

CALIFORNIA'S FUTURE

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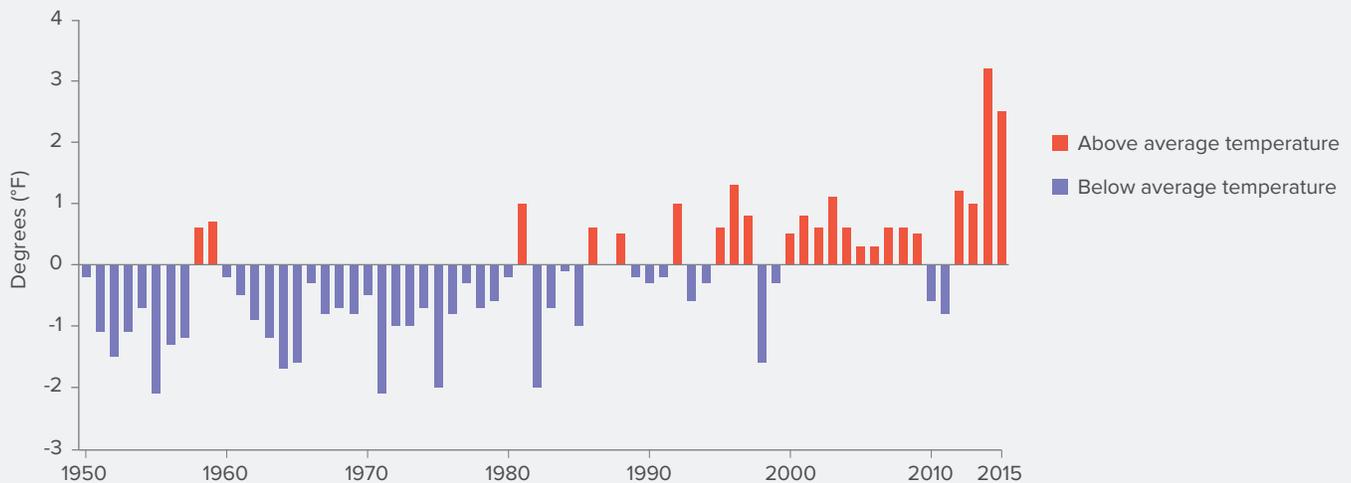
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Climate change threatens California's future

Global emissions of greenhouse gases (GHGs) are raising air and water temperatures and sea levels, with serious consequences for California. The state has recently experienced record-high temperatures, and warming is expected to continue over the century. The sea level is predicted to rise 17 to 66 inches by 2100, and the frequency of extreme events such as droughts, heat waves, wildfires, and floods is expected to increase. Higher temperatures result in more precipitation falling as rain and less as snow, which will increase both the frequency and magnitude of flooding and diminish water reserves in the Sierra snowpack. Even if all GHG emissions ceased today, some of these changes would be unavoidable because the climate system changes slowly.

CALIFORNIA IS GETTING WARMER



SOURCE: National Oceanic and Atmospheric Administration.

NOTE: The figure reports degrees above or below the average statewide temperature for 1981–2000 (58.3°F).

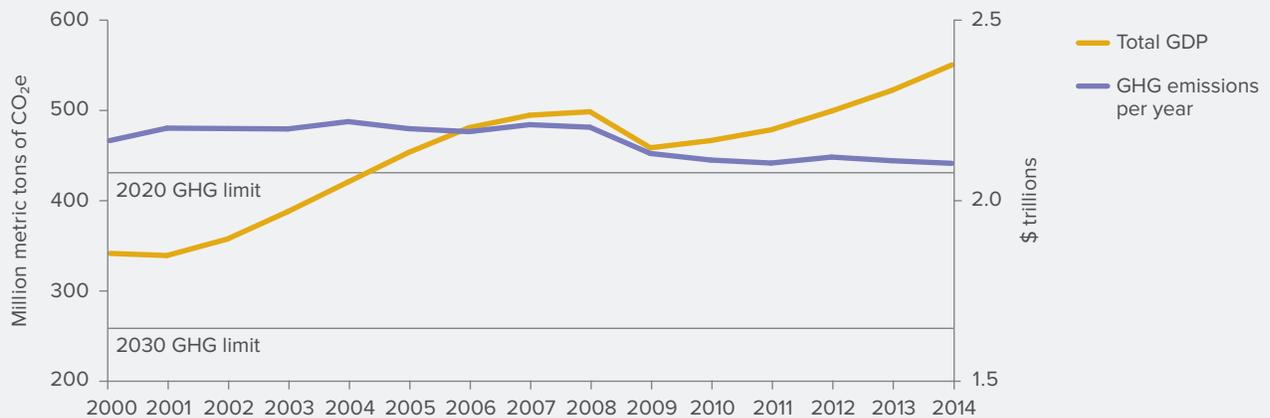
In the face of these threats, California has emerged as a leader in global efforts to reduce GHG emissions. In 2006, California enacted Assembly Bill (AB) 32, the Global Warming Solutions Act, which requires the state to reduce GHG emissions to 1990 levels by 2020. In 2016, the enactment of Senate Bill (SB) 32 extended this commitment by raising the emission-reduction target to 40 percent below 1990 levels by 2030. And an executive order calls for GHG emissions to be reduced to 80 percent below 1990 levels by 2050. The July 2016 PPIC Statewide Survey found that two in three Californians favor the state's emission-reduction goals.

Reductions of this magnitude are needed on a global scale to stabilize the earth's climate. California faces a twofold policy challenge: finding cost-effective ways to reduce GHG emissions and preparing for the climate changes that are expected even if emissions are reduced.

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. This was the first comprehensive plan of its kind within the United States (and one of the first such plans internationally). A 2014 update found that California is on track to meet the 2020 target but will need to significantly increase the pace of GHG emission reductions to meet its longer-term goals. Laws enacted in 2015 and 2016 take steps in this direction.

CALIFORNIA'S ECONOMY IS GROWING DESPITE REGULATIONS REDUCING GHG EMISSIONS



SOURCES: California Air Resources Board (emissions) and US Bureau of Economic Analysis (GDP).

NOTES: Gross domestic product (GDP) is expressed in 2016 dollars. GHG emissions are in millions of metric tons of CO₂ equivalent (CO₂e), a measure used to compare the relative contribution to global warming of various greenhouse gases.

- **Reducing transportation emissions is key.**

Although this sector has cut emissions by 10 percent since the early 2000s, transportation is still California's largest GHG source. Policies to reduce GHGs include: the Low Carbon Fuel Standard Program, which aims to reduce the carbon intensity of fuels by 10 percent by 2020; a Zero-Emission Vehicle (ZEV) Action Plan to add 1.5 million ZEVs—or electric vehicles—to roadways by 2025; and SB 375, which would reduce miles traveled by integrating investments in land use and transportation.

- **The state is increasing reliance on cleaner energy.**

California's Renewables Portfolio Standard requires power utilities to provide 33 percent of total electricity from renewable energy sources by 2020. In 2015, SB 350 increased this target to 50 percent by 2030. The state is on track to meet the 2020 goal—22 percent of electricity came from renewable sources in 2015—but achieving the goal for 2030 will require additional shifts away from natural gas as a power source.

- **A statewide cap-and-trade program brings flexibility to efforts to reduce emissions.**

California adopted the nation's first GHG cap-and-trade program in 2011. By allowing businesses to trade emissions permits, the program gives them flexibility to reduce emissions at lower cost. The auctions began in 2012 with electric utilities and large industries and added transportation and heating fuels in 2015. The program now covers 85 percent of the state's GHG emissions. It is currently scheduled to run through 2020. Uncertainties over its future weakened market participation in 2016.

- **Methane and other potent GHGs are targeted under new policies.**

Short-lived climate pollutants—methane, black carbon, and most fluorinated gases (hydrofluorocarbons, or HFCs)—are powerful climate-warming gases and harmful air pollutants. Together, they account for more than 12 percent of all GHG emissions, with methane the largest source at 9 percent. SB 1383 (enacted in 2016) mandates cutting methane and HFCs by 40 percent and black carbon by 50 percent below 2013 levels by 2030, following a strategy proposed by CARB. The proposal could threaten the viability of the state's dairy industry, which is responsible for more than half of California's total methane emissions.

- **Forests, farms, and wetlands provide opportunities to capture and store carbon.**

Carbon dioxide can be removed from the atmosphere by plants and stored in vegetation or in soils. The state is developing a strategy to align traditional environmental and economic benefits of natural and working lands with potential carbon storage, using integrated land-use approaches.

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 more work is needed to prepare for these 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.

- **The effects of climate change are already being seen around the state.**

The mountain snowpack is shrinking and melting earlier; the spring 2015 snowpack was the lowest on record. Average annual temperatures are rising and wildfires are increasing. Higher temperatures and more severe droughts are threatening some plants and animals with extinction.

- **Air quality will worsen and public health will be at risk.**

Rising temperatures will increase the intensity and spread of smog, likely requiring additional pollution controls to meet air quality standards. An increase in extreme events—heat waves, wildfires, and floods—will threaten public health and challenge the state's health care and emergency preparedness systems.

- **Sea level rise threatens coastal infrastructure, homes, and habitat.**

The Pacific Institute found that 55 inches of sea level rise (near the higher end of projections for 2100) will put almost half a million residents at high risk of flooding and threaten critical infrastructure, including airports, power plants, sewage treatment plants, and 3,550 miles of roads. Risk prevention plans that also protect coastal ecosystems are needed.

- **Water management faces challenges.**

The shrinking mountain snowpack reduces water storage and increases the risk of Central Valley flooding. Rainfall variability is also expected to increase, leading to more intense droughts and floods. Sea level rise and floods increase risks to fragile levees in the Sacramento–San Joaquin Delta, which are important for the state's water supply.

- **Agriculture will have to adapt to changing conditions.**

Reduced water-supply reliability and higher temperatures will pose challenges for crop management. Research on heat- and drought-tolerant crops and tools such as localized climate information can help farmers adapt.

- **Native biodiversity is under threat.**

Climate change places an added burden on plants and animals. As temperatures rise, many species will need to migrate to more hospitable areas, but development patterns could hinder this movement. The latest drought's hot, dry conditions have put 18 native fish species at high risk of extinction, and similar droughts are expected in the future.

