has been lower than the decrease in the prison population. The composition of the jail population has also changed. Post-realignment, a greater portion of jail inmates are sentenced felons rather than unsentenced felons and misdemeanants.

![Graph of County Jail Populations](image)

**COUNTY JAIL POPULATIONS ARE RISING BUT ARE STILL BELOW PREVIOUS PEAK**

NOTE: Statewide figures include population numbers from Santa Ana Police Department.

• Is health care delivery improving?

Recent system-wide audits by the Office of the Inspector General show improvement in some measures of quality, although criticism remains—particularly of the system’s handling of persistently high suicide rates. The Affordable Care Act will provide opportunities for enrolling uninsured inmates and individuals under community supervision to access health care, including treatment for mental illness and substance abuse. But it remains unclear whether lawsuits against the state challenging the constitutionality of mental and medical health care will now be brought against counties.

• How are prosecution and sentencing changing?

Realignment altered the incentives related to prosecution and sentencing. In marginal cases, district attorneys may now opt for more serious charges (known as “up-charging”) in hopes of sending offenders to prison instead of county jail. Similarly, prosecutors may decide to charge rearrested parolees with new crimes rather than allow them to be handled as administrative violations of parole. These approaches might increase prison commitment rates over time. Alternatively, judges may opt for lighter sentences or so-called split sentences that require offenders to spend a portion of the sentence in jail and the rest under supervision by a probation officer.
CALIFORNIANS ARE AMBIVALENT ABOUT CORRECTIONS

- Californians have not traditionally prioritized corrections spending.
  PPIC Statewide Survey respondents have consistently ranked corrections spending low on the list of programs they would most want to protect from spending cuts. During the last ten years, the proportion of respondents ranking it first has never risen above 8 percent, and it has always polled behind the other three major budget areas: K–12 education, higher education, and health and human services.

- Views of the counties’ readiness for realignment vary across demographic and regional groups.
  In September 2013, the PPIC Statewide Survey asked respondents how confident they were in their local governments’ ability to take on the responsibilities of public safety realignment. Four in ten said they were either very (7%) or somewhat (33%) confident, while a majority were either not too (32%) or not at all (25%) confident. Asians (49%), blacks (47%), and Latinos (45%) were much more likely than whites (35%) to be very or somewhat confident. Confidence was higher in Los Angeles (47%) and the Inland Empire (46%) than in the San Francisco Bay Area (37%), Orange/San Diego (37%), and the Central Valley (36%).

![Confidence in Local Governments’ Ability to Handle Corrections Realignment](image)

CONFIDENCE IN LOCAL GOVERNMENTS’ ABILITY TO HANDLE CORRECTIONS REALIGNMENT IS MIXED


LOOKING AHEAD

With California more than two years into public safety realignment, several issues still deserve sustained attention.

Next steps in reducing the prison population. Despite dramatic decreases, the state prison population remains above the threshold of 137.5 percent of design capacity set by the federal court. The legislature and governor are considering additional options for meeting the federal court’s mandate, including: increasing the reliance on private prisons; making a deal to extend the deadline for complying with the court order in exchange for increased funding for rehabilitation and community treatment programs; and, as a last resort, allowing the early release of the remaining non-serious, non-violent, and non-sexual offenders left in the system.
Funding. Governor Brown’s 2013–14 budget proposal established corrections realignment as a top priority, fully funding it via the sales tax and vehicle license fee. With the recent passage of Proposition 30, funding for realignment has been secured as a constitutional guarantee, so county officials may now be more willing to commit to long-term changes in their public safety programs.

Evaluation. The state has not made funding available for evaluating county practices, nor does it require counties to report back to the legislature or even to collect data on their caseloads. Because AB 109 establishes no incentives, resources, or standards for counties to measure outcomes, it will be difficult to assess what California’s most significant justice reform in decades has achieved.

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ECONOMY

CALIFORNIA’S ECONOMY IS REBOUNDING, BUT CHALLENGES REMAIN

By many measures, California’s economy is making a strong recovery from the Great Recession. The state unemployment rate is lower than it has been in about five years, and jobs have been growing for four years straight. As the housing market continues to improve, the construction industry gains back some of the jobs lost during the recession. Many high-skill industries are experiencing strong growth, which is projected to continue over the next decade. However, many Californians are still unemployed or underemployed. Because of this, family incomes in California continued to decline well into 2012 and perhaps beyond. This mixed picture is reflected in Californians’ views of the economy: according to PPIC’s September 2013 Statewide Survey, 46 percent believe that the economy will face good times over the next year, and 44 percent believe bad times are likely.

While recent trends are an important gauge, historical patterns are still the best guide to California’s economic future. Booms, busts, and recoveries take place in the context of long-term trends, and major industry shifts—such as the transition from manufacturing to services—can occur over decades.

CALIFORNIA JOB GROWTH TRACKS GROWTH IN THE NATION OVERALL

NOTE: Annual change in nonfarm employment, December to December every year except 2013.

CALIFORNIA’S LONG-TERM ECONOMIC PROSPECTS ARE FUNDAMENTALLY STRONG

The California economy generally keeps pace with the U.S. economy. California’s higher unemployment and higher costs of doing business are explained or offset by the state’s strengths. And they are likely to remain permanent features of the California economy.

- California’s economic performance closely tracks that of the nation as a whole. The broadest measure of California’s economic performance—employment growth—follows the nation’s growth rate very closely. Over the past 30 years job growth has averaged about 1.3 percent annually for both California and the nation—and both saw job growth in 2013, for the fourth year in a row. For the past two years, job growth in California (and the U.S.) outpaced the long-term average, growing at an annual rate of 1.5 to 1.8 percent.
• **Unemployment is persistently higher in California.**

In August 2013, California’s unemployment rate was 8.9 percent; the national rate was 7.3 percent. While high, California’s rate reflects a drop of nearly 2 percentage points from just one year ago; there have been consistent declines from a peak of 12.5 percent during the Great Recession. California’s unemployment rate has been higher than the national rate for 20 years—even when the state’s employment growth has surpassed national growth, as it did during the technology boom in the late 1990s. This may seem paradoxical, but it makes sense in the context of California’s fast-growing labor force: the state’s economy generates jobs at a rate similar to the national rate, but this is not enough to keep up with California’s faster-growing population. So California unemployment is likely to remain above the U.S. level for some time to come.

![Graph showing unemployment rates for California and the U.S.](image)

**Sources:** U.S. Bureau of Labor Statistics and California Employment Development Department.

**Notes:** Monthly unemployment rate, seasonally adjusted. All dates are for August of the corresponding years.

• **Labor market conditions have contributed to sizeable declines in family income.**

California unemployment remains historically high. Moreover, as of March 2013 the average period of unemployment was 36 weeks—down only slightly since the Great Recession. Largely because of labor market conditions, median household income in 2012 (the most current data available) was 10 percent lower than before the recession—and slightly higher than in 2011. Median income is higher in California than in the nation as a whole (about $57,000, compared with $51,000). Income is more than twice as high for the median household headed by someone with a bachelor’s degree ($90,000) than for the median household headed by someone with a high school education only ($40,000).

• **California is a high-cost, high-benefit state.**

California workers, on average, earn 12 percent more than the national average—even after adjusting for differences in workers, occupations, and industries. But output per worker in California is 13 percent above the national average, so California’s higher productivity fully offsets the higher average wages. All of California’s immediate neighbors—Nevada, Oregon, and Arizona—pay their workers less and have lower output per worker.

• **The “business climate” debate understates California’s strengths.**

California consistently scores poorly in many business climate rankings that focus primarily on taxes and other costs of doing business. California’s economic performance is stronger than these business climate rankings alone would indicate. Businesses locating in California face higher costs, but they also enjoy many benefits, such as the skill level of the workforce, the availability of capital and support for new business, and the amenities that make California an attractive place to live.
GROWTH WILL BE UNEVEN

• Regional economic differences are dramatic—and persistent. Economic differences within California are likely to continue. Unemployment tends to be higher in the Central Valley—sometimes considerably higher—than in the urban, coastal parts of the state. This variation is attributable to different industry mixes and job growth patterns—and the faster-growing workforce in the inland parts of the state. Even among urban coastal areas, California’s regional economies don’t move in concert: in most years some regions of the state grow quickly while others grow slowly or contract. Although inland California currently has higher unemployment rates, that region’s low housing costs will contribute to the growth of its workforce. The working-age population in much of inland California is projected to grow more than 25 percent between 2010 and 2030; in California overall, the growth rate will be 8.8 percent.

INLAND CALIFORNIA’S LABOR FORCE WILL GROW FASTEST

![Map of California showing projected growth rate of working-age population by county, 2010–2030.]

Projected growth rate (%)
- Less than -5
- -5 – 0
- 0.1 – 10
- 10.1 – 25
- More than 25

SOURCE: California Department of Finance.
NOTE: Projected growth rate of California’s working-age population by county, 2010–2030.

• Housing is still expensive and probably always will be. Housing prices have increased year over year for 16 consecutive months in California. In August 2013, the median U.S. home was worth $162,100; in California, the median home was worth $383,300, according to Zillow. Even during the Great Recession, housing in California was much more expensive than in the nation as a whole. Expensive real estate makes it harder for some businesses to locate in California and attract workers, potentially pushing growth out of state. In the past year, median housing prices have increased across most of California—in both inland and coastal regions—with the largest gain in the Vallejo metro area (a 41% increase over 2012–13), followed by Stockton and Modesto (both around 35%).
• Services will continue to grow; manufacturing will continue to stagnate. Manufacturing accounted for only 9 percent of California’s employment in August 2013; year over year, manufacturing employment fell slightly, whereas almost every other industry in the state grew. Manufacturing has been declining for decades and will continue to be a sluggish sector in California. During the recession, the construction industry contracted most sharply. As the housing market rebounds and the existing housing stock is being absorbed by California’s growing population, construction employment is rebounding as well. Over the past year, construction employment grew about 5 percent and is projected to grow 26 percent by 2020—making construction one of the fastest growing industries in the state. Service and trade industry jobs—including professional services, education, and health care—are also projected to grow quickly over the next decade.

### Projected Private-Sector Industry Growth, 2010–2020

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational services</td>
<td>28.8</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>27.5</td>
</tr>
<tr>
<td>Construction</td>
<td>26.2</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>25.8</td>
</tr>
<tr>
<td>Professional services</td>
<td>25.6</td>
</tr>
<tr>
<td>Health care</td>
<td>24.9</td>
</tr>
<tr>
<td>Administrative services</td>
<td>24.9</td>
</tr>
<tr>
<td>Retail trade</td>
<td>22.0</td>
</tr>
<tr>
<td>Transportation, warehousing, and utilities</td>
<td>16.7</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>16.0</td>
</tr>
<tr>
<td>Arts, entertainment, and recreation services</td>
<td>15.3</td>
</tr>
<tr>
<td>Other services</td>
<td>13.7</td>
</tr>
<tr>
<td>Real estate and rental and leasing</td>
<td>10.7</td>
</tr>
<tr>
<td>Information</td>
<td>8.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.4</td>
</tr>
</tbody>
</table>

**SOURCE:** California Employment Development Department.

**NOTE:** Employment growth projections for private sector only.
LOOKING AHEAD

California’s long-term economic trends reflect strengths but also create pressures that policy must respond to. The most effective economic policies require accurate assessments of California’s economic performance, a balanced view of the state’s competitiveness, and a realistic sense of the state’s strengths and weaknesses.

• Pursue policies to help create jobs and foster full-time employment.
  California’s economic recovery is proceeding, but slowly: about 1.6 million Californians remain unemployed, nearly double the number who were unemployed before the recession. Creating jobs and increasing full-time employment is key to enhancing California’s recovery. A thriving California economy is the best route to future employment growth in the short and long run. Economic policy that stimulates business and fosters a strong, skilled workforce is crucial to job creation in California.

• Don’t pin all hopes on one industry.
  Although many industries—such as film, high-tech, and wine-making—are highly concentrated in California, the state’s economy is in fact very diversified, and its industry mix is quite similar to the nation’s. Economic policy should reflect the breadth and diversity of the state’s economy. Tempting as it is to identify the next boom industry—such as clean technology—and focus economic development efforts there, booms usually don’t deliver stable, steady growth, as the Internet and housing industries demonstrate. And some hyped industries fail to take off at all. Economic development policy needs to nurture both new, innovative industries that might constitute California’s next boom and established, steadily growing industries such as health care services.

• Promote economic opportunity through education.
  Education is essential to Californians’ economic well-being. Highly educated workers were somewhat protected from the impact of the Great Recession and are likely to do better during future boom and bust cycles. Promoting education is thus an important strategy for ensuring economic opportunity across the income spectrum and addressing income inequality. And because the new economy demands a highly skilled workforce, education has a crucial role in helping California remain economically competitive.
THE AFFORDABLE CARE ACT USHERS IN SWEEPING CHANGES IN CALIFORNIA

California is on the verge of historic changes to its health care system as the result of federal health care reform. The Affordable Care Act (ACA) represents sweeping policy changes intended to expand health care coverage, reform the financing and delivery of services, and advance prevention and wellness efforts. California has embraced reform, enacting state legislation to implement many key elements of the ACA—including creation of a state-based insurance marketplace, expansion of Medi-Cal (the state’s Medicaid program), simplification of eligibility and enrollment systems, and reform of the insurance market.

Despite California’s substantial progress and commitment, much remains uncertain about how these changes will reshape health care in the state. Some of this uncertainty stems from lack of federal guidance. But some of it relates to California itself—its size and diversity, its existing programs and capacity, and its implementation decisions. Connecting millions of previously uninsured Californians to available coverage options and facilitating simple, streamlined enrollment will undoubtedly come with challenges. Expanding health insurance to millions could also strain existing provider networks. The next several years will require considerable monitoring, oversight, and adjustments to fulfill the potential that federal health care reform offers.

THE ACA COULD CUT THE NUMBER OF UNINSURED CALIFORNIANS IN HALF BY 2019

![Diagram showing the number of uninsured Californians with and without ACA](source: UC Berkeley–UCLA CalSIM model, Version 1.8, enhanced scenario estimates.)

MEDI-CAL IS EXPANDING

Medi-Cal provides health insurance to low-income people. To qualify for Medi-Cal, individuals were once required to earn a low income and to have either a dependent child or qualifying disability. As of January 2014, single adults with no dependent children are also eligible for the program. In addition, income eligibility has increased to 138 percent of the federal poverty level (about $16,000/year for an individual or $32,500/year for a family of four). As a result of these changes, an estimated 1.4 million Californians are expected to become eligible for the program.
Medi-Cal is the state’s second-largest General Fund expenditure after K–12 education. In the 2013–2014 budget, the Medi-Cal program will spend an estimated $69.5 billion, with $16.1 billion coming from the General Fund. These expenditures will provide services for more than 10 million Californians. The Medi-Cal expansion to single adults will be funded entirely by the federal government for the first three years—the current state budget assumes about $1.5 billion in federal funds to provide coverage to newly eligible enrollees.

Medi-Cal will be serving many more Californians. Nearly 635,000 Californians made newly eligible for Medi-Cal by the ACA are expected to enroll during the first six months of 2014. Medi-Cal enrollment has also increased substantially as nearly 900,000 children have transitioned into Medi-Cal from California’s Healthy Families Program, the state’s version of the federal Children’s Health Insurance Program.

Enrollment in Medi-Cal managed care plans is expanding across the state. In 2012, slightly more than 60 percent of Medi-Cal beneficiaries received services through managed care health plans instead of fee-for-service payments—and this number is expected to increase substantially in the coming years. Specifically, managed care is expanding to 28 rural counties and also to many seniors and people with disabilities, including those who are eligible for both Medi-Cal and Medicare. This shift to managed care is intended to provide better, more coordinated care and to help control costs.

COVERED CALIFORNIA, CALIFORNIA’S NEW INSURANCE MARKETPLACE, OPENS FOR BUSINESS

New health insurance marketplaces where individuals and small businesses can shop for, compare, and enroll in health plans are a cornerstone of the ACA coverage expansions. California chose to establish a state-based marketplace, called Covered California, and is taking an active role in shaping the coverage options available. Individuals with incomes up to 400 percent of the federal poverty level ($92,200/year for a family of four) will be able to use federal tax credits to subsidize the cost of coverage purchased through Covered California. Certain small businesses will also be eligible for tax credits to offset insurance costs.

Enrollment efforts are ambitious. Covered California is targeting enrollment efforts to more than 5 million Californians—primarily people who are uninsured and those who directly purchase coverage in the individual insurance market. Slightly more than half of these Californians could be eligible for federal subsidies, according to available estimates.

Several enrollment avenues are available. Web-based portals, call centers, county health and human services offices, and a network of paid enrollment advisors will provide substantial enrollment assistance. Health care providers will also be a key resource.

Covered California will have an extended enrollment period in its first year of operation. Open enrollment, the period during which people can enroll in health plans, will last from October 2013 through March 2014 in the first year of operation, but will be shorter in future years. People who do not enroll in coverage during open enrollment will not be able to do so until the following year, even if they become ill or need health services.

Multiple coverage options are available, but they share the same standard benefits. In 2014, Covered California will offer health plans from 11 health insurance companies, with different pricing and plan choices available across 19 regions. Standard benefit packages and cost-sharing requirements are the same across all plans.
DESPITE INSURANCE EXPANSIONS MILLIONS WILL REMAIN WITHOUT COVERAGE

- Even years after ACA implementation, millions of Californians are expected to remain uninsured. Despite expanded insurance options, three to four million Californians are likely to lack insurance. Nearly four in ten of those projected to be uninsured in California in 2019 will be eligible for subsidized coverage through either Medi-Cal (25%) or Covered California (12%) but will not be enrolled. The rest will not be eligible for subsidized coverage because either their income is too high or they are offered affordable coverage through their employer (29%), or because of their immigration status (33%).

- Most of those without insurance will be exempt from tax penalties. Although the ACA requires people to have health insurance or pay a tax penalty, estimates suggest the majority of Californians who remain uninsured will be exempt from this penalty because of their low income level, lack of affordable coverage options, or immigration status. More than half of the remaining uninsured will have limited English skills and six in ten will live in Southern California.

PROJECTIONS SHOW A HIGH NUMBER OF UNINSURED WILL BE IN SOUTHERN CALIFORNIA BY 2019

- Counties and safety net providers will continue to play a role in providing care to the uninsured. The 2013–2014 state budget reduced state funding for county health programs in anticipation of a decline in the number of uninsured Californians currently served by counties. But some counties, in particular those that operate public hospital systems, will continue to be responsible for the sizable population of those who remain uninsured. A quarter of those remaining uninsured statewide will be eligible for Medi-Cal—and they can enroll in the program when they receive health services. This allowance will potentially increase Medi-Cal enrollment and provide some financial protection for safety net providers.
The health of Californians varies significantly across communities and populations. Health can be measured in a number of ways, including outcomes, access to and quality of care, personal behaviors, and social and physical environments—and significant differences by socioeconomic status, race/ethnicity, and region exist. For example, compared to all Californians, those with a high school education or less have significantly lower life expectancies—as do African American men and women. Likewise, people living in certain regions of the state and in particular communities face greater obstacles to health. Many of these disparities are driven by potentially preventable diseases and causes of death.

Health care providers and safety net resources are not evenly distributed across California’s regions. The supply of primary care physicians varies substantially across California’s counties. Counties in the Central Valley and Inland Empire have physician-to-population ratios that are below recommended levels and are also substantially lower than other counties in the state. While there is some uncertainty around what constitutes an adequate number of physicians—and questions about how changing delivery systems models could impact recommended ratios—there is currently a very poor geographic distribution of primary care physicians throughout California’s regions. In addition, some counties have much less availability than others in terms of health clinics.

### Many Counties Have Relatively Low Levels of Primary Care Physicians

<table>
<thead>
<tr>
<th>Ratio of primary care physicians to population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below recommended range</td>
</tr>
<tr>
<td>Within recommended range</td>
</tr>
<tr>
<td>Above recommended range</td>
</tr>
</tbody>
</table>

**SOURCE:** Primary care physician ratios are based on data from the 2011–2012 U.S. Health Resources and Services Administration Area Resource File and 2011 Census Population Estimates assembled and made available by the Robert Wood Johnson Foundation and University of Wisconsin County Health Rankings project.

**NOTE:** Recommended ranges are based on physician supply needs estimated by the Council on Graduate Medical Education. Below recommended range refers to fewer than 60 primary care physicians per 100,000 population; within recommended range refers to between 60 and 80 primary care physicians and above recommended range refers to more than 80 primary care physicians.
LOOKING AHEAD

• Streamline and maximize enrollment in available coverage programs.
  A new state system will be used to determine eligibility for federal subsidies and enroll people in plans available through Covered California. The same system will also determine eligibility under the new income criteria for Medi-Cal, but counties will continue to administer and process enrollment for the Medi-Cal program. The integration of these eligibility and enrollment systems will need to be closely monitored to ensure that those seeking insurance do not fall through the cracks. This “no wrong door” approach to enrollment is required by the ACA and will be essential to ensure high levels of enrollment in available coverage options. Covered California will need to enroll a broad group of eligible Californians, particularly people who are young and healthy, to keep premiums low in future years. And counties will need to maximize Medi-Cal enrollment to limit their financial exposure to indigent care costs.