- **Readiness to cope is variable.**

Water and electric utilities have begun to factor climate change into their long-range planning, the state has an adaptation strategy for its agencies, and some local and regional governments are developing adaptation plans. But in areas such as ecosystem management and flood control, institutional and legal frameworks are ill-equipped to prepare for change.

- **The state is providing online adaptation tools for local governments.**

Cal-Adapt, the California Climate Adaptation Planning Guide, and the California Local Energy Assurance Planning Tool can help local governments understand their vulnerabilities and prepare for climate change.

- **Californians support action to address climate change effects.**

In the July 2015 PPIC Statewide Survey, 61 percent of Californians said it is very important for the state to act now to prepare for global warming, while 25 percent said it is somewhat important.

Looking ahead

California is on track to meet its 2020 emission-reduction goals and is working toward meeting the more ambitious goals for 2030 and beyond. But California produces only about 1 percent of global emissions—and even if international efforts such as the 2015 Paris Agreement prove successful, the state must prepare for some inevitable effects of climate change.

Achieve near-term GHG emission reductions. Large reductions are needed soon to avoid the most severe effects of climate change.

Undertake some “no regret” measures now to reduce the effects of climate change. For example, considering climate change in current land-use planning could facilitate species migrations. Limiting development in flood-risk areas will avoid future costs.

Extend the cap-and-trade program. Administrative and legislative actions can reduce uncertainties about the future of this flexible policy tool beyond 2020.

Spend cap-and-trade revenues in priority areas. The cap-and-trade auctions have made large sums available for programs to reduce GHG emissions, and about \$1.4 billion was still unallocated by mid-2016. Under a 2016 agreement, some of these funds will be earmarked for programs in economically disadvantaged areas. Other priorities should include innovative programs that do not have ready access to other funding, such as improving forest management to store carbon and helping dairies transform methane into electricity.

Continue to play a leadership role. California’s new GHG emissions targets for 2030 confirm the state’s commitment to combating climate change. This leadership encourages other governments to take action. California can also help lead global efforts by sharing information on successful innovations to reduce emissions.

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California has reversed its long-term incarceration trend

Over the past 40 years, the California corrections system has gone through remarkable changes. “Tough on crime” policies led to a more-than-sevenfold increase in the prison population between 1980 and 2006. During the same period, expenditures rose dramatically and the corrections share of the state budget tripled. The growth in the prison population led to overcrowding and poor prison conditions, prompting lawsuits alleging inadequate medical and mental health care. In 2009, a federal court ordered the California Department of Corrections and Rehabilitation (CDCR) to cut its institutional population to 137.5 percent of design capacity, a reduction of almost 40,000 prisoners.

Two state measures aimed at lowering the number of offenders sent to prison for parole or probation failures began to reduce the prison population. But when the US Supreme Court upheld the population mandate in May 2011, prisons were still operating at 179.5 percent of design capacity and the state needed a reduction of about 33,000 inmates by June 2013.

CALIFORNIA'S PRISON AND PAROLE POPULATIONS HAVE DECLINED SUBSTANTIALLY



SOURCE: CDCR monthly population reports.

NOTE: “Institutional” refers to the population in CDCR adult institutions in California, excluding inmates in fire camps, community correctional facilities, and facilities outside California.

California responded by enacting public safety realignment, which shifted responsibility for many non-serious, non-violent, and non-sexual offenders to county jail and probation systems. The reform cut the prison population by about 27,400 in its first year, not enough to meet the court mandate. Two voter initiatives further trimmed the prison population: Proposition 36 in 2012 revised California’s three-strikes law and Proposition 47 in 2014 reclassified some drug and property felonies as misdemeanors. Along with court-ordered population reduction measures implemented by CDCR, these reforms have reduced the state’s prison population by almost 45,000 inmates since its peak in 2006, a 26 percent decline, bringing it to a level not seen since the mid-1990s.

State prison and parole populations are at or below 1990s levels

- California has 34 state prisons but also houses inmates in contract beds.**
 By July 2016, the prison population was roughly 128,500, including 113,400 in CDCR facilities; this group is known as the institutional prison population. Another 4,860 inmates were in private facilities in Arizona and Mississippi; about 5,900 were in contract beds in public and private facilities in California; and about 3,600 were in fire camps. Since the passage of Proposition 47 in November 2014, the out-of-state population has decreased by 3,800 inmates, while the in-state contract-bed population has declined by around 600 inmates.
- Under realignment, parole violators no longer go back to prison, but rearrest and reconviction rates remain high.**
 Now that California parole violators are no longer returned to state prison, the two-year return-to-prison rate for released offenders has dropped from around 55 percent to slightly below 17 percent. But the two-year rearrest rate

is 69 percent, similar to the pre-realignment level. The two-year reconviction rate of 42 percent is about 5 percentage points higher than before realignment, but this higher rate may simply reflect the prosecution of offenses that in the past would have been processed administratively.

- **County probation departments now supervise most offenders released from prison.**

Since realignment, most inmates released from state prison go to county probation—known as Post-Release Community Supervision—instead of state parole. By September 2014, the parole population had dropped dramatically from 89,200 to 44,300, a decline of 44,900, while county probation caseloads had increased by 45,700.

- **California relies on imprisonment less than many other states but has the nation’s largest corrections budget.**

Between its peak in 2006 and July 2016, California’s prison incarceration rate dropped 31 percent, from 475 inmates per 100,000 residents to 327, well below the national average. In 2012, the most recent year for which comparable data are available, California’s General Fund corrections budget of about \$8.5 billion was more than twice what Texas spent, and roughly as much as the corrections spending of Texas, New York, and Florida combined. However, California’s per capita and per prisoner expenditures of \$224 and \$63,134, respectively, were not the highest in the nation—they both ranked fifth.

Proposition 47 reduced jail population pressures in California

- **The jail population grew under realignment and then declined after the passage of Proposition 47.**

In September 2011, the statewide jail population was about 71,800 inmates. After realignment took effect in October 2011, jail populations rose. In the first three years of realignment, the jail population grew by 14 percent, to 82,000. After Proposition 47 passed, the jail population dropped by 10,000 in two months. As of December 2015, California jails held 72,500 inmates—down 9,500 inmates, or 12 percent, from October 2014.

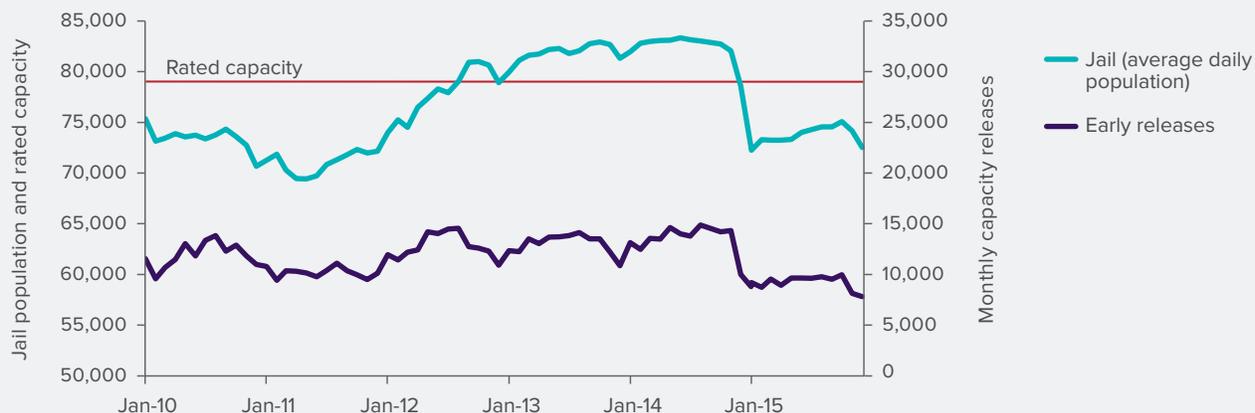
- **County jail systems may face fewer challenges in the future.**

Proposition 47 brought the jail population below the statewide rated capacity of around 80,000 beds for the first time since March 2012. Nevertheless, counties continue to release inmates due to overcapacity. In December 2015, 7,800 inmates were released early. With no limit on the amount of time realigned felons can serve in jail, counties now need to provide services and programs in facilities that were not designed to hold long-term inmates. The difficulties are especially acute in older facilities. To address these challenges, the state has earmarked \$2.5 billion for county jail construction, funding more than 14,000 jail beds over the next decade.

- **Sheriffs are relying on alternatives to incarceration and expanding reentry services and programs.**

To manage jail populations, county sheriffs are increasingly using alternatives such as electronic monitoring, day reporting centers, community service, and alternative work programs. Most counties are also introducing or expanding inmate needs assessments, as well as mental health and substance abuse services, cognitive behavioral treatment, and employment and housing programs.

THE COUNTY JAIL POPULATION AND CAPACITY RELEASES FELL SUBSTANTIALLY AFTER PROPOSITION 47



SOURCE: Board of State and Community Corrections (BSCC) monthly Jail Profile Survey.

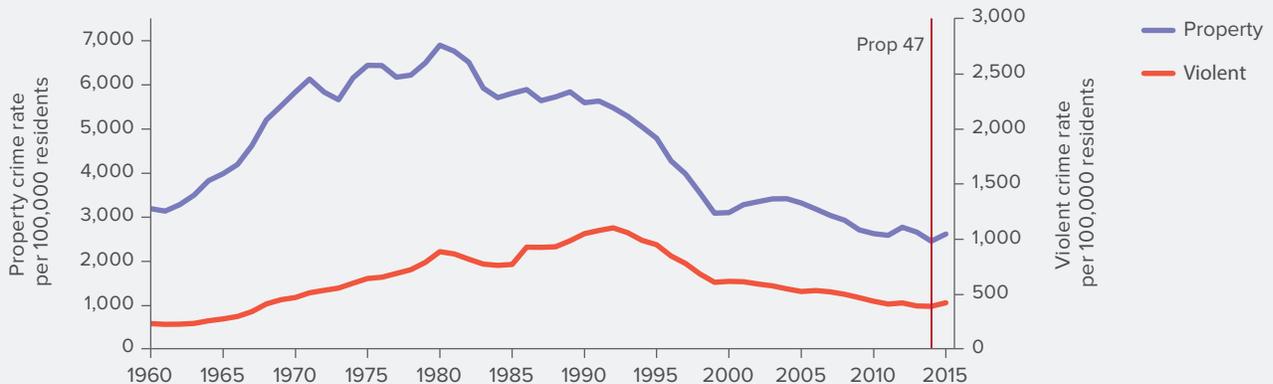
NOTE: As of December 2015, the BSCC sets the statewide rated jail capacity at nearly 80,000 inmates.