• Monitor access to care under Medi-Cal and Covered California health plans.
  Getting people connected to insurance coverage is just the first step; coverage needs to translate into meaningful access to health care. A sufficient number of health care providers need to participate both in the Medi-Cal program and in the provider networks of Covered California’s health plans. But reimbursement rates for Medi-Cal are low compared to other payers, which hinders provider participation. And many health plans offered under Covered California have limited provider networks to keep premium costs low. State law requires all health plans to provide timely access to care and puts explicit limits on wait times for health care appointments. It will be important to monitor and assess the ability of health plans to meet these regulations.

• Support health care safety net providers.
  The state’s safety net providers, including county hospital systems, primary care clinics, and comprehensive health centers, will be an important source of care for both low-income people who gain coverage and those who remain uninsured. Policymakers will need to encourage the meaningful participation of safety net providers, particularly county-operated public hospital systems, in the integrated delivery systems used by Medi-Cal and Covered California health plans. Health care safety net providers will also need financial support to continue care for the uninsured.

• Promote a culture of health and wellness to improve health and reduce disparities.
  Leaders from health care, public health, philanthropic, and community organizations will need to work collaboratively to bridge the gap between health coverage and community prevention. They should also identify opportunities for Medi-Cal and Covered California to incorporate health goals in their purchasing strategies and take advantage of ACA resources to invest in population health. This broad environmental approach is critical to improving health outcomes and health equity, reducing demands on the health system, and lowering costs associated with preventable disease and disability.
CALIFORNIA FACES A SKILLS GAP

California’s higher education system is not keeping up with the changing economy. Projections suggest that the state’s economy will continue to need more highly educated workers. In 2025, if current trends persist, 41 percent of jobs will require at least a bachelor’s degree. However, given current trends, the supply of highly educated workers is not on pace to meet that demand. Population and education trends suggest that by 2025 only 35 percent of working-age adults in California will have bachelor’s degrees. This equates to a shortfall of one million college graduates. When we add in the projected supply and demand for workers with postsecondary education short of a bachelor’s degree, the total shortfall exceeds two million.

The state needs to act now to close the skills gap and meet the demands of tomorrow’s economy. Without a substantial improvement in educational outcomes, California’s economy will be less productive, incomes and tax revenue will be lower, and more Californians will depend on the social safety net. To close the gap, the state should set new statewide goals for higher education that are consistent with the demands of the 21st century. New investments in higher education will be necessary to meet those goals. Measuring progress and identifying programs and policies that improve student success should be a key component of those investments.

BY 2025, DEMAND FOR COLLEGE-EDUCATED WORKERS WILL OUTSTRIP THE SUPPLY

CALIFORNIA NEEDS MORE COLLEGE GRADUATES

- California’s economy increasingly demands highly educated workers.
  For decades, California employers have needed more workers with college degrees. This shift toward highly educated workers has occurred as a result of changes across and within industries. Relatively fast growth in the health care and information technology sectors are driving up demand for these workers, and within those and other sectors there has been a shift toward jobs requiring higher levels of education.
The supply of college graduates will not keep up with demand.

Two demographic trends will undercut future increases in the number of college graduates. First, the baby boomers—a well-educated and numerous group—are reaching retirement age, meaning that for the first time ever a large number of workers with college degrees will be leaving the workforce. Second, groups with lower levels of education are a growing share of the state’s population. In particular, Latinos—who now make up the largest group of young adults—have historically had low rates of college completion. And there will not be enough highly educated newcomers to California—from abroad or from other states—to close the skills gap.

Higher education is largely a public endeavor in California.

As in most states, the vast majority of California’s college students attend public colleges and universities. More than four of every five college students in California are enrolled in one of the state’s three public education systems: the community colleges, the California State University, and the University of California. Three of every four bachelor’s degrees awarded annually come from either CSU or UC.

The vast majority of college students attend public institutions

![Pie chart showing the distribution of college students by type of institution.]

- Community colleges: 49%
- CSU: 17%
- UC: 10%
- Private for-profit: 15%
- Private not-for-profit: 9%

Source: PPIC estimates of full-time equivalent enrollment, based on IPEDS data for Title IV institutions.
Note: Undergraduate enrollment by sector, 2011–2012.

Large numbers of California’s high school graduates attend college...

More than 60 percent of California’s high school graduates enroll in college within a year of completing high school. Most go to community colleges (35 percent)—open access, widespread geographic distribution, and relatively low fees make California’s community colleges especially popular. Compared to other states, California’s college-bound high school graduates are more likely to enroll in community colleges than in four-year colleges or universities.

... but many never earn a degree.

Lack of preparation for college-level work and lack of financial resources keep many students from moving ahead in the higher education system. Only about one in ten community college students transfer to a four-year university. Even among those who earn at least 12 credit units and take transfer-eligible courses, only about 40 percent eventually succeed in transferring. Only about half of CSU students graduate within six years of entering as freshmen. Graduation rates are much higher in the UC system: four of every five students earn a degree within six years.
AS THE STATE HAS WITHDRAWN COLLEGE FUNDING, STUDENT COSTS HAVE RISEN

- Higher education has declined dramatically as a share of state General Fund expenditures.
  Over the past few decades, public higher education institutions have faced disproportionate cuts in state funding. In 2001–02, for every General Fund dollar for corrections, the state spent $1.89 for UC, CSU, and the community colleges; by 2011–12, the state spent only 82 cents on UC, CSU, and the community colleges for every dollar it spent on corrections. Over the past ten years, per student General Fund allocations per student have fallen by more than 40 percent at CSU and by more than 50 percent at UC. These cuts have not been the outcome of a deliberative process to reprioritize the state’s goals. State policymakers have had limited flexibility in putting out budget fires, and the General Fund’s higher education component is relatively unprotected by statutory, judicial, or federal requirements.

TUITION AND FEES HAVE INCREASED DRAMATICALLY

- Cost-cutting and increases in tuition and fees have not fully made up for General Fund cuts.
  California’s colleges have responded to funding cuts by reducing expenses, including administrative and faculty costs, and increasing tuition and fees. The revenue generated by tuition and fee increases has not fully compensated for General Fund cuts. Hence, enrollment has been restricted even in the face of strong and growing demand. Hundreds of thousands of Californians have not been able to enroll in college, and those who do enroll are facing higher costs. Indeed, more students than ever are taking out loans. In 2010 almost half of California freshmen took out student loans—in 2000, only a third did so.

- Student loan amounts have risen at both public and private colleges.
  Among freshmen in California, the average loan amount rose 36 percent between 2005 and 2010 (adjusted for inflation), reaching almost $8,000 for the first year alone. Students at private colleges are much more likely than students at the state’s public colleges to take out loans, and the amounts of those loans are substantially higher. Of particular concern are students at private for-profit colleges. Almost all students attending those institutions take out loans, and amounts are higher than at any other type of institution.
Despite the increase in debt, college is a good investment for the vast majority of students. Labor market outcomes, including employment and wages, remain far better for college graduates than for less educated workers, and all but the lowest-paid college graduates earn enough to pay off their debts.

- **Most Californians believe that a college degree is critical for success ...**
  Almost 60 percent of adults believe that a college education is necessary for success in today’s work world. Latinos are especially likely to hold this view, with 73 percent believing in the value of a college education (according to the November 2011 PPIC Statewide Survey).

**UNEMPLOYMENT RATES ARE MUCH LOWER FOR COLLEGE GRADUATES**

- ... and they are right.
  Census Bureau data show that the wages of college graduates are more than 50 percent higher than the wages of workers with only a high school education. The value of a college degree grew rapidly from 1990 to 2010 and remains near record levels. Even given persistently high unemployment, jobless rates are far lower for college graduates than for adults with less education.

- **The economic benefits of college persist across majors and across workers’ lifetimes.**
  Even when the costs of attending college are factored in, graduates earn hundreds of thousands of dollars more than high school graduates over the course of their lives. There are pronounced differences in earning power across majors: graduates with engineering and computer science degrees enjoy lifetime gains of more than $1 million. But even college graduates from less remunerative majors earn hundreds of thousands more than high school graduates.
LIFETIME EARNINGS ARE MUCH HIGHER FOR COLLEGE GRADUATES THAN FOR HIGH SCHOOL GRADUATES

<table>
<thead>
<tr>
<th>Field of Study</th>
<th>Gap between college and high school graduates ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>1.15</td>
</tr>
<tr>
<td>Computers</td>
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<tr>
<td>Business</td>
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<tr>
<td>Social science, law</td>
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<tr>
<td>Science, medicine</td>
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<tr>
<td>Liberal arts</td>
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<tr>
<td>Other</td>
<td>0.48</td>
</tr>
<tr>
<td>Education</td>
<td>0.24</td>
</tr>
</tbody>
</table>

Gap between college and high school graduates (\$ millions)

NOTE: Net lifetime earnings by field of study, with costs of attending college for graduates accounted for.

LOOKING AHEAD

California is facing a serious shortfall in its supply of college-educated workers. Improving the educational attainment of the state’s young adults will foster greater individual success and increase economic growth throughout the state. Without concerted efforts to improve college attendance and graduation rates, California’s economic future will be much less bright. The state needs to take several steps.

Update its higher education goals. California has not substantively updated its Master Plan for Higher Education, which was developed more than 50 years ago. The state and its higher education institutions should increase the share of high school graduates eligible for UC and CSU, establish new goals for transfer from community colleges to four-year colleges, and identify completion and time-to-degree objectives.

Increase alternatives to traditional degrees. Because it is unlikely that the state will be able to completely close the skills gap by increasing the number of graduates with bachelor’s degrees, other forms of postsecondary training and workforce skills development are essential to the state’s future.

Decide how to provide adequate funding to achieve its goals. California’s higher education institutions have borne a disproportionate share of the state’s budget cuts. Shortchanging education for quick budget fixes could seriously shortchange California’s economic future. Reinvesting in higher education will require a concerted and persistent effort in the face of competing budget priorities. Efficiency in the delivery of higher education should be a part of the state’s fiscal goals: online learning is one possibility, as yet unproven, as is performance-based evaluation and funding.

Collect information to ensure that progress is being made. California currently lacks a comprehensive longitudinal student data system that could evaluate whether the state and its colleges are meeting higher education goals. Linking K–12 data with college data would allow policy experts to determine what policies and programs produce the best and most efficient outcomes for students, colleges, and the state as a whole.
Establish a new higher education coordinating body. With the demise of the California Postsecondary Education Commission, the state lacks a higher education coordinating body. Such a body could provide leadership in setting policy priorities and coordinating efforts between the state’s higher education and K–12 systems to improve student transitions and outcomes.

Ultimately, the significance of a college education is larger than the gains enjoyed by individual graduates. California’s future prosperity depends on public policies that promote college enrollment and completion for increasing numbers of Californians. Throughout California’s history, educational and economic progress have gone hand in hand. With the right information and the right policies, the state can continue on that path.
CALIFORNIA’S HOUSING MARKET IS RECOVERING, BUT THE STATE FACES MANY CHALLENGES

California’s housing market is on the mend. Although home values in most of the state remain far lower than at the peak of the housing boom, values have increased substantially since the nadir of the housing bust. Statewide, median home values have increased 29 percent to $383,300 (as of August 2013) from their post-boom low of $302,600 in February 2012 (according to Zillow). Moreover, vacancy rates are low compared to the rest of the United States, and rents have continued to increase. Finally, the pace of new housing construction continues to pick up, although levels remain far lower than during other recoveries.

Despite the recovery, California is still experiencing the aftereffects of the most recent housing bust, and the long-term challenges of housing California’s population haven’t gone away. The housing bubble, which popped in 2008, left the state with a foreclosure problem and large losses of construction jobs. More than one million California homeowners remain “underwater”—their mortgages are higher than the market value of their homes (CoreLogic, 2013 first quarter). Paradoxically, a housing recovery for some is a housing problem for others, as high rents and increasing prices place housing out of reach for many Californians.

MEDIAN HOME VALUES IN CALIFORNIA: BOOM, BUST, AND PARTIAL RECOVERY

In both the short and the long term, California’s economic performance and livability depend on its housing market. The perennially high cost of housing in coastal California reflects the fact that people and businesses are willing to pay more to be there, but it is also a consequence of geographic and policy-related barriers to building new housing in those regions. In the state’s inland areas, continued economic recovery could further ameliorate the foreclosure problem. Throughout the state, balancing new housing construction with environmental goals will be a challenge.
**THE HOUSING RECOVERY IS WELL UNDER WAY**

- Home values in California are rising throughout the state.
  Gains have been uneven across the state, but all of the most populous counties have experienced increases of at least 20 percent. Some of the sharpest increases have occurred in counties that experienced the worst busts, including Sacramento (46%), San Joaquin (40%), Riverside (33%), and San Bernardino (33%). Even with these remarkable increases, values in these counties remain far lower than during the peak of the housing boom. Other counties, all in the Bay Area, have also experienced sharp increases, even though their housing busts were less severe. In three of those counties (San Francisco, San Mateo, and Santa Clara), home values are now higher than during the previous boom.

### MEDIAN HOUSING VALUES HAVE RISEN IN CALIFORNIA’S MOST POPULOUS COUNTIES

<table>
<thead>
<tr>
<th>County</th>
<th>Peak (2006 or 2007)</th>
<th>Low (2011 or 2012)</th>
<th>Current (August 2013)</th>
<th>Peak to current</th>
<th>Low to current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alameda</td>
<td>$640,500</td>
<td>$386,600</td>
<td>$549,500</td>
<td>-14%</td>
<td>42%</td>
</tr>
<tr>
<td>Contra Costa</td>
<td>$619,900</td>
<td>$295,600</td>
<td>$406,900</td>
<td>-34%</td>
<td>38%</td>
</tr>
<tr>
<td>Fresno</td>
<td>$299,900</td>
<td>$132,500</td>
<td>$164,000</td>
<td>-45%</td>
<td>24%</td>
</tr>
<tr>
<td>Kern</td>
<td>$275,200</td>
<td>$115,800</td>
<td>$149,900</td>
<td>-46%</td>
<td>29%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$572,100</td>
<td>$348,600</td>
<td>$438,200</td>
<td>-23%</td>
<td>26%</td>
</tr>
<tr>
<td>Orange</td>
<td>$712,700</td>
<td>$459,900</td>
<td>$589,900</td>
<td>-17%</td>
<td>28%</td>
</tr>
<tr>
<td>Riverside</td>
<td>$426,000</td>
<td>$193,800</td>
<td>$257,100</td>
<td>-40%</td>
<td>33%</td>
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<tr>
<td>Sacramento</td>
<td>$389,700</td>
<td>$168,300</td>
<td>$246,000</td>
<td>-37%</td>
<td>46%</td>
</tr>
<tr>
<td>San Bernardino</td>
<td>$383,900</td>
<td>$162,800</td>
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<td>-29%</td>
<td>29%</td>
</tr>
</tbody>
</table>

SOURCE: Zillow.

NOTE: Housing values are in nominal dollars. For most counties, the boom peak occurred in 2006 or 2007 and the bust low occurred in 2011 or 2012.

- The number of homeowners with negative equity has declined sharply.
  According to CoreLogic, 15 percent of California homeowners with mortgages were underwater in the first quarter of 2013. This represents a dramatic decline since the fourth quarter of 2009, when 37 percent of mortgaged homeowners were underwater. It is only slightly higher than the rate in the rest of the nation (14.5 %).

- Foreclosure rates have fallen to the lowest level in years.
  California appears to be over the worst of the foreclosure crisis. The number of foreclosures has declined by 62 percent over the past year (August 2012 to August 2013, according to RealtyTrac). The total number of foreclosures is lower than it has been in at least six years.

- New home construction is increasing.
  Low vacancy rates, rising prices, and low interest rates are leading to increases in housing starts. New residential construction permits are on a pace to reach almost 80,000 this year, up from only 33,000 in 2009 but still far lower than the 200,000 new units built annually from 2003 to 2005 (according to the U.S. Census Bureau). For the first time in more than 25 years, permits for multifamily units exceed those for single-family units. Over the past couple of years, construction employment has grown much faster than employment in most other sectors.
AFTER A SHARP DECLINE, NEW HOME CONSTRUCTION IS RECOVERING

![Graph showing annualized permits for single-family and total homes from 2005 to 2013.](image)

Source: U.S. Census Bureau, Building Permits Database.

Note: Data extends from December 2005 to August 2013.

- **Housing is more affordable in inland areas.**
  Even with recent price increases, overall employment gains and low interest rates make housing affordable in many inland areas of California, home to one-third of the state’s population. In the second quarter of 2013, more than 70 percent of households could afford the median-priced home in the metropolitan areas of Bakersfield, Chico, Fresno, Hanford-Corcoran, Merced, Modesto, Redding, Vallejo-Fairfield, and Visalia-Porterville. In the Inland Empire and Sacramento, about two-thirds of households could afford the median-priced home (NAHB Wells Fargo).

- **Housing remains expensive for most owners and renters.**
  - Californians spend disproportionate shares of their incomes on housing.
    Monthly housing costs are substantially higher in California than in the nation as a whole. For homeowners with mortgages, median monthly housing costs are 45 percent higher. For renters, median rents are 36 percent higher. Yet household incomes in California are only 14 percent higher than incomes nationwide, according to the 2012 American Community Survey (ACS). This means that the share of Californians with excessive housing costs is quite high: 36 percent of mortgaged homeowners and 48 percent of renters spend more than 35 percent of their incomes on housing (compared with 26% and 43%, respectively, nationwide).
  - **Housing is especially unaffordable in coastal areas.**
    Five of the six least affordable housing markets in the country are in coastal metropolitan areas of California (starting with the least affordable): San Francisco, Los Angeles, Orange County, Santa Cruz, and San Jose (NAHB Wells Fargo). In the second quarter of 2013, less than one-third of households could afford the median-priced home in these areas. Coastal and Bay Area counties are home to two-thirds of the state’s population.
• Rents are high and rising.
According to the Department of Housing and Urban Development (HUD), six of the ten most expensive large metropolitan rental markets in the U.S. are in California (starting with the least affordable): San Francisco, San Jose, Oakland, Orange County, San Diego, and Los Angeles. In these expensive metropolitan areas, the median rent for a two-bedroom apartment ranges from $1,524 in Los Angeles to $2,146 in San Francisco. And, unlike housing prices, typical rents were higher in 2012 than in 2006 in nearly all metropolitan areas, in nominal terms.

• Vacancies are low, relative to most states.
Despite sharply falling prices in recent years and increases in vacancy rates, the residential vacancy rate in California remains among the lowest in the country. In 2012, the homeowner vacancy rate was 1.6 percent in California and 2 percent nationwide. Meanwhile, the rental vacancy rate in California was 4.5 percent versus 6.8 percent nationwide. In many states, foreclosure often leads to abandonment, whereas in California it often means turnover. (Vacancy rate data are from HUD and ACS.)

• Homeownership rates have fallen.
Homeownership rates, already much lower in California than the rest of the nation, declined more sharply in California than elsewhere in the country, falling to 54 percent of all occupied housing units in 2012 (compared to 65.1% in the rest of the nation). Between 2004 and 2012, the number of owner-occupied housing units fell by more than 400,000 in California, while the number rented increased by more than 900,000 (according to the Current Population Survey). Much of the increase in rental units has occurred among formerly owned single-family detached housing units. By 2012, California’s homeownership rate was at its lowest level in more than a dozen years.

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**HOMEOWNERSHIP RATES HAVE FALLEN MORE SHARPLY IN CALIFORNIA**

![Graph showing homeownership rates](source: American Community Survey)
Demand for housing in California appears to be on the upswing. The Great Recession and ensuing economic uncertainty lowered household formation rates, especially among younger adults, many of whom are now living with their parents rather than on their own. By inducing a drop in domestic and international migration, it also led to slower population growth. But household formation among younger age groups is likely to recover as the economy picks up, unleashing a significant amount of pent-up demand. In the future, as residents form new households and as the state’s population grows, housing demand will continue to increase. Because the “echo boomers” are much more racially and ethnically diverse than previous generations, a larger share of tomorrow’s young households will be Latinos and Asians. The biggest unknown is the contribution of migration to overall population growth.

Increases in housing demand will require an increase in the supply of new housing. California needs to address both immediate and long-term housing challenges with policies that improve affordability, remove unnecessary barriers to expanding the supply of housing in high-cost areas, and meet the state’s environmental goals.

- **The state and local authorities should pursue policies that increase the supply of affordable housing.**
  The construction of affordable housing in California is funded partly through state housing bonds, but the state has not passed a housing bond in seven years. The elimination of redevelopment areas has also led to a reduction in the development of low-cost housing. In order to encourage affordable housing construction, state and local governments need to establish funding mechanisms and policies, possibly including new housing bonds, development fees, and inclusionary zoning, that directly lead to more affordable housing.