Crime rates increased in 2015

- **California's violent crime rate is up from a historic low in 2014.**

After rising slightly in 2012, California's violent crime rate dropped in 2013 and 2014, reaching a 47-year low of 393 violent crimes per 100,000 residents. But in 2015, the violent crime rate increased by 8.4 percent to 426 per 100,000 residents. In the most recent national data from 2014, California's violent crime rate ranked 18th nationwide and was higher than the national rate of 366 per 100,000 residents. In 2015, 59 percent of California's reported violent crimes were aggravated assaults, 32 percent were robberies, 8 percent were rapes, and 1 percent were homicides.

CALIFORNIA'S CRIME RATES ARE AT HISTORIC LOWS, DESPITE INCREASES IN 2015



SOURCE: Author calculation based on FBI Uniform Crime Report 1960–2002 and the California Department of Justice's Criminal Justice Statistics Center, California Crimes and Clearances Files, 2003–15.

NOTE: Violent crime includes homicide, rape, robbery, and aggravated assault. Property crime includes burglary, motor vehicle theft, and larceny theft (including non-felonious larceny theft).

- **There was an uptick in property crime in 2015, following declines in 2013 and 2014.**

California's 2015 property crime rate of 2,620 per 100,000 residents is a 6.6 percent increase from 2014. In the most recent national data from 2014, California's property crime rate ranked 30th nationwide. In 2015, 64 percent of California property crimes were larceny thefts, 19 percent were burglaries, and 17 percent were auto thefts.

- **Realignment's impact on crime was limited to auto thefts.**

There is no evidence that realignment affected violent crime, but auto thefts rose as a result of the reform. Overall, California's property crime rate fell in 2013 and 2014—in line with a drop in comparable states—although California's auto theft rate remains higher. The role of Proposition 47 on crime remains unknown, but preliminary data show that compared to other states, California's increase in property crime in 2015 appears to stand out more than the rise in violent crime.

Looking ahead

Changes in California's corrections system have brought progress and new challenges. In 2005, a federal court put California's prison health care in the hands of a receiver, who oversees efforts to improve medical care in the state's prisons to standards that do not violate the US Constitution. Since then, the state has lowered the prison population below the mandated target and added health care capacity. But as of June 2016, the federal receiver has turned over management of prison health care to the state at only eight prisons, and the prison population is growing again—suggesting that the state has more to do before it can regain control of prison health care. Corrections spending also continues to grow and is now at a historic high. Meanwhile, Proposition 47 reduced population pressures in county jails. Changes to the bail system and pretrial releases could further relieve population pressures and address ongoing racial disparities. Lower jail populations allow state and county correctional systems to focus more on programming, services, and treatment to help inmates reenter community life. Going forward, the state must also confront a range of longer-term needs.

Address high recidivism rates. Evidence-based programming and services are essential to decrease reoffending and foster successful community reentry. Progress in reducing recidivism would benefit both offenders and communities, and could also reduce corrections expenditures. Proposition 57, which gives CDCR authority to expand sentence-shortening

credits for inmate rehabilitative or educational achievements, provides greater emphasis on programs that help inmates prepare for successful reentry into the community.

Assess county jail needs. Proposition 47 brought relief to statewide jail population pressures, but since realignment, counties have greater responsibilities for programming and services. In the next five years, the opening of new facilities will help support counties with these new responsibilities. Monitoring continued changes in jail populations, population management, and post-release outcomes will be critical to understanding the long-term effects of realignment and Proposition 47.

Analyze crime rates. Research shows that putting offenders behind bars was not a cost-effective way to prevent crime at pre-realignment incarceration levels. However, when incarceration rates are lower, reductions in prison and jail populations can put upward pressure on crime rates. Despite increases in 2015, both violent and property crime rates remain at or below the historically low levels seen in the 1960s. Still, it is essential to closely watch crime rates given California's substantial reduction in incarceration.

Carry out thorough evaluation. It will be difficult to assess what California's recent criminal justice reforms have achieved without extensive monitoring and evaluation. The state could decide to fund evaluation, either requiring or incentivizing counties to collect relevant data. Rigorous and reliable efforts to evaluate county practices would also help counties and the state identify and implement effective strategies to reduce recidivism.

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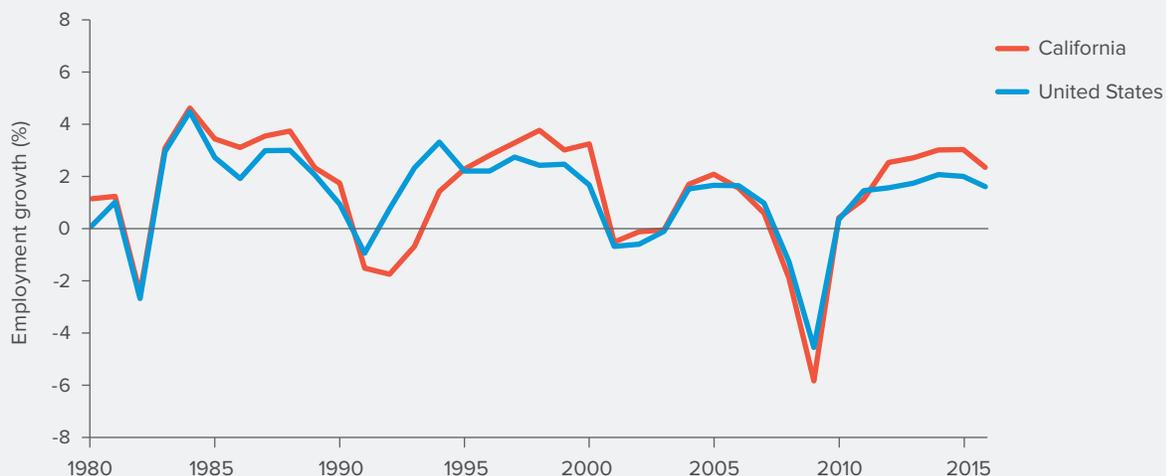
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California's economy is growing, but disparities persist

By many measures, California's economy is performing well. The state unemployment rate is nearing a 30-year low. Strong job growth continues, with California's job growth outpacing the nation's for five years straight. Construction and major service industries—at both the high- and less-skilled levels—drive job growth and are projected to continue to do so over the next decade. These job market improvements are reflected to some extent in family incomes, which are finally rebounding from their recession-era low. Although major labor market indicators are outperforming prerecession levels, incomes still lag behind for many California families. This mixed picture is reflected in Californians' views of the economy. According to the October 2016 PPIC Statewide Survey, 38 percent of Californians expect economic bad times over the next year, while 47 percent predict good times.

Recent trends are an important gauge, but 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. Major sectoral shifts—such as the transition from manufacturing to services—can occur over decades.

CALIFORNIA JOB GROWTH TRACKS GROWTH IN THE NATION OVERALL



SOURCE: US Bureau of Labor Statistics.

NOTE: Annual change in nonfarm employment, not seasonally adjusted, October to October.

California's labor market continues to improve

The California economy generally keeps pace with the US economy. Higher unemployment is explained by the state's younger and faster-growing labor force, and the higher costs of doing business in California are offset by the state's economic strengths. And both are likely to remain prominent features of the state's economy.

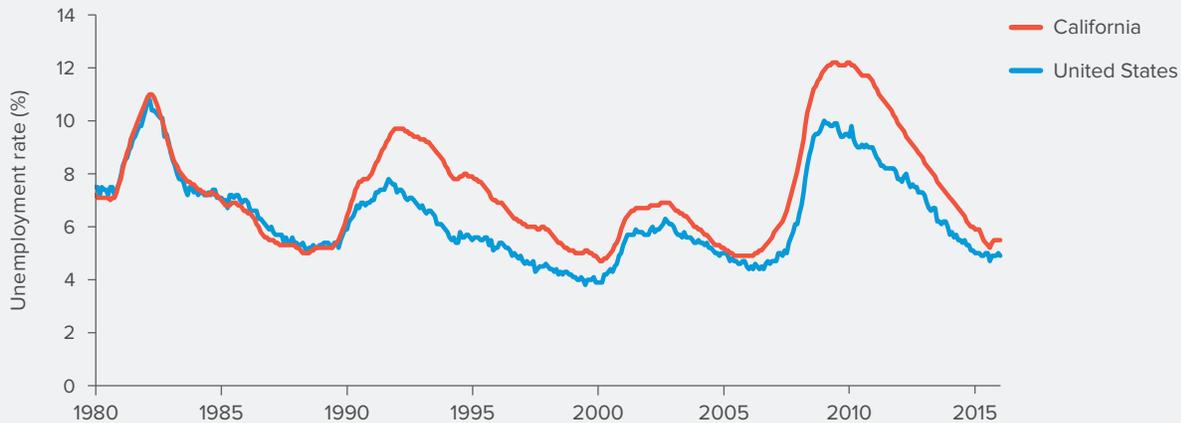
- **California has experienced five years of stronger-than-average job growth.**

Employment growth—the broadest measure of California's economic performance—historically follows the nation's job-growth rate very closely. But for the past five years, California's 2.7 percent job growth has been stronger than the 1.8 percent growth in the United States. Over the past 30 years, job growth has averaged about 1.3 percent annually in both California and the nation. Both the state and the nation experienced job growth in 2016, for the sixth year in a row. Historically, such patterns have not lasted much longer than the current expansion.

- **Unemployment is nearing historic lows.**

In October 2016, California's unemployment rate was 5.5 percent, slightly above the 4.9 percent national rate. The state's jobless rate is still about half a percentage point higher than before the recession, but it has dropped steadily, and the gap between the US and California rates has narrowed considerably. California's unemployment rate has been higher than the national rate for more than 20 years—even when the state's employment growth surpassed the nation's, as it did during the technology boom of the late 1990s. This may seem paradoxical, but it makes sense. The state generates jobs at about the same pace as the nation as a whole. But California has faster population growth, fueling faster-than-average expansion of the labor force. The result is a persistently higher unemployment rate, which is likely to remain above the US level for some time to come.