- **State and local governments should look carefully at regulations that contribute to high prices.**
  The supply of new housing is often constrained by geography, as most of populated California is nestled against natural barriers to construction—the ocean, the Bay, and the mountains. But it is also a result of policy choices and regulations. The state and many local governments have strong land-use and building regulations that also curtail construction and keep prices high. Height restrictions, setback requirements, parking requirements, or outdated zoning that discourages new housing construction all serve to limit the supply and increase the cost of housing. Some argue that inclusionary zoning and rent control also restrict the supply of new housing.

- **Balancing environmental goals with housing development will be a challenge.**
  As part of its ambitious plan to reduce greenhouse gases, California has passed legislation to encourage local land-use planning that reduces the need to drive. The goal is to coordinate new housing development with current and planned transportation networks so that emissions (especially from cars) are reduced. Infill (new construction in built-up areas) is one way to achieve these goals, but there is a trade-off. In the past, much of California’s most affordable new housing was built on vacant land at the edge of urbanized areas. Infill housing is often more expensive and of smaller magnitude (in terms of units built) than exurban developments.
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JANUARY 2014
CALIFORNIA’S PUBLIC SCHOOL SYSTEM IS UNDERGOING MAJOR CHANGES

California educates more than six million children in its K–12 public schools. More than half of these children are economically disadvantaged, and almost a quarter are not native English speakers (compared to less than one in ten nationwide). Despite these challenges, and despite years of constrained budgets, test scores have mostly risen over the past decade (with a slight dip in 2013).

Now, with the passage of Proposition 30 and the easing of the recession, funding is increasing again in most school districts. This turnaround coincides with two major changes to the K–12 system. In 2013, the legislature approved the Local Control Funding Formula (LCFF) that simplifies school funding and provides long-term increases for districts with more low-income, English Learner, and foster youth students. A strong majority of Californians favor this new formula, and most believe it will improve the academic outcomes of disadvantaged students, according to the April 2013 PPIC Statewide Survey. Also, as part of the implementation of the Common Core State Standards, the state is preparing to replace its current K–12 tests with new assessments in 2015.

EDUCATIONAL OUTCOMES ARE IMPROVING, BUT GAPS REMAIN

- Proficiency in both math and English Language Arts (ELA) has risen over the past decade. Shares of students scoring at the proficient level and above increased by 16 percentage points in math and 21 percentage points in English Language Arts since 2003. By these measures, California schools appear to be heading in the right direction. But the state is not on track to meet the No Child Left Behind targets of 100 percent proficiency by 2014. Most other states have sidestepped this mandate by participating in the Obama administration’s waiver program, and nine California districts recently received waivers—this is the first time the U.S. Department of Education has granted waivers to individual districts. It is not yet clear what impact the failure to meet NCLB targets will have on the rest of the state.

- There is still a significant achievement gap.
ELA proficiency levels for white and Asian students are higher than those for Latino and African American students. Gaps in math proficiency are similar, with a few notable exceptions: proficiency rates for Asian students are dramatically higher than those for whites (78% versus 62%, in 2013), and African American students have the lowest math proficiency rates.

PROFICIENCY IN ENGLISH LANGUAGE ARTS VARIES BY GROUP

![Proficiency in English Language Arts Varies by Group](chart.png)

NOTE: A multiracial category was added in 2010, which ranges between 2 to 3 percent of all students.
English Learners have made gains but are still lagging; former ELs outperform native speakers.
Test scores for California’s 1.3 million EL students have risen steadily, but their ELA scores are the lowest in the state. The best-performing ELs leave the group—they improve their mastery of English and are reclassified as English proficient—and often have better academic outcomes than native English speakers on standardized tests and graduation. In 2013, 64 percent of former ELs scored proficient or above on the state ELA test, compared with only 23 percent of EL students.

Graduation rates have risen, but there are large disparities.
In 2012, 79 percent of California high school students graduated within four years, a slight increase over the previous year. Notably, there are large gaps in graduation rates among California’s students: 87 percent of white and 91 percent of Asian American students graduate from high school, compared with 74 percent of Latino and 66 percent of African American students. California ranks 29th out of the 50 states (plus Washington, DC) in the most recently available national graduation rate data (class of 2009–10). Each state sets its own graduation requirements, so it is possible that California’s low ranking is due partly to its high standards. It is also due to the relatively high proportion of disadvantaged students in California schools.

Gaps in school readiness and academic skills are evident in kindergarten.
Some students struggle more than others. On average, low-income, African American, Latino, and EL students begin school less prepared. So do those whose parents have low levels of education. These groups score lower on the standardized tests that begin in second grade, and the achievement gaps persist into later grades.

THE FISCAL PICTURE IS IMPROVING BUT THERE ARE UNRESOLVED ISSUES

The Local Control Funding Formula addresses some long-standing critiques of the school finance system.
In July 2013, Governor Brown signed into law an overhaul of California’s school finance system, which has long been criticized for being inequitable, inadequate, and overly complex. The new Local Control Funding Formula (LCFF) dramatically increases the state’s investment in districts serving large numbers of disadvantaged students, in a more transparent and equitable manner. The LCFF provides base funding for general purposes and supplemental funding for disadvantaged students (low-income, English Learner, or foster youth). Districts in which more than 55 percent of students are disadvantaged will receive even more funding.

Adequacy remains an issue.
Even though the PPIC Statewide Survey finds that Californians view K–12 education as a top budget priority, California has long spent less per pupil than other states, and it made steeper funding cuts during the recession. The Department of Finance projects that funding will increase by $1,800 per pupil between 2013–14 and 2016–17. This would probably bring per pupil spending up to its peak pre-recession levels. But several adequacy studies of pre-recession funding concluded that it was not high enough to prepare all students to meet the state’s standards.

DEEP RECESSION-ERA CUTS PUT CALIFORNIA EVEN FURTHER BEHIND IN PER PUPIL SPENDING

![Graph showing per pupil spending in California and the Rest of the U.S.](image-url)

**Sources:** National Center for Education Statistics, National Education Association.

**Notes:** Inflation-adjusted spending (2013 dollars). Funding is not adjusted for regional costs across states. The dashed lines represent estimated spending from the NEA since government data are not yet available.
Key aspects of LCFF implementation are still in question. The LCFF is expected to be implemented over the next eight years with revenue increases generated by Proposition 30 and an improving economy. But this plan depends heavily on sustained economic growth over these years, which would be a departure from historical trends. The state Board of Education has been charged with issuing key LCFF regulations—including setting any spending restrictions on supplemental funds for disadvantaged students and creating a template for local accountability plans—by early 2014.

STANDARDS, ASSESSMENT, AND ACCOUNTABILITY PROGRAMS ARE IN FLUX

California’s subject matter standards and accountability measures have been in place for more than a decade. The existing standards were adopted in 1998, the accountability measure—the Academic Performance Index (API)—was developed in 1999, and the California Standards Tests (CSTs) were mostly completed in 2003. All of these programs will change in the next few years.

• New standards create challenges for teachers. Starting in 2014–15, the Common Core State Standards (CCSS) will replace the current standards in mathematics and English. California also adopted new science standards, known as the Next Generation Science Standards (NGSS). A review of the CCSS concluded that they are very similar to California’s current standards, with two important differences. First, the sequencing of standards is somewhat different, so teachers may be covering new material. Also, CCSS places a greater emphasis on conceptual understanding and problem solving, and some teachers may be unprepared to convey these higher-level skills and concepts.

• New state tests will differ from CSTs in important ways. New tests will replace the CSTs in grades 3–8 and 11 in the spring of 2015. These new tests were developed by the multi-state Smarter Balanced Assessment Consortium to align with the CCSS. The new tests will differ from the CSTs in important ways: they are designed to be administered on computers, and they will include fewer multiple-choice questions and more questions that require short or extended responses. The consortium is also developing “formative” assessments—tests that teachers can administer during the year to determine how to better help students master the material.

• With most CSTs eliminated, there will be almost no testing in 2014. Legislation enacted in 2013 eliminated most of the CSTs. This means that in 2014 there will be no state testing in most grades, and therefore no new performance data—or API—for most schools. The federal government has raised the possibility that this lack of testing could trigger federal funding reductions. State law requires the superintendent of public instruction to recommend in 2016 whether any of the high school tests should be reestablished.

• New accountability programs are being created. The state established the Local Control Accountability Program (LCAP) to complement the LCFF. The program measures school district performance using a variety of data, including state tests, indicators of readiness for college and employment, student expulsions and suspensions, attendance rates, graduation rates, and parental involvement. The Board of Education is charged with adopting standards for school and district performance in these areas by October 2015. In addition, the federal waivers granted to nine California districts include a new accountability measure that applies only to these districts. Like the LCAP, this measure incorporates test scores and other indicators of student and school success.

LOOKING AHEAD

To improve the state’s economic well-being and to ensure that California’s children are equipped to succeed in the 21st century, policymakers need to take steps to help the state’s school systems maintain and build on recent improvements.

• Use testing transition to clarify and improve the accountability system. As California implements major changes to its K–12 system, major elements of its new testing and accountability programs remain under development. With the suspension of most CSTs in 2014, for instance, the direction of the state’s testing program in high school subjects is not clear. In addition, the new LCAP broadens the definition of accountability, and how the state implements the new program will affect district decisions about spending and policy priorities in the coming years. Thus, the transition to new standards, tests, and accountability measures offers the state an opportunity to refine and improve its approach, emphasizing the growth in student achievement and other key indicators of student success.
• **Improve outcomes for English Learners.**
  California is poised to reconsider the policies for reclassifying EL students as proficient in English. New policies should be informed by an understanding of long-term academic outcomes of ELs and former ELs under various reclassification scenarios and instructional settings, and will need to be flexible enough to incorporate the new state standards.

• **Continue developing the state’s educational data system and use the data to improve local programs.**
  The state has made considerable progress in building its educational data system. Unfortunately, the system remains unfinished and there are no plans to complete it. A large amount of data has been collected, but K–12 and higher education data are not linked, and educators do not have access to most of the data. By linking K–12 and higher education data and creating useful reports for local educators, the state could begin to generate a return on its investment by using the database to improve its educational system.
IS CALIFORNIA TURNING A CORNER?

In recent years the state’s political system has gone through an especially turbulent period. The highly polarized state legislature has been unable to resolve major problems, from the troubled water system to a looming pension challenge, and for several years it could not approve the state budget on schedule. During this period, the PPIC Statewide Survey has charted persistently low trust in government (32% in May 2013) and legislative approval falling to record lows (14% in November 2010). The number of voters declining to register with a major party is at an all-time high, and voter turnout has been sliding relative to other states.

But there are some positive signs. The state is implementing a number of reforms intended to expand voter participation and make California more governable. Moreover, for the past three years, state budgets have passed on time, the deficit has shrunk rapidly, and the electorate’s approval of the legislature has risen to 38 percent. It is not yet clear whether the reforms produced these changes, but the outcomes are an improvement all the same.

THE STATE IS DEMOCRATIC BUT NOT NECESSARILY LIBERAL

• California has become a solidly Democratic state.
  For many years, California was reliably, if not strongly, Republican in presidential elections, and voted both Democratic and Republican in statewide contests. Its politics began a dramatic shift in the 1980s, and today it is one of the most Democratic states at all levels of government. This shift has been especially pronounced in the Bay Area and Los Angeles County, where support for Democratic presidential candidates has jumped at least 20 percentage points since the 1970s.

• Californians are not necessarily liberal.
  While Californians are clearly Democratic, the Bay Area is the only strongly liberal region on both social and fiscal issues. Its residents are more supportive of gay marriage and abortion rights, as well as tax increases to balance the budget, than residents elsewhere. Even Los Angeles County—where Democratic candidates get high levels of support—is only modestly liberal on most issues.

• Independents are the fastest-growing registration group, but these voters are politically diverse.
  The share of independent (also known as “decline-to-state” or “no party preference”) voters has grown dramatically from just 3 percent of the electorate in the mid-1960s to 21 percent in 2012, while the share of major-party registrants has declined. However, about 60 percent of independents say they lean toward one party and vote reliably that way. In most of the state, these “leaners” are more likely to tilt Democratic than Republican. That helps explain why the state is growing more Democratic even as the number of independent voters has exploded.

INDEPENDENT REGISTRATION HAS GROWN DRAMATICALLY

[Graph showing voter registration by party from 1960 to 2010]

SOURCE: California Secretary of State.
CALIFORNIA’S ELECTORATE LAGS BEHIND OTHER STATES

- California’s voter participation has fallen below the national average.
  As recently as the 1990s, turnout among Californians eligible to vote was higher than the average for the rest of the country. Over the past 15 years, turnout in California has climbed modestly in absolute terms. But its turnout relative to other states has dropped to the point where it matches or falls below the levels elsewhere.

- The problem lies mostly with voter registration.
  Registered voters in California have turned out at higher rates than the rest of the country throughout this period. But relatively fewer Californians are registering to vote, and California’s registration rate is below the national average.

- California’s voters and nonvoters are very different.
  Compared to those who do not vote, California’s voters are older, better educated, more rooted in their communities, and more likely to be white. They also tend to hold more conservative views on the size and scope of state government.

- Recent reforms intended to increase registration may not have much impact.
  California has been experimenting with a number of reforms to increase the registration rate, including a fully online registration process and same-day (also known as “conditional”) registration, which allows residents to both register and vote after the official registration deadline has passed. The evidence on the impact of these reforms in California and elsewhere suggests a minimal increase in turnout—4 percentage points at most. Although the number of voters may not increase much, a larger number will probably register late under the same-day registration system.

CALIFORNIA’S VOTER TURNOUT IS ON THE DECLINE COMPARED WITH OTHER STATES

![Graph showing California's voter turnout compared to the average of all other states from 1990 to 2012.](source)

NOTES: Trend line shows California’s turnout rate in general elections relative to the rest of the country.

CALIFORNIA’S LEGISLATURE IS UNIQUELY POLARIZED

- California has the most polarized legislature in the country.
  The best evidence to date suggests that California’s legislative parties are much farther apart ideologically than in either the U.S. Congress or any other state in the nation. California’s partisan divide—the gap between the median Republican and the median Democrat—is far wider than that of the next most polarized states, Arizona and Colorado. This level of polarization has stymied the legislature’s efforts to pass key legislation and is at least partly responsible for the institution’s low approval ratings.
There are many possible explanations. Until recently, California’s legislative districts were unusually uncompetitive, its legislative term limits unusually stringent, and its initiative process unusually lenient. It was also one of only three states in the country to require a supermajority to pass both tax increases and budgets. The uncompetitive districts might have drawn legislators to the extremes by removing the need to appeal to voters of the other side. Term limits and the initiative process might have reduced the incentive to compromise. By relieving either party of full responsibility for budget decisions, the supermajority requirements probably encouraged legislators to take exaggerated positions.

The state is implementing a flurry of reforms to address legislative dysfunction. In just the past few years, California has adopted a number of reforms: an independent commission to draw legislative and congressional districts; new, more relaxed legislative term limits; a lower threshold for passing the budget; and a radically open primary system that allows any voter to cast a ballot for any candidate, regardless of party. It is not yet clear whether these changes will narrow the partisan divide. However, the move to a simple majority for passing a budget has already ended the budget stalemates that had become a regular feature of the legislative process in California, though at the cost of excluding Republicans from the process.

THE CALIFORNIA LEGISLATURE IS THE MOST DIVIDED IN THE NATION

NOTES: The bar for each state represents the gap between the ideology of the median Republican and the median Democrat, as measured using roll call votes that have been adjusted with responses to Project Vote Smart’s National Political Awareness Test (http://votesmart.org/about/political-courage-test#.UoEWPSfAbSg) to place every legislature on a common ideological scale. Estimates are for 2008; they exclude seven states for which data were not available (Massachusetts, Nebraska, New Mexico, Nevada, Oklahoma, Utah, and Vermont). California was far more polarized than any of these seven states in 2006.

LOOKING AHEAD

California’s political system is at a crossroads. The state is growing more racially and ethnically diverse, and the number of independents has grown tremendously and shows all signs of continuing in that direction. At the same time, California is moving toward the sort of one-party dominance that comes with a risk of lower accountability, at least outside of major decisions. And though approval of the legislature has risen, it remains very low. Given these realities, there are some steps the state might take to foster a robust and representative democracy.
Make voter registration as simple—and voter outreach as aggressive—as possible. It is notoriously difficult to increase turnout beyond the group of people who are already inclined to show up. To expand the electorate, California should adopt a default registration system, so that anyone who engages with the government and is qualified to vote is automatically registered to vote. This would remove virtually all barriers to registration and eliminate surges in late registration (which may prove challenging for county registrars under the new same-day registration system). Also needed is an ongoing and aggressive effort to get every voter to the polls in every election, with a special emphasis on those least likely to vote.

Eliminate differential treatment of independents and party members. Given current trends, voters who are registered without a party preference will one day be a plurality of the electorate. These voters are already allowed full participation in every congressional and legislative primary election under the state’s new top-two primary law. But they should also be granted full access to presidential primaries and internal party decisionmaking. Many of these voters think like partisans already, so the immediate impact would probably be small while the gains to legitimizing the two parties could be great. Without such a change, the number of voters making these decisions will continue to shrink.

Push decisions to the local level. Shifting decisionmaking from Sacramento to local governments might be a key part of the effort to reduce polarization and get the legislature working again. Corrections realignment, the new Local Control Funding Formula for schools, and the proposed lower threshold for passing school parcel taxes are three examples of relaxed constraints on local governments. Bringing decisions to the local level might lower the stakes in Sacramento and make voters—who have long expressed a preference for local government in public opinion surveys—happier with the outcomes.
GROWTH WILL PUT PRESSURE ON INFRASTRUCTURE

California has long been known for and even defined by its tremendous population growth. No other developed region of similar size anywhere in the world has sustained so much growth over such a long period. Equally remarkable has been the population’s increasing diversity. California is home to large groups of immigrants from more than 60 nations, and no race or ethnic group constitutes a majority of the state’s population. Although growth rates have slowed, the state added 3.4 million people from 2000 to 2010 (according to Census counts), reaching a total population of 38 million. The most recent estimate by the California Department of Finance (January 2013) places the state’s population at 37.6 million.

During the next 20 years California’s population will continue to increase, with millions of new residents added each decade. This growth will lead to increased demand in all areas of infrastructure and public services—including education, transportation, corrections, housing, water, health, and welfare.

CALIFORNIA’S POPULATION WILL CONTINUE TO GROW

GROWTH WILL CONTINUE AS REGIONAL, RACIAL/ETHNIC, AND AGE GROUPS SHIFT

- Population gains are projected to continue.
  
  By 2025, California’s population is projected to reach 42.5 million. Annual growth rates are expected to be just 1 percent, similar to growth experienced in the first decade of the 2000s but substantially slower than in earlier decades. Even so, average annual increases between now and 2025 will exceed 350,000—equivalent to adding the population of a city the size of Anaheim each year.
Migration will account for a small share of growth.
Before 1990, most of California’s population growth was due to migration, primarily from the rest of the United States. Since 1990, most of the state’s growth has been due to natural increase (the excess of births over deaths). Over the past 10 years, gains through international migration have been fully offset by domestic migration losses. Population projections suggest this pattern will continue, with almost all of the state’s population growth expected to come from natural increase. Immigrants are projected to make up 29 percent of the state’s population in 2025, a modest increase from 27 percent in 2009.

Inland areas will see higher growth.
The inland areas of California have experienced faster growth rates than the coastal areas for many decades, but coastal counties are still home to most of the state’s population. Projections indicate that the Inland Empire, the Sacramento region, and the San Joaquin Valley will grow faster than other areas of the state.

California’s population will continue to diversify.
No ethnic group composes a majority of California’s population, with whites (non-Hispanic) making up 40 percent of the state’s population and Latinos making up 38 percent. The California Department of Finance projects that in 2016 Latinos will replace whites as the largest ethnic group. By 2025, 42 percent of the state’s population will be Latino and 35 percent will be white. Latinos already make up 52 percent of children age 12 and younger. Latino increases are due to both immigration and relatively high birth rates.

Large numbers of Californians will soon reach retirement age.
In 2010, 11 percent of Californians were age 65 and older, compared to only 9 percent in 1970. By 2025, that share will grow to 17 percent. The total number of adults age 65 and older is projected to grow from 4.2 million in 2010 to more than 7 million in 2025.

The number of children will increase very slowly.
From the 2012–13 to the 2021–22 school year, the number of children in public schools is projected to increase by only 1 percent, according to the California Department of Finance. This is a consequence of slight declines in birth rates along with a small increase in the number of women ages 15 to 44. In contrast, the number of school-age children grew by more than 20 percent during the 1990s.
INLAND COUNTIES WILL EXPERIENCE FASTER POPULATION GROWTH

Projected change, 2010–2025
Less than 10%
Equal to or greater than 10%

SOURCE: California Department of Finance projections.

LOOKING AHEAD

The state’s growing and changing population will put pressure on a variety of infrastructure needs and public services. There are several key areas to watch.

Health and human services. Meeting the needs of a large and growing senior population will pose more challenges. For example, even though Medi-Cal enrolls a far larger share of children, senior adults account for a much higher share of expenditures. Annual costs per enrollee are at least five times higher for adults older than 50 than for children. Nursing home care is especially expensive.