UNEMPLOYMENT IS NEARING PRERECESSION LEVELS



SOURCE: US Bureau of Labor Statistics.

NOTE: Monthly unemployment rate, seasonally adjusted.

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

California workers, on average, earn 11 percent more than the national average—even after adjusting for differences in the mix of workers, occupations, and industries. But California's output per worker is 14 percent above the national average. This higher productivity fully offsets the higher average wages. All of California's neighbors—Nevada, Oregon, and Arizona—have lower wages and lower output per worker. Businesses in California face higher costs but also enjoy many benefits, such as the higher productivity just noted, as well as the skill level of the workforce, the availability of capital, and the amenities that make California an attractive place to live.

Underlying economic conditions remain uneven

- **Improved labor market conditions have yet to benefit all Californians.**

Despite low unemployment rates overall, California still has 1 million unemployed workers and more than 800,000 people who have dropped out of the labor force but would like to work. Over the past year, two-fifths of unemployed Californians have been looking for work for 15 weeks or longer. The average length of the job search has steadily shortened, but some ready workers still struggle to find employment. Furthermore, 5.1 percent of workers are underemployed; that is, they are working part-time when they would rather be working full-time. Altogether, 11.4 percent of workers—more than double the official unemployment rate—are either unemployed, underemployed, or discouraged (meaning they would like to work but have dropped out of the labor force). Largely because labor market conditions vary across segments of the workforce, median household income has grown more slowly than one might expect based on labor market indicators. In 2015, the median household earned about \$65,000, an improvement from the low of \$60,000 in 2011 but still 6 percent lower than in 2007. California median income is higher than the nationwide median of \$56,000.

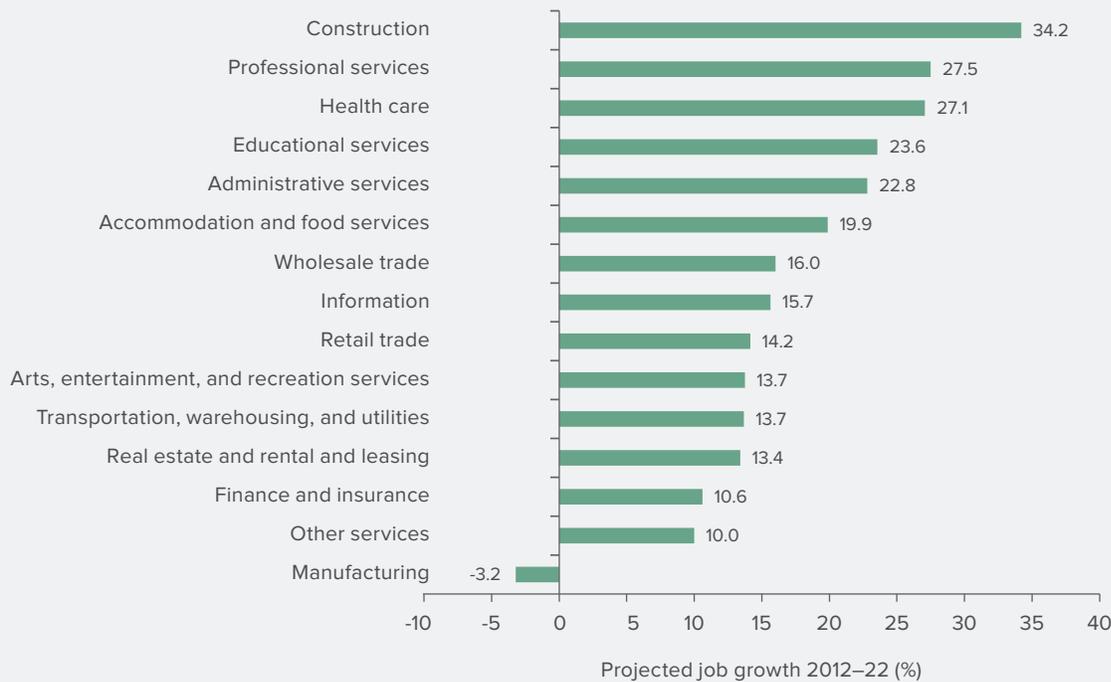
- **Regional economic differences are dramatic and persistent.**

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. As of October 2016, unemployment rates were lowest in the Bay Area as well as San Diego and Orange Counties (ranging from 3 to 5%), and highest in Imperial County (22%) and the Central Valley (8 to 11%). This variation reflects different industry mixes and job growth patterns—as well as the faster-growing inland workforce. Although inland California currently has higher unemployment rates, that region’s low housing costs continue to fuel the growth of its workforce. The working-age population in much of inland California is projected to grow more than 20 percent between 2010 and 2030, compared with an expected 10.7 percent growth rate for California overall.

- **Strong job growth in construction and services will continue, while manufacturing will stagnate.**

Over the past year, construction and three disparate service industries—accommodation and food services, health care, and professional services—led employment growth, contributing 50 percent of new jobs in California. Other service industries—education as well as arts, entertainment, and recreation—though smaller, grew jobs at even faster rates, more than double the state average. All of these industries are projected to continue leading growth through 2022. By contrast, manufacturing employment actually declined at a rate of 1.2 percent in the past year. Manufacturing job growth has been slowing for decades and will continue to be sluggish in California.

CONSTRUCTION AND SERVICE INDUSTRIES ARE PROJECTED TO LEAD JOB GROWTH THROUGH 2022



SOURCE: California Employment Development Department.

NOTE: Employment growth projections for private sector industries only.

Looking ahead

California’s long-term economic trends reflect strengths but also raise policy challenges. 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 economy is growing jobs at a fast rate—continuing to do so is the first step in creating broad-based economic opportunities. Almost 2 million Californians are unemployed or might reenter the labor force if they could find appropriately matched jobs. A thriving California economy is the best route to employment growth, in both the short and long runs. Economic policies that stimulate business and foster a strong, skilled workforce are crucial to job creation in California.

Recognize that typical labor market indicators often mask challenges. The state's economy is very diversified across industries and encompasses a wide mix of occupations and workers. Though statewide economic indicators are a useful gauge of overall performance, economic policy should reflect the breadth and diversity of the state's economy. High job growth and low unemployment are positive signals, but long-term economic vitality depends on the quality of jobs created and strong competitiveness for all regions of the state.

Promote economic opportunity through education. Education is essential to economic well-being in California. Highly educated workers were better protected from the impact of the Great Recession and are likely to fare better in future boom-and-bust cycles. Promoting education is an important strategy for addressing inequality and ensuring economic opportunity across the income spectrum. And because the new economy demands a highly skilled workforce, education plays a crucial role in helping California remain economically competitive.

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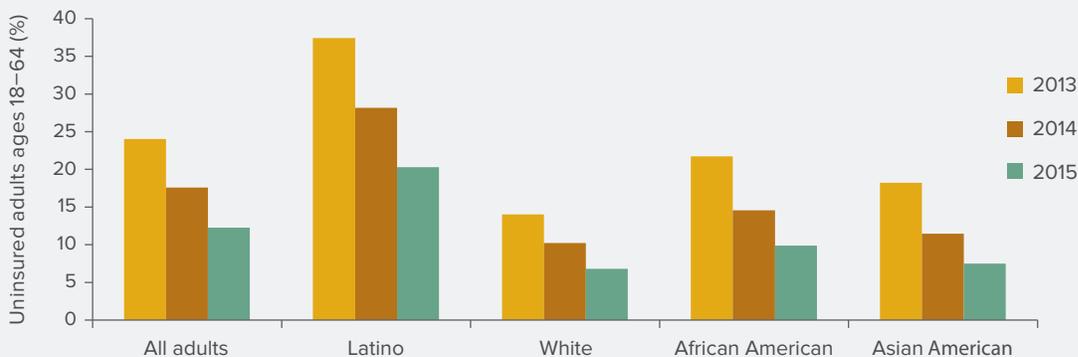
PUBLIC POLICY
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California's coverage gains face an uncertain future

California's embrace of the Affordable Care Act (ACA) has substantially reduced the number of uninsured residents in the state. Large growth in Medi-Cal, the state's Medicaid program, is responsible for most gains in coverage. Meanwhile, the state-run insurance marketplace, Covered California, has maintained steady enrollment levels since its inception.

The state's success in extending health coverage to a large share of residents faces an uncertain future under the new federal administration, which has pledged to dismantle the ACA. Rolling back federal financing would substantially impact California's ability to continue its expanded coverage programs. While federal changes are still unknown, the state will likely have to make some difficult decisions about how to handle substantially lower federal funds. Californians have shown support for expanded health coverage, voting in November to pass three initiatives that will bolster Medi-Cal funding. But these new state funds will not be enough to bridge the gap if federal funds are reduced substantially. If many Californians lose coverage, the state's health care safety net system will experience more pressure to provide services to more residents.

FEWER ADULTS ARE UNINSURED ACROSS ALL RACIAL/ETHNIC GROUPS



SOURCE: American Community Survey, 2014, 2015, 2016 1-Year PUMS files.

NOTE: The white, African American, and Asian American racial categories do not include individuals who also reported that they were not of Hispanic ethnicity. Latinos include all individuals who reported they were of Hispanic, Latino, or Spanish origin regardless of race.

California continues to see large declines in uninsured rates

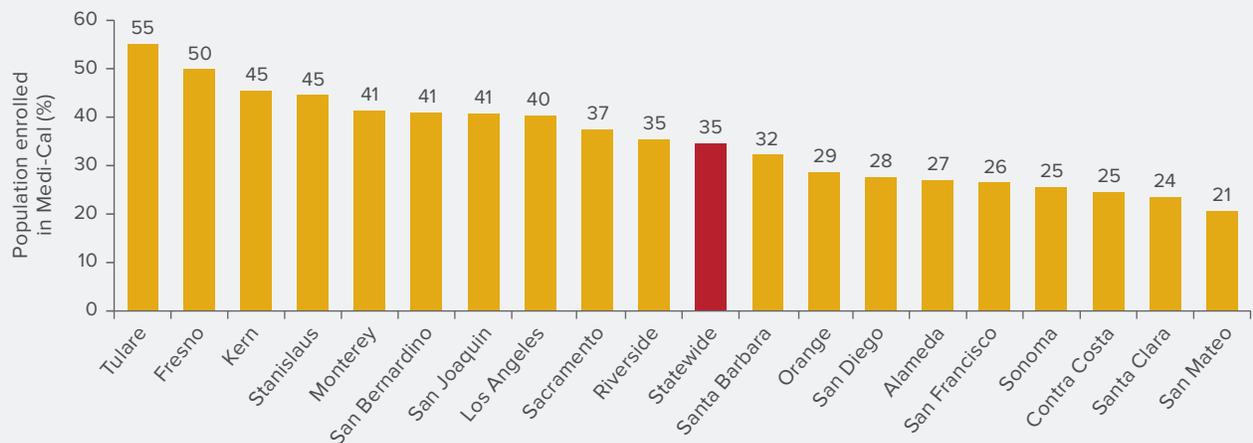
- More than 1 million fewer Californians lacked health insurance in 2015 compared with a year earlier.**
 The number of Californians without health coverage dropped nearly another 4 percentage points in the second year of ACA coverage expansions, from 12.4 percent in 2014 to 8.6 percent in 2015—this represents a nearly 9 percentage point decline in the number of uninsured Californians since ACA implementation. Among adults ages 18 to 64—the group benefiting most—the uninsured rate declined from 17.5 percent in 2014 to 12.3 percent in 2015. Coverage improved for all racial and ethnic groups. The biggest drop in the percent of uninsured California adults younger than 65 occurred among Latinos (7.8 percentage points), followed by African Americans (4.7 percentage points), and Asian Americans (3.9 percentage points).
- California is still home to millions of uninsured residents.**
 Despite coverage gains, more than 3 million Californians lacked health insurance in 2015. Uninsured residents often rely on California's health care safety net for medical services. Beyond offering care to the uninsured, traditional safety net providers, such as community clinics and county hospitals, serve as health care access points for Medi-Cal patients, particularly for inpatient and specialty care in the case of public hospital systems.

Medi-Cal now covers more than one-third of all Californians

Medi-Cal provides comprehensive health insurance to low-income people and is the linchpin of the ACA's expansion of coverage in California. Under the ACA, the state has expanded Medi-Cal to cover low-income adults who didn't meet previous eligibility standards requiring either a qualifying disability or responsibility for a dependent child. The federal government currently covers 95 percent of the costs of this new group, which in the current budget amounted to about \$15 billion and covered about 3 million adults. Most proposals to dismantle the ACA include plans to cut federal Medicaid funding. These cuts could take different forms, including changing federal Medicaid financing to block grants, imposing per-capita funding caps, or changing the health services for which federal funds can be used.

- **An expanded Medi-Cal program now provides comprehensive health insurance to about 13.5 million Californians.** Since the Medi-Cal program expanded in 2014, enrollment has increased nearly 60 percent. According to the current budget, Medi-Cal will serve an estimated 14.1 million Californians this fiscal year—more than one-third of the state's population. In some counties, half of all residents are enrolled in the Medi-Cal program.

MEDI-CAL PROVIDES COVERAGE TO HALF OF ALL RESIDENTS IN MANY LARGE COUNTIES



SOURCE: California Department of Health Care Services, Research and Analytic Studies Division, Medi-Cal Certified Eligibles, Summary Pivot Table, Most Recent 24 Months, March 2016. California Department of Finance E-4 Population Estimates for Cities, Counties, and the State, 2011–2016, May 2016.

NOTE: The share of residents enrolled in Medi-Cal is calculated using the average total Medi-Cal certified eligibles from the first three months of 2016 and the total population for January 2016 from the Department of Finance.

- **Medi-Cal is the state's second-largest General Fund expenditure after K–12 education.** Enrollment growth has increased program costs, projected to be about \$90 billion in fiscal year 2016–2017. The federal government is expected to contribute almost 65 percent of total program costs or about \$58 billion. Still, an estimated \$17.7 billion will come from the state's General Fund, which has also increased in recent years. Major federal changes could result in the Medi-Cal program losing upward of \$20 billion in federal funds.
- **Most Medi-Cal beneficiaries are enrolled in managed care plans.** Nearly all new Medi-Cal enrollees go into managed care plans, which receive a set payment rate for coordinating health services for beneficiaries. All California counties have some type of Medi-Cal managed care plan. In recent years, some high-need Medi-Cal beneficiaries, including children with special health care needs and people eligible for both Medi-Cal and Medicare, have been transitioned from fee-for-service arrangements to managed care.
- **Medi-Cal behavioral health coverage has broadened.** Coverage for mental health and substance use disorder (SUD) services is required in all ACA health plans, adding new services for Medi-Cal beneficiaries. If major changes to the ACA are enacted, certain benefits—including behavioral health services—that were mandated by the law could be pared back.

Covered California relies heavily on federal subsidies

Covered California, California's health insurance marketplace created under the ACA, allows individuals and small businesses to compare and enroll in health plans. Ninety percent of individuals who purchase plans receive federal subsidies, making it difficult to see how the marketplace would function in the absence of federal financial support.

- **Covered California's insurance premiums will increase substantially in 2017.**

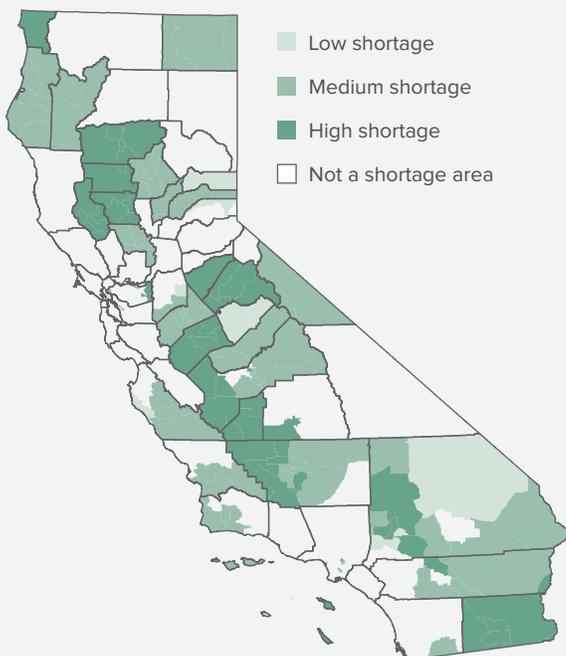
Nearly all health plans that participated in Covered California in previous years are continuing to offer coverage in the marketplace. After three years of very moderate growth, the average cost for coverage in 2017 rose more than 13 percent statewide. However, premium changes differ from one region to another—from Los Angeles County, which saw a 0.5 percent decrease, to Monterey, San Benito, and Santa Cruz Counties, where premiums climbed 28 percent. Subsidies should insulate many from these premium increases if they stay at current levels.

- **Several factors influence the large jump in costs.**

The costs of providing care to enrollees in Covered California have been higher than expected and are now reflected in the increased insurance premiums. What's more, some federal financial protections provided to insurance companies in the first years of the ACA are being phased out. In addition, health care costs, most notably the cost of specialty drugs, have increased considerably in the past few years. Federal policy changes will affect how state insurance marketplaces created under the ACA work in the future. Still, Covered California has implemented sound policies that would allow it to withstand some change.

Health care access, quality, and results are uneven across the state

MANY AREAS FACE SHORTAGES OF MENTAL HEALTH PROVIDERS



SOURCE: California Office of Statewide Health Planning and Development, Healthcare Workforce Development Division.

NOTES: Health professional shortage areas (HPSAs) can be defined as entire counties or groups of census tracts. Mental health HPSAs are based on a psychiatrist-to-population ratio of 1:30,000. Scores are based on a number of different criteria including provider-to-population ratios, percent of population in poverty, and travel distance to nearest source of care. The higher the score the greater the shortage. Low-shortage areas have a score of 4–10, medium-shortage areas have a score of 11–15, and high-shortage areas a score of 16–18.

Health can be measured in a number of ways, including health status, access to care, quality of care, personal behavior, and social and physical environments. Significant differences exist among socioeconomic, racial, ethnic, and regional groups.

- **Several regions in California are designated as having a shortage of mental health providers.**

Many Californians live in areas where the supply of health care providers is not adequate to ensure access to care. The federal government has developed criteria to designate certain geographic areas, populations, or health care facilities as health professional shortage areas (HPSAs), which confer access to certain federal programs and benefits. HPSAs designating a shortage of mental health providers are located throughout California but are especially prevalent in the Central Valley and northern regions of the state.

Looking ahead

Federal health reform has brought widespread change to California's health care systems. And many of these changes now face an uncertain future under the new federal administration.

Uninsured Californians. California's current uninsured rate is at a historic low of 8.5 percent—indicating that more than 4 million fewer people lack health insurance than just a few years ago. Some people who gained coverage under the ACA will undoubtedly be unable to afford health insurance if the federal government reduces its level of financial support for Medi-Cal or coverage purchased through Covered California.

Medi-Cal program. The potential for large federal funding cuts raises many questions for the Medi-Cal program. If the federal government shifts to a block grant funding system, states will likely

be given considerable flexibility as to how the program will be run, who will be eligible, and what level of benefits will be provided. While many of these decisions will likely center around budgetary issues, it will be important for state leaders to assess the role of the program in providing services to some of California's most vulnerable residents.

Covered California. Health plans and hospital systems played a substantive role in the development and implementation of the ACA. As the key purchasers and providers of health care, they will undoubtedly be involved in policy discussions related to any proposed changes. Covered California invested heavily in technology and infrastructure to create a robust marketplace. And while consumers were able to purchase coverage through the marketplace for the upcoming year, if federal subsidies cease it is not clear how many people will be able to afford that coverage.

Health care safety net. The state's safety net providers, including public hospital systems, emergency departments, primary care clinics, and comprehensive health centers, are the primary sources of care for low-income people, especially those that are uninsured. Now more than ever, policymakers must monitor the effectiveness and financial condition of the state's health care safety net system to ensure that they remain viable and able to provide care to all Californians.

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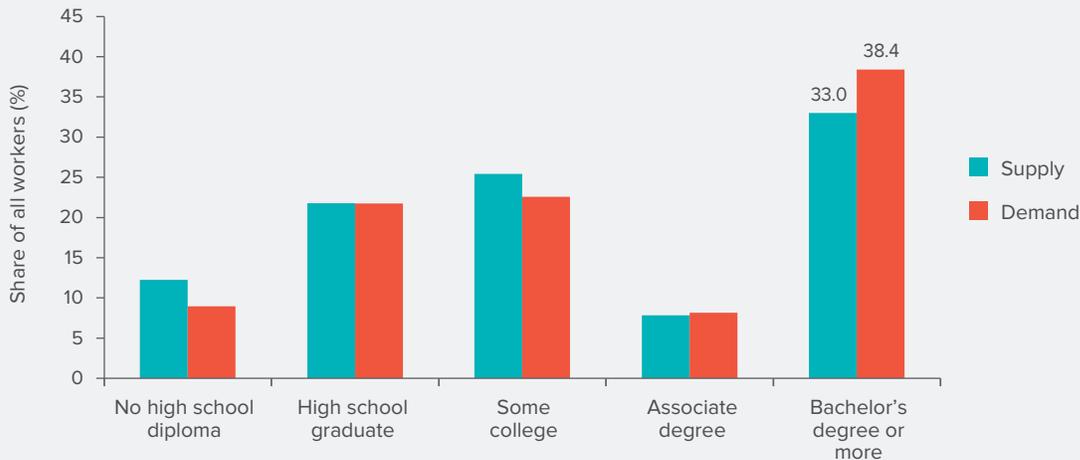
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California faces a skills gap

California's higher education system is not keeping up with the changing economy. Projections suggest that the state will continue to need greater numbers of highly educated workers. In 2030, if current trends persist, 38 percent of jobs will require at least a bachelor's degree. But population and education trends suggest that only 33 percent of working-age adults in California will have bachelor's degrees by 2030—a shortfall of 1.1 million college graduates.

BY 2030, CALIFORNIA MAY HAVE A SHORTAGE OF HIGHLY EDUCATED WORKERS



SOURCE: PPIC projections.

The state needs to act now to close the skills gap and meet future demand. 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. Improving access and completion rates for underrepresented groups, including Latinos, African Americans, and students from low-income groups, will also be essential. Measuring progress and identifying programs and policies that improve student success should be a key component of ensuring that new investments are effective and efficient.

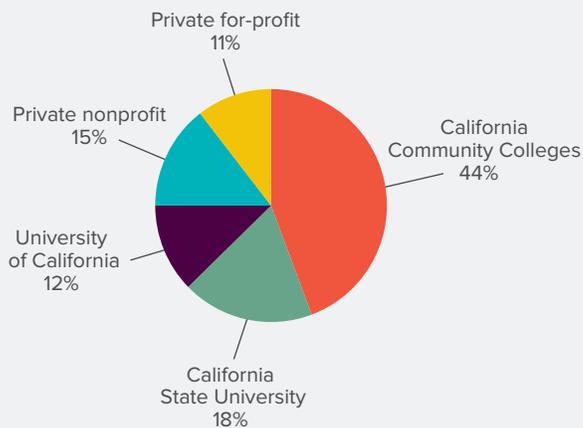
Californians are keenly aware of the importance of higher education. According to the April 2016 PPIC Statewide Survey, about eight in ten California parents hope their children will earn at least a bachelor's degree. But Californians are worried that educational inequities will make it difficult for many students to prepare for higher education. Almost 90 percent of Californians are concerned that high school graduates in lower-income areas are less likely than other students to be ready for college.

California needs more college graduates

- **California's economy increasingly demands highly educated workers.**

For decades, employment growth has been strongest for 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 is driving up demand for these workers, and within those and other sectors there has been a shift toward jobs requiring higher levels of education.

MOST CALIFORNIA COLLEGE STUDENTS ATTEND PUBLIC INSTITUTIONS



SOURCE: Integrated Postsecondary Education Data System (IPEDS), 2014–2015 data.

NOTES: Restricted to two-year and above colleges. Enrollment is for full-time equivalent students.

- The supply of college graduates is not on track to keep up with demand.

Two demographic trends will undercut future increases in the number of college graduates. First, the baby boomers—a large and well-educated 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, young adults are not graduating from college at sufficiently high rates to close the gap. College completion rates have been improving, but not fast enough. 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. About three of every four students in California are enrolled in one of the state's public education systems: the California Community Colleges, the California State University (CSU), and the University of California (UC). Three of every four bachelor's degrees awarded annually in the state come from either CSU or UC.

Obtaining a four-year degree is challenging for many

- Large numbers of California's high school graduates attend community colleges.

Community colleges account for more than half of undergraduate enrollment in California—open access, wide geographic distribution, and relatively low fees make them especially popular. California ranks first out of the 20 most populous states—and fifth among all 50 states—in the share of recent high school graduates who go to a two-year college. When it comes to the share of high school graduates who attend four-year colleges, California ranks 47th out of 50 states.

- Many students never transfer to four-year schools.

Approximately 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. Students who do transfer to UC and CSU have high rates of success, with the vast majority earning a bachelor's degree.

- Students often take more than four years to graduate.

Slightly more than half of CSU students graduate within six years of entering as freshmen, and four of every five UC students earn a degree within six years. However, only 19 percent of CSU students and 61 percent of UC students graduate with a degree in four years. UC and CSU are working to improve on-time graduation, with CSU recently adopting ambitious new goals for four-year and six-year graduation rates.

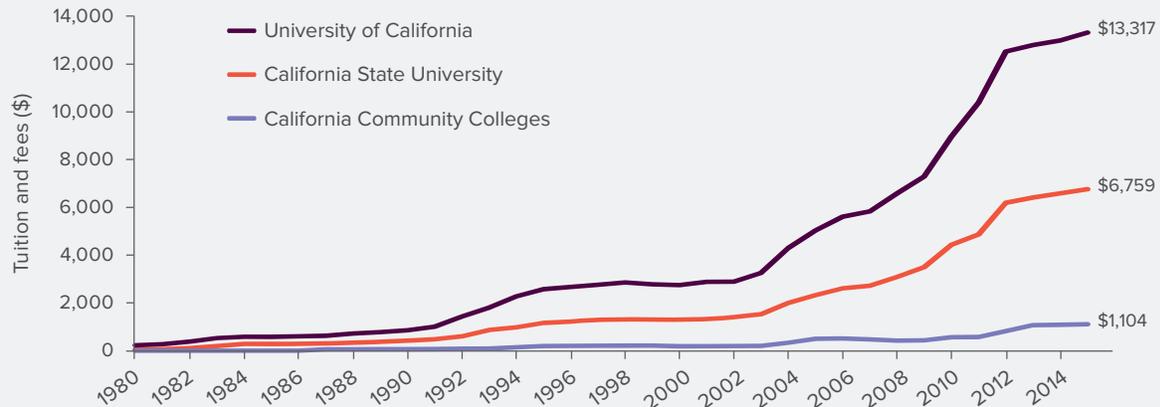
- Preparation is key for earning a degree.

A lack of academic preparation can delay or prevent students from earning an associate degree or transferring to a four-year college. Almost 80 percent of community college students and 39 percent of CSU entering freshmen require remediation before taking college-level courses. However, an increasing share of students are completing high school courses that prepare them for college, and some school districts have begun requiring students to complete those courses in order to graduate. At the community colleges, new courses designed to shorten and improve the remediation process along with new assessment and placement policies could allow many more students to enroll in college-level courses. Colleges will need to ensure that these new courses and policies are evaluated and implemented consistently across the state so that they improve outcomes for all students, especially those who have been traditionally underserved in higher education.

Costs have risen, but college remains a good investment for most graduates

- **Tuition at public institutions increased sharply during the recession but has remained flat since 2011.** During the recession, per student General Fund allocations fell by about 20 percent at CSU and UC, causing the systems to increase tuition to make up for lost revenue. Recent increases in General Fund allocations have not restored funding to prerecession levels, but they have kept the universities from raising tuition since 2011. Tuition at California universities is historically volatile—dramatic increases often follow periods of flat tuition.

ANNUAL TUITION AND FEES HAVE INCREASED DRAMATICALLY AT CSU AND UC



SOURCES: University of California, Office of the President; California State University Chancellor's Office; and California Community Colleges Chancellor's Office.
NOTES: Adjusted for inflation, in 2016 dollars. Community college tuition is for a full-time student with 12 units in each semester and does not include campus fees. We used the average CPI for the first seven months of 2016.

- **Higher costs have increased reliance on loans, but most graduates earn enough to pay off debts.** The share of students taking out loans has declined a bit in the past few years but remains at historically high levels. In 2014, 44 percent of California freshmen at four-year colleges took out student loans—in 2007, only about a third did so. Similarly, average loan amounts have declined in recent years but remain high by historical standards. Despite the increase in debt, college is a good investment for the vast majority of students who attend public colleges and private nonprofit colleges. Labor market outcomes remain far better for college graduates than for less educated-workers, even in economic downturns. Unemployment among workers without a postsecondary degree jumped 5 to 7 points during the recession but increased by only 2 points for those with advanced degrees. All but the lowest-paid college graduates earn enough to pay off their debts.

Looking ahead

California is facing a serious shortfall in its supply of college-educated workers. Improving the educational attainment of 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 higher education goals. California has not substantively updated its Master Plan for Higher Education since it 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 schools, and identify completion and time-to-degree objectives. Some progress is being made. For example, CSU has recently taken the lead in setting ambitious new graduation targets. Establishing a new higher education coordinating body to set priorities and coordinate efforts between K–12 and higher education systems could lead to further improvements in student transitions and outcomes.

Decide how to provide adequate funding to achieve state goals. California's higher education institutions tend to see disproportionate budget cuts during economic downturns. Shortchanging education for quick budget fixes could seriously harm 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 a possibility, as yet unproven, as is performance-based evaluation and funding.

Ensure access for low-income students. As the costs of attending college have increased, the importance of grant and scholarship aid has grown. California should ensure that its aid programs keep up with growing college costs and are targeted to institutions with good track records in graduating low-income students without saddling them with large amounts of debt.

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.

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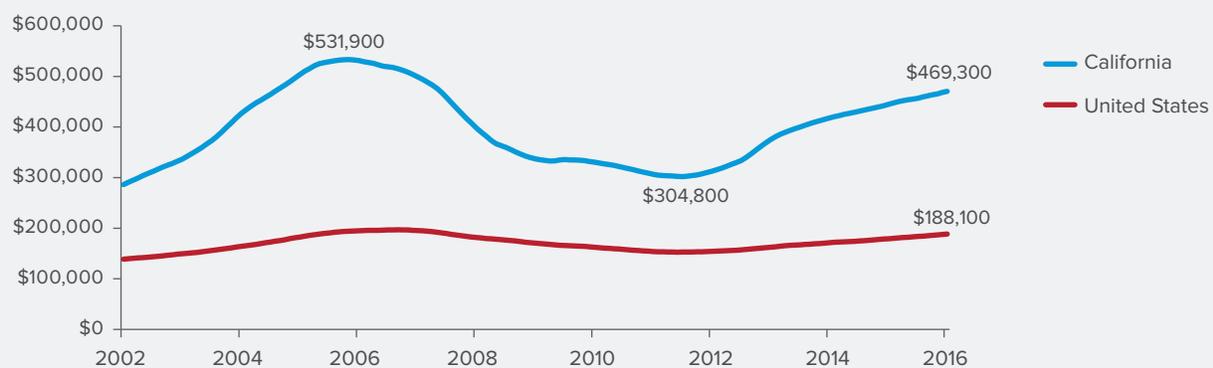
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California's housing challenges continue

California home values continue to rise but at a slower pace than in recent years. As of August 2016, home values climbed 5.8 percent over the year, down from 6.5 percent in 2015 and 11.4 percent in 2014. Meanwhile, driven by exceptionally strong demand, rents continue to increase. To help meet this demand, multifamily permits continue to be issued at historically high levels. At the same time, foreclosures have fallen to the lowest level in years.

Although home values have increased substantially since the nadir of the housing bust, gains are uneven across the state. The number of California homeowners with negative equity has dropped sharply. Still, in the second quarter of 2016, about 348,000 homeowners remained underwater, with mortgage amounts higher than the market value of their homes. High rents and rising prices place housing out of reach for many, in some cases leading to homelessness. Affordability continues to be one of California's biggest housing challenges, aggravated by slow growth in household income. Almost half of California renters pay more than 35 percent of their household income for housing.

MEDIAN HOME VALUES: BOOM, BUST, AND RECOVERY



SOURCE: Zillow.

NOTE: Values in nominal dollars from August 2002 to August 2016.

Housing values keep rising, but the pace is uneven

- **California home values have increased substantially since the housing bust.**

The state's median home value is up 56 percent from its low in 2012—to \$469,300, within 13 percent of the previous peak in 2006. In five Bay Area counties (San Francisco, San Mateo, Santa Clara, Alameda, and Marin), values are now above previous highs. Some of the sharpest gains have occurred in counties that had the worst busts, including 92 percent in San Joaquin, 77 percent in Sacramento, 71 percent in San Bernardino, and 66 percent in Riverside. But values in those counties are still 20 to 30 percent below peak. In 10 counties, mostly in the San Joaquin Valley and the Central Sierra, prices remain more than 30 percent below peak.

- **Fewer homeowners have negative equity.**

Just 5.2 percent of California homeowners with mortgages were underwater in the second quarter of 2016, down dramatically from 37 percent in the fourth quarter of 2009. California's underwater rate is now lower than the 7.1 percent rate in the rest of the nation.

- **Foreclosures have dropped to the lowest level in years.**

California's total foreclosure activity (which includes foreclosure starts, scheduled foreclosure auctions, and bank repossessions) declined 75 percent from August 2012 to August 2016. Foreclosure starts are at about 7.5 percent of their 58,858 peak in May 2009 and are below precrisis levels.

MEDIAN HOUSING VALUES HAVE RISEN IN CALIFORNIA'S 15 MOST POPULOUS COUNTIES

	Peak (2006 or 2007)	Low (2011 or 2012)	Current (Aug. 2016)	Peak to current	Low to current
Alameda	\$629,900	\$398,000	\$722,700	15%	82%
Contra Costa	\$615,100	\$303,700	\$536,700	-13%	77%
Fresno	\$293,800	\$134,700	\$208,700	-29%	55%
Kern	\$270,800	\$120,700	\$184,900	-32%	53%
Los Angeles	\$559,900	\$352,100	\$532,800	-5%	51%
Orange	\$709,000	\$449,200	\$659,700	-7%	47%
Riverside	\$424,900	\$198,300	\$328,800	-23%	66%
Sacramento	\$386,000	\$175,200	\$310,000	-20%	77%
San Bernardino	\$378,900	\$169,100	\$289,000	-24%	71%
San Diego	\$543,700	\$340,800	\$516,200	-5%	51%
San Francisco	\$830,500	\$658,300	\$1,104,100	33%	68%
San Joaquin	\$411,100	\$151,300	\$290,200	-29%	92%
San Mateo	\$815,700	\$593,400	\$1,063,300	30%	79%
Santa Clara	\$751,800	\$561,500	\$962,300	28%	71%
Ventura	\$632,200	\$375,200	\$538,600	-15%	44%
California	\$531,900	\$301,400	\$469,300	-12%	56%

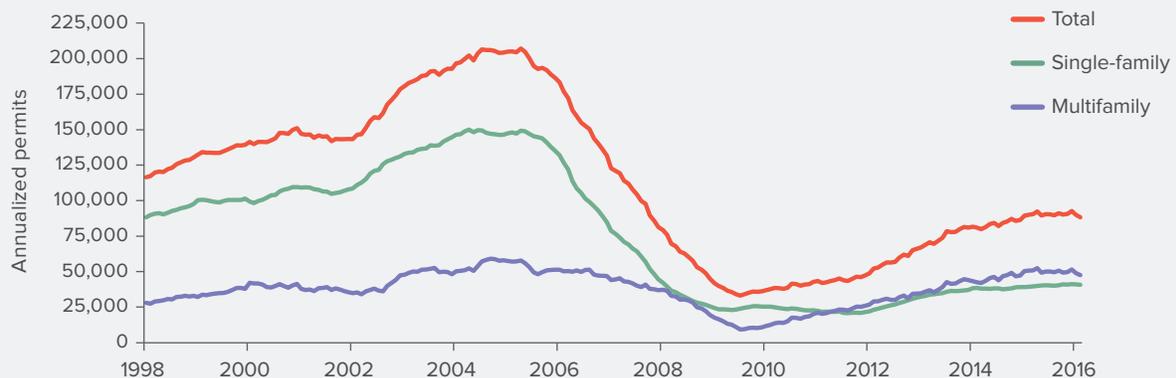
SOURCE: Zillow.

NOTE: In nominal dollars. For most counties, the peak occurred in 2006 or 2007, and the low in 2011 or 2012.

- **New construction permits are increasing.**

Low vacancy rates, rising prices, and low interest rates are boosting housing starts. New residential construction permits are set to reach more than 90,000 in 2016—up from 33,000 in 2009, but still far below the 200,000 units built annually from 2003 to 2005. Fueled by strong rental demand, multifamily residential permits have shown robust gains since 2010; however, these gains started to slow down considerably during 2016. Meanwhile, construction jobs are growing faster than employment in most other sectors.

NEW HOME CONSTRUCTION PERMITS HAVE RETURNED TO 2008 LEVELS



SOURCE: US Census Bureau, Building Permits Database.

NOTE: July 1998 to July 2016.

Housing remains expensive for most people

- **Californians spend disproportionate shares of their income on housing.**
For California homeowners with mortgages, median monthly housing costs are 44 percent higher than they are nationwide. California renters pay 37 percent above the nationwide median. Yet California's median household income is only 16 percent higher than the nationwide level. This means that the share of Californians with excessive housing costs is quite high: 31 percent of mortgaged homeowners and 46 percent of renters spend more than 35 percent of their total household income on housing, compared with 22 percent and 41 percent, respectively, nationwide.
- **Housing is especially unaffordable in coastal areas, where two-thirds of Californians live.**
In the second quarter of 2016, the San Francisco metropolitan area (San Francisco, San Mateo, and Marin Counties) was the nation's least affordable major housing market. Los Angeles, Orange County, and San Jose were among the five least affordable metropolitan areas nationwide. Less than one-fifth of households could afford the median-priced home in these areas. Santa Cruz–Watsonville, Salinas, Napa, San Rafael, and Santa Rosa were the nation's five least affordable smaller housing markets.
- **Rents are high and rising.**
California has six of the nation's eleven most expensive large metropolitan rental markets: San Francisco, San Jose, Orange County, Oakland, San Diego, and Los Angeles. Estimated median rent for a two-bedroom apartment ranges from \$1,671 in Los Angeles to \$3,266 in San Francisco. In the past couple years, rents have increased 44 percent in San Francisco and 37 percent in the Oakland–Fremont metro areas.
- **Vacancies are low.**
In 2015, California's homeowner residential vacancy rate was 1.2 percent compared to 1.8 percent nationwide. Meanwhile, the rental vacancy rate was 3.3 percent, 2 percentage points lower than in 2010 and far below the 5.9 percent nationwide rate. Low vacancy rates have contributed to the tightness of the rental market.
- **Homeownership rates have fallen.**
During the past 10 years, homeownership rates, already much lower in California than in the rest of the nation, declined more sharply in the state, falling to 53.6 percent of occupied units in 2015, compared with 64.2 percent in the rest of the country. Owner-occupied units fell by about 190,000, while rented units increased more than 930,000. Much of the increase in rental units has occurred among formerly owned single-family detached housing units. California and national homeownership rates are the lowest in more than a dozen years.
- **Homelessness is widespread.**
The US Department of Housing and Urban Development estimates that on a single night in January 2015, about 116,000 individuals in California were homeless, 21 percent of the national total. Only 36 percent of California's homeless are in shelters or other residential programs—the lowest rate in the nation. The largest number of homeless people live in Los Angeles County, but homelessness affects most counties, even small and rural ones.
- **Housing is more affordable inland.**
Despite price increases, housing is relatively affordable in many California inland areas. In the Redding, Yuba City, Chico, and Bakersfield metropolitan areas, families earning the area's median income could afford more than 55 percent of homes sold in the second quarter of 2016. In Sacramento and the Inland Empire, about half of homes sold were affordable to families at the median income.

Looking ahead

As the state's population grows, housing demand continues to increase. California needs short- and long-term policies that improve housing affordability and remove unnecessary barriers to expanding supply, while meeting environmental goals.

State and local land-use policies should encourage more housing. California's tight housing market reflects not only scarce developable land but also policy choices and regulations. Restrictive zoning and planning policies can depress housing supply and increase housing costs. Promotion of office development, such as tax incentives for businesses that relocate, should be balanced by policies that encourage new housing. Policymakers should consider higher density, speedier regulatory permitting and reduce rules that restrict or prohibit auxiliary dwellings on single-home lots. Easing restrictions could spur the creation of more affordable housing, especially in regions where rents have skyrocketed.

State and local authorities should boost the affordable housing supply. Bonds help fund affordable housing, but California has not passed a general housing bond since 2006, when Proposition 1C (\$2.85 billion) created almost 66,000 low-income housing units, shelter spaces, and other housing spaces. In 2014, voters authorized \$600 million in bonds to provide multifamily housing to low-income veterans and supportive housing for homeless veterans. These actions are helpful but insufficient. Meanwhile, the elimination of redevelopment areas has reduced low-cost housing development. To encourage affordable housing construction, state and local governments should establish funding mechanisms and policies, possibly including housing bonds, development fees, and inclusionary zoning.

California should expand housing options for the state's homeless individuals and families. California faces one of the nation's most severe homelessness problems. The governor recently signed legislation that requires state agencies involved in providing services to the homeless or those at risk of homelessness to adopt "housing first" policies. This approach to ending homelessness provides homeless people with housing as quickly as possible and offers services as needed. It appears to have been implemented successfully in some California counties and in other states. Having a secure environment allows people to concentrate on getting jobs and stabilizing their lives.

Balancing environmental goals with housing development will be a challenge. California has passed legislation to encourage local land-use planning that reduces driving. The goal is to coordinate new housing development with current and planned transportation networks to reduce emissions. Infill (new construction in built-up areas) is one way to achieve this goal, 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 tends to be more expensive and has fewer units than those developments. Identifying water sources for new development is also an issue in some parts of the state.

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PUBLIC POLICY
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California aims to increase support and accountability

California educates more than 6 million children in its K–12 public schools. More than half are economically disadvantaged. Almost a quarter are English Learners, compared with fewer than one in ten nationwide. California is taking steps to address these challenges. The 2015–16 state budget registered the largest per pupil spending increase in many years. In addition, California is in its fourth year of implementing a simplified school finance system, known as the Local Control Funding Formula (LCFF), which provides long-term funding increases for districts with higher shares of low-income, English Learner, and foster youth students.

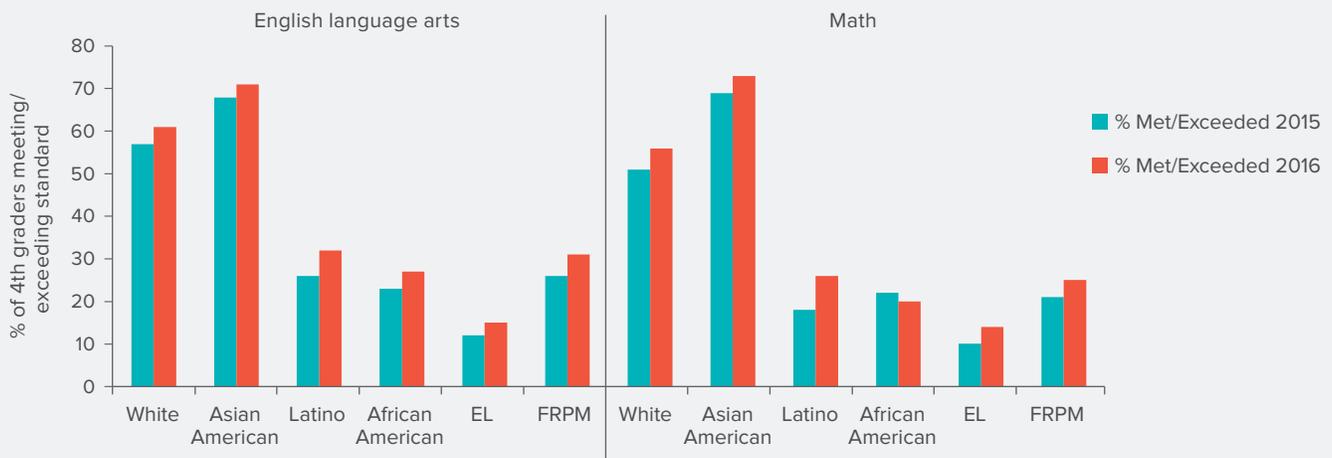
The federal government’s newly reauthorized education law, the Every Student Succeeds Act, also stresses the themes of accountability and support. This law maintains the prior testing requirements but allows states to develop their own accountability measures. In addition, the law no longer requires specific corrective actions for schools and districts that do not make sufficient progress. Instead, states must identify and assist the lowest-performing schools based on the state’s accountability measure.

New state tests show some growth and ongoing achievement gaps

- **Student performance on state tests has improved slightly.**

Last year, California’s new standardized tests, called the Smarter Balanced assessments, showed most students failed to meet new state standards—a widely anticipated outcome. In 2015–16, the second year of testing, the share of students meeting or exceeding the standards grew for most student groups and grade levels, especially in English language arts. In English, the lowest-performing student groups in 2014–15 showed the most gains in 2015–16. In math, improvements were more modest. For example, among 4th graders, nearly all student groups, with the exception of African American students, showed gains in meeting the math standards. But when comparing math scores in 5th grade to 4th-grade scores from the previous year (not shown), only Latino students showed gains. White, Asian American, African American, English Learner, and economically disadvantaged students were all less likely to meet the 5th-grade math standards than the 4th-grade math standards in the previous year.

MORE 4TH-GRADERS MET ENGLISH AND MATH STANDARDS IN THE SECOND YEAR OF NEW STATE TESTS



SOURCE: 2014–15 and 2015–16 Smarter Balanced assessments.

NOTES: EL refers to English Learner students; FRPM refers to students who qualify for free or reduced-price meals.

- **Achievement gaps persist.**

From 2003 to 2013, California students registered significant progress on state standardized tests in all subjects, yet achievement gaps between socioeconomic and demographic groups did not close. Results from the first two rounds of Smarter Balanced testing indicate that these gaps persist. However, compared to the first year of testing, gaps for English Learner and economically disadvantaged students narrowed slightly in English, but not in math.

Reforms create new challenges

- **California's Common Core implementation continues.**

Gains in test scores suggest that teachers and students are making progress adjusting to the Common Core standards. The April 2016 PPIC Statewide Survey on education found that 43 percent of all Californians and 51 percent of public school parents support the new standards, and backing remains stronger here than in the rest of the nation. But support has fallen substantially since PPIC's 2014 education survey when 69 percent of Californians polled supported the standards. Despite a drop in support, less than 1 percent of eligible students did not participate in testing due to parental exemption.

- **Local implementation of LCFF is uneven.**

Under the LCFF, districts submit Local Control and Accountability Plans (LCAPs) to county offices of education for approval. LCAPs describe how districts propose to use LCFF funds to improve performance in eight priority areas, including student achievement, graduation rates, and student engagement. Many districts and county offices are taking this opportunity to respond to the challenges inhibiting student progress. But some districts struggle with strategic planning, data-driven decision making, and parent and public involvement. In other cases, districts and county offices are merely doing the minimum to comply with state requirements. In fall 2016, the state completed implementation of the performance accountability portions of the LCAP, including new evaluation rubrics that will illuminate district strengths and weaknesses.

The fiscal picture has improved, but more work must be done

- **The LCFF addresses long-standing deficiencies in the school finance system.**

The LCFF dramatically increases state investment in districts with large numbers of disadvantaged students and increases equity, transparency, and simplicity. It provides base funding for general purposes, supplemental funding for disadvantaged students, and even more funding for districts in which more than 55 percent of students are disadvantaged. The LCFF also simplifies the system by consolidating most prior categorical programs (those targeted to specific student populations or educational programs), with the notable exception of special education.

- **Special education poses unique funding challenges.**

A recent special education task force called for integrating special and general education as a way to serve students more effectively. However, the separate funding and administrative structure of the special education program poses challenges for seamless integration of students with and without disabilities. Providing special education funding directly to districts could give districts more flexibility and control, potentially allowing for more innovations like early special education and preventative services. Accountability could also improve if districts are funded directly and students with disabilities are included in districts' LCAPs.

- **LCFF funding is ahead of schedule.**

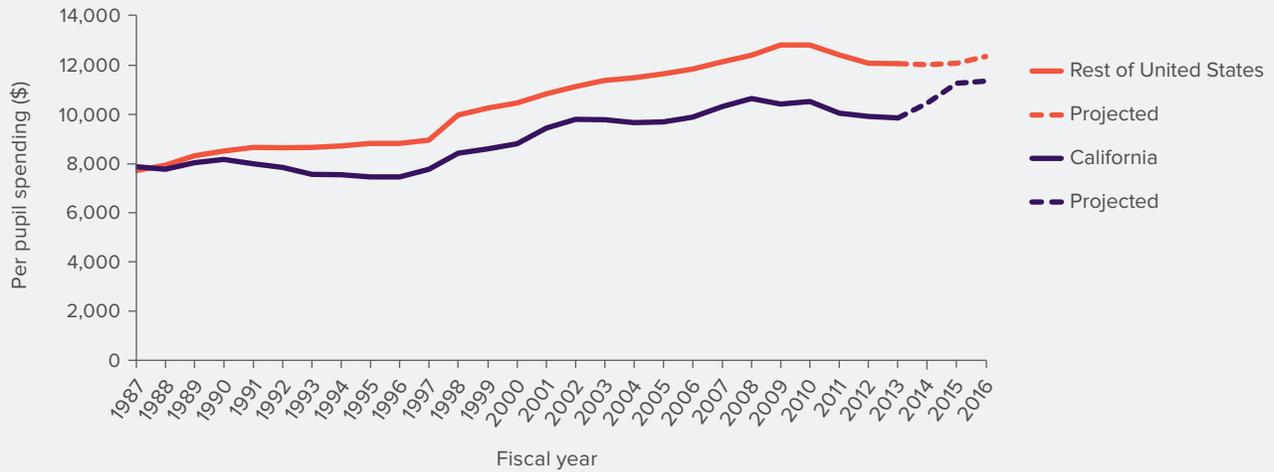
The LCFF was originally expected to take until 2020–21 to fully fund district allocations. The plan is far ahead of schedule because California's fast economic rebound has generated large tax-revenue increases. Since 2013–14, \$12.8 billion has been added to the LCFF, leaving only a \$2.7 billion gap to fully fund it. In 2016–17, LCFF