Housing. After seniors, adults in their late 20s and early 30s will be the fastest-growing age group. Between 2010 and 2025, the number of adults ages 25 to 39 will increase by almost 30 percent. Because these are the ages at which young adults typically get married, start families, and establish their own households, housing demand will rise.

Schools. The relatively slow growth in the number of school-age children could give the state time to catch up on school infrastructure needs and a chance to adjust school budgets, perhaps increasing per student expenditures. Demand for higher education should remain strong as the number of students graduating from high school plateaus at a historically high level.
THE SOCIAL SAFETY NET ASSISTS MILLIONS OF CALIFORNIANS

The social safety net is designed to help Californians in times of need. Assistance takes a number of forms, including cash grants, nutrition support, and tax credits. The largest programs help millions of Californians each year—for example, in 2012 an average of 1.33 million state residents received monthly support from CalWORKs, California’s cash assistance program for families with children, and an average of 4.15 million Californians obtained a monthly benefit from CalFresh, or food stamps. Still, many eligible families do not make use of these benefits, and research shows that relatively few rely on such programs for long periods of time.

A number of social safety net programs—CalWORKs and CalFresh among them—are designed to expand when economic times are difficult and more families are in need. And yet, state budget pressures are also greatest when demand for the safety net is high. During the recent recession and its aftermath, household earnings dropped every year for those close to the bottom of the economic spectrum. In the same time period, state spending for the Department of Social Services, which oversees CalWORKs and CalFresh, was down 5 percent, or $423 million. Overall, the share of state funds devoted to social services dropped from 6.2 percent to 4.7 percent between fiscal years 2007–08 and 2013–14.

How do Californians view these cuts? Opinion is mixed. According to the May 2012 PPIC Statewide Survey, 65 percent opposed Governor Brown’s proposed spending cuts to Medi-Cal, welfare, child care, and other social service programs. But just a few months later, 55 percent said they preferred to pay down state debt rather than restoring some funding for social service programs cut in recent years (PPIC Statewide Survey, January 2013).

LOWEST EARNING HOUSEHOLDS SAW MULTIYEAR DECLINES IN EARNINGS

SOURCE: Author calculations from CPS-ASEC samples for California (https://cps.ipums.org/cps/).
NOTES: Trend lines show 25th percentile household earnings for all members ages 25–54. Households with no members ages 25–54 are excluded. Estimates are adjusted for inflation using the Consumer Price Index for All Urban Consumers (western U.S.).
THE SOCIAL SAFETY NET RELIES ON ALL LEVELS

Major programs provide cash grants (CalWORKs and General Assistance), tax credits (the Earned Income Tax Credit and the Child Tax Credit), nutrition support (CalFresh, school meals, and the Special Supplemental Nutrition Assistance Program for Women, Infants, and Children), and housing assistance (Section 8). These programs have different eligibility requirements, funding mechanisms, and oversight structures.

- Federal funds are essential to California’s safety net.
  Funding and oversight vary tremendously across programs. Nearly all have some federal involvement, and often benefits are entirely underwritten by the federal government—for example, tax credits for working families. The CalFresh program is mainly federally funded, and the funding is not capped—in fact, a temporary grant increase was part of President Obama’s recession stimulus plan. In contrast, federal money for CalWORKs comes in a fixed amount and only funds about half of total program costs. However, the state has broad latitude in determining how these dollars will be spent.

- The state and counties play several key roles.
  The state’s responsibilities include sharing administrative costs, providing program oversight, and shaping program rules within the latitude allowed by federal law. State legislators have chosen to extend benefits to certain legal immigrants who are ineligible for federally supported CalWORKs and CalFresh benefits; the state also augments school meal payments by a small amount. At the same time, counties underwrite benefits for General Assistance and for a portion of CalWORKs, and they share some administrative costs.

- County administrative tasks are central—and vulnerable.
  Counties enroll applicants and provide ongoing case management for both CalWORKs and CalFresh—and county funding and workforce constraints can lead to bottlenecks when applications rise sharply, as they did during the recession. For example, applications for CalFresh were 42 percent higher in 2008–09, during the height of the recession, than in 2006–07, stretching county capacity to handle the increased demand.

### PROGRAMS USE A MIX OF FEDERAL, STATE, AND COUNTY FUNDS

<table>
<thead>
<tr>
<th>Program</th>
<th>Recipients (millions)</th>
<th>Expenditures on benefits (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Federal ($)</td>
</tr>
<tr>
<td>CalFresh</td>
<td>4.15</td>
<td>7.48</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>3.27 (filers)</td>
<td>7.25</td>
</tr>
<tr>
<td>Child Tax Credit (CTC)</td>
<td>2.91 (filers)</td>
<td>4.14</td>
</tr>
<tr>
<td>School breakfast and lunch</td>
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<td>1.88</td>
</tr>
<tr>
<td>(free and reduced price)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalWORKs</td>
<td>1.33</td>
<td>1.61</td>
</tr>
<tr>
<td>Supplemental Security Income</td>
<td>1.28</td>
<td>8.31</td>
</tr>
<tr>
<td>Section 8 housing subsidies</td>
<td>0.48 (housing units)</td>
<td>3.60</td>
</tr>
<tr>
<td>General Assistance</td>
<td>0.15</td>
<td>–</td>
</tr>
</tbody>
</table>

SOURCES: California Dept. of Education; California Dept. of Social Services; Center on Budget and Policy Priorities; Food and Nutrition Service, USDA; Internal Revenue Service; Office of Management and Budget.

NOTES: Statistics for fiscal year 2012–13; EITC and CTC statistics for tax year 2011. Average recipients and total expenditures shown. CTC expenditures for refundable portion of credit shown. County CalWORKs expenditures include the Special Fund amount provided to counties by the state.
**FEDERAL HEALTH CARE REFORM COULD IMPACT SOCIAL SAFETY NET PROGRAMS**

The federal Affordable Care Act (ACA) expands health insurance both by providing a means for individuals to buy affordable coverage—and for some, subsidizing this coverage—and by extending eligibility for Medi-Cal to all low-income working age adults. This new coverage began in January 2014.

- **The Medi-Cal expansion could have far-reaching effects.**
  An estimated 1.4 million Californians are expected to be newly eligible for Medi-Cal. This expansion is expected to draw a new group of Californians to the county departments that also operate social safety net programs—with the potential to increase take-up of some programs.

- **Enrollment in CalFresh is the likely consequence.**
  The recent, large increases in CalFresh enrollment—from about 2 million recipients in fiscal year 2007–08 to 4.15 million recipients in fiscal year 2012–13—are likely to moderate in the near term as the economy improves. However, California’s participation rate continues to be low relative to other states. The state will continue to seek to improve enrollment among those eligible for CalFresh—and ACA implementation could spur this effort.

**THE OUTLOOK IS IMPROVING BOTH FOR FAMILIES AND THE STATE BUDGET**

- **The demand for the safety net is decreasing.**
  Safety net programs tend to shrink when the economy picks up—and today, California’s unemployment rate is on the decline, after four years of remaining above 10 percent. The CalWORKs caseload began to decline in 2011—partly because of cutbacks that restricted eligibility—and the rate of increase in CalFresh has slowed. In both CalWORKs and CalFresh, new applications were down more than 10 percent between mid-2012 and mid-2013.

- **The 2013–14 state budget held safety net funding steady.**
  Overall state spending grew by just 2 percent between the 2012–13 and 2013–14 budgets. Lawmakers held funding steady for CalWORKs and did not restore cuts made to family grants in the last several years. The 2012–13 budget did restore funding for work services and supports for CalWORKs parents to help them find and keep employment.

**LOOKING AHEAD**

**ACA implementation.** California’s commitment to expanding health insurance coverage may change the dynamic of enrollment in CalFresh and could also have implications for CalWORKs. Both programs share overlapping populations with those eligible for Medi-Cal.

**Program coordination.** As the ACA rollout continues, policymakers will need to manage the dynamics of enrollment and eligibility for multiple programs—and sophisticated information management systems will be critical to these efforts. California has several initiatives to update existing data systems and is creating a new system to support the new Covered California health insurance web portal. Increasing coordination across systems will continue to be an important policy goal.

**Job support.** Employment, or a recent history of employment, has long been on the rise among families making use of the largest safety net programs. This is partly by design—tax credits and CalWORKs either require or encourage work. The importance of thinking through how to support employment both when jobs are plentiful and when they are scarce was made clear during the recent recession.

**Immigration reform.** California is home to a substantial number of citizen children whose access to the safety net is restricted because of their parents’ immigration status. Reaching this group of low-income children could become less challenging if the U.S. Congress enacts comprehensive immigration reform. Unauthorized immigrant parents could become eligible for CalWORKs work services, along with somewhat higher CalWORKs and CalFresh benefit amounts. They would also likely gain Social Security numbers, enabling those who file a tax return to claim the Earned Income Tax Credit.
CALIFORNIA FACES GROWING WATER MANAGEMENT CHALLENGES

Water management in California has always been difficult. The state’s variable climate is marked by long droughts and severe floods, with stark regional differences in water availability and demand. A vast network of storage and conveyance facilities delivers water from the wetter parts of the state to population and farming centers in the Bay Area, Southern California, and the San Joaquin Valley. This network is now threatened by the physical and biological fragility of the Sacramento–San Joaquin Delta, hub of the state’s water system.

Other challenges are on the horizon: Although per capita water use is decreasing, population growth is likely to increase urban water demand in some regions. At the same time, conflicts are growing between human water use and water needed to support fish and other wildlife. In addition, California faces serious and growing threats to life and property from flooding.

Climate change will play an important, if uncertain, role. California’s natural variability is likely to increase, accentuating droughts and floods. Rising air temperatures are expected to significantly reduce the Sierra Nevada snowpack, affecting water storage as well as winter and spring flood flows. Higher water temperatures may make it harder to maintain aquatic habitats for native fish species. Over time, all of these challenges are likely to intensify. Potential solutions will involve difficult and sometimes costly trade-offs, as well as inconvenient legal and political changes.

RISING TEMPERATURES WILL DIMINISH THE SIERRA NEVADA SNOWPACK


NOTES: SWE is snow water equivalent. These scenarios are based on projected temperature increases: 0.6°C (2020–2039), 1.6°C (2050–2069), and 2.1°C (2080–2099), expressed as a percentage of estimated present conditions (1995–2005). These are modest increases relative to some model projections. With higher temperature increases, the snowpack would be commensurately smaller.
CALIFORNIA’S BIGGEST WATER CHALLENGE: INSTABILITY IN THE DELTA

As the fragile hub of California’s water supply, the Delta now poses serious risks to the economies of the Bay Area, Southern California, and the San Joaquin Valley. Sea level rise and earthquakes threaten the weak Delta levees. The collapse of native fish species has led to cutbacks in pumping from the southern Delta. The Delta’s physical deterioration will not be delayed by political indecision: the state faces inevitable, fundamental change in this region.

- Moving water beneath the Delta could reduce both ecosystem and economic risks.
  The current system relies on pulling water directly through Delta channels to the pumps. A new management plan, known as the Bay Delta Conservation Plan, is now being formulated by local, state, and federal water agencies. They are considering the construction of two tunnels to tap some water upstream on the Sacramento River and move it underneath the Delta to the pumps. This change could be good for the environment: fewer native fish would be trapped in the pumps and it would be easier to restore more natural flows within the Delta. The state’s economy could also benefit from improved water quality and water supply reliability.

- Governance and finance solutions are needed and so is attention to the Delta economy.
  To ensure that the tunnels are managed for environmental benefits, the project should include performance-based limits on water diversions from the Delta. Water users have said they will pay for the new conveyance infrastructure, but the plan assumes state and federal taxpayers will pay for large ecosystem investments. Although this is appropriate, given the broad public responsibility for water and land management practices that have contributed to the Delta’s ecosystem decline, it will be challenging to raise these funds. Funds will also be needed to support the Delta economy, because many of the region’s islands are at high risk of inundation.

CALIFORNIA HAS MANY TOOLS TO COPE WITH WATER SCARCITY

There has been little expansion of the state’s major water infrastructure since the early 1970s, but California’s economy has still prospered. From 1967 to 2005, per capita water use declined by half, real per capita state GDP doubled, and the economic value of each unit of water increased four-fold. These trends—which were temporarily slowed by the recent recession—reflect the increased efficiency of water use in all sectors as well as a decline in the relative importance of agriculture, which accounts for more than three-quarters of water use but only 1 to 2 percent of state GDP.

- California is fortunate to have many options for meeting new demands.
  Expanding traditional supply sources—particularly surface reservoirs and native groundwater supplies—is more difficult today than in the past. But there is considerable scope for cost-effective expansion of nontraditional supplies, such as recycled wastewater, and for improving water use efficiency. Water marketing—the sale or leasing of water—plays an important role in increasing efficiency; it allows water to be transferred to growing urban areas and from lower- to higher-value farming. It also creates broad incentives to conserve.

- Much progress has been made since the drought of the early 1990s.
  Water markets have been effective in supplying water to cities and high-value agriculture during droughts and for long-term growth. Urban water use efficiency has risen in most areas thanks to new plumbing codes, better technology, and better pricing incentives. Regional cooperation is helping local utilities cope with supply emergencies.

- Underground storage still has great untapped potential.
  Where space is available in aquifers, storing water underground can be a cost-effective way to save it for dry years. This “groundwater banking” will become increasingly important as the snowpack declines. The current lack of state regulation makes success dependent on agreements among local parties. Groundwater banking provided significant relief during the drought in the late 2000s, but much more could be done, particularly in the Central Valley.
• Surface storage expansion has been very contentious. Increased surface storage could make up for some loss of storage in the snowpack and could also provide more flexibility in managing floodwaters and environmental flows. However, new storage has not been proven to provide large new supplies of water, and it will be less valuable if climate change reduces overall precipitation. Large financial and environmental costs also raise concerns. Public opinion appears split: 49 percent of all adults feel that California should focus on improving water use efficiency, while 45 percent prefer building new storage (PPIC Statewide Survey, September 2013).

THE ECONOMIC EFFICIENCY OF WATER USE CONTINUES TO RISE

![Graph showing economic efficiency of water use]

SOURCE: Ellen Hanak et al., Water and the California Economy (PPIC, 2012), updated to 2010 with data from the Department of Water Resources, the Department of Finance, and the U.S. Bureau of Economic Analysis.

NOTE: State GDP (gross domestic product) is adjusted for inflation. Water use estimates are for applied use in the agricultural and urban sectors.

CALIFORNIA HAS ONLY JUST BEGUN TO ADDRESS EXTREME FLOOD RISKS

Sacramento has the highest flood risk of any major U.S. city, and many other areas in the Central Valley and the Bay Area are at extreme risk of flooding. These risks are expected to grow with climate change. Although the state has recently increased investments in flood control infrastructure, more work is needed to keep new development out of harm’s way.

• Flood management faces major funding challenges. This sector has traditionally relied on large (65%) federal cost shares for new investments, but federal contributions have been lagging and are likely to decline in the future. State investments in flood prevention increased considerably after Hurricane Katrina, thanks to voter approval of $5 billion in state general obligation bonds. However, the remaining funds fall far short of estimated needs ($13 to $17 billion in the Central Valley alone).

• Local governments have few incentives to limit flood risk exposure. A 2003 court decision made the state liable for damage from failure of many Central Valley levees, even those maintained by local agencies. A legislative package passed in 2007 requires that locals make land-use decisions that will reduce flood risk to new homes in the Central Valley, but it is unclear whether climate change—expected to increase flood risk—will be taken into account in these decisions.

• Residents also have few incentives to limit flood risk exposure. As long as buildings are located behind levees deemed to provide protection against a “100-year flood,” there is no requirement to disclose flood risks to residents at the time of sale, even though many areas would face serious flooding if levees were breached. Within the Central Valley, the state recently began to send annual flood risk notices to landowners in these zones—a positive step. Few Californians hold flood insurance, which is required only in areas with extreme flood risk.
CALIFORNIA MUST IMPROVE MANAGEMENT OF AQUATIC ECOSYSTEMS

The demand for environmental water, healthy watersheds, and clean beaches has been increasing and is likely to grow. However, the state faces major challenges in meeting some environmental goals.

- Native fish species are in decline.
  Populations of native fish species—an important indicator of overall ecosystem health—are declining across the state, despite several decades of well-intentioned efforts and expense. These declines heighten conflicts with other water management goals because they lead to increasingly tight and costly restrictions on water supply, wastewater, and flood protection projects.

CALIFORNIA’S NATIVE FISHES ARE IN TROUBLE

![Graph showing the status of California's native fishes from 1989 to 2010.]

NOTES: “Extinct” = extirpated from California; “listed” = threatened or endangered under state or federal Endangered Species Acts; “special concern” = in decline and could qualify for listing in the future; “reasonably secure” = widespread and abundant according to current knowledge. N = number of known species.

- Ecosystem-based approaches can help.
  At present, environmental management is often “siloed,” with each agency and each project addressing particular issues in particular locations—water quality, wetlands, flows, habitat—and no integrated vision of how to contribute to overall improvement of ecological conditions. Coordinated approaches that seek to improve environmental performance for entire watersheds would be much more effective in protecting native species and would enable California to allocate its dollars (and environmental water) more wisely.

CALIFORNIANS MUST DECIDE HOW TO FILL FUNDING GAPS

Although Californians pay for most water system expenditures through their monthly water and wastewater bills, the state has been relying more heavily on state general obligation bonds (funded by tax dollars) over the past decade.

- State bonds have provided valuable support ...
  These bonds have helped local water agencies fund some innovative projects, such as water recycling and groundwater banking, and they have been essential for flood protection and ecosystem management, which do not have adequate alternative funding sources.
• ... but public appetite for more bonds may be waning.
Existing bonds are nearly depleted, and concerns about weak voter support have led the legislature to twice delay putting a new $11 billion bond on the ballot (originally scheduled for November 2010, now delayed until November 2014). Even a smaller bond—such as the $6.5 billion measure now being considered by the legislature as a replacement for the larger one—would probably face an uphill battle; in recent polling, only 50 percent of likely voters said they would approve a bond of this amount (PPIC Statewide Survey, September 2013). When investments lead to true public benefits, such as ecosystem restoration, relying on tax dollars makes sense. But these investments also take general revenue funds away from education and other state budget priorities.

• Will the public get behind more locally based funding?
Given these tradeoffs, California may need to rely more heavily on the “user pays” principle to fund ecosystem programs (through higher monthly water bills and property assessments). Gaining public backing for more ecosystem funding may prove challenging: 61 percent of Californians say they support increasing state spending to improve conditions for native fish, but support falls to 39 percent if it means an increase in residents’ water bills (PPIC Statewide Survey, December 2012). Increasing local contributions is also likely necessary for flood protection, but this requires making a case to local voters.

THE 2000S SAW UNPRECEDENTED GROWTH IN STATE WATER BONDS

[Graph showing the growth of water-oriented state general obligation bonds from the 1970s to the 2010s, with passing, failed, and pending bonds indicated.]

SOURCE: Ellen Hanak et al., Water and the California Economy (PPIC, 2012).
NOTES: Values are converted to 2010 dollars using the construction cost index from the Engineering News-Record. Past bonds have supported water supply, water quality, flood infrastructure, and ecosystem and open space improvements. In 1960, voters approved a $1.75 billion bond ($18.7 billion in 2010 dollars) for the construction of the State Water Project, but this bond has been paid for by water users, not general fund tax dollars.

LOOKING AHEAD

California has the tools to help secure a safe and reliable water supply, improve conditions for aquatic species, and reduce flood risks. In recent years, water managers have made significant progress toward these goals. But the challenges are increasing with population growth and climate change. Increased momentum toward policy reform—coupled with new investments—is essential to the state’s future. Some changes will be politically difficult. The following issues require sustained attention.

The Delta. The proposed new tunnels have the potential to safeguard the Delta’s environment while maintaining water supply reliability. But this solution requires solid policies on governance, finance, and mitigation for Delta landowners and residents, and a well-organized and well-funded science program to adapt and refine ecosystem management under changing conditions.
Ecosystem protection. Beyond the Delta, a more comprehensive, coordinated, and proactive approach is needed to support California’s aquatic ecosystems and the species that depend on them.

Water efficiency. Better pricing policies—such as tiered water rates with higher prices for greater use—can heighten incentives to conserve while allowing local water suppliers to balance their budgets.

Groundwater management. Better basin management is a prerequisite to realizing the significant potential of groundwater banking. Many groundwater basins have effective local management protocols, especially in Southern California and Santa Clara County. But improvement is needed elsewhere.

Flood risk exposure. To reduce risks to new development, floodplain mapping should account for climate change and increasing flood risks. To boost homeowner awareness, the risks of living behind levees should be disclosed statewide, building on the new policy in the Central Valley, and flood insurance requirements should perhaps be strengthened.

Funding. The state will need to find ways to pay for rising water infrastructure costs and for critical improvements in aquatic habitat. Even if voters ultimately approve new state bond funding, local funding by ratepayers (and property owners in flood zones) will need to increase.

Climate change. Higher water temperatures and sea level rise will alter aquatic habitat in significant but largely unexplored ways. Environmental laws will require that water users respond to these changes with potentially costly management actions (e.g., altering reservoir operations). Anticipating the likely changes would allow the design of more cost-effective responses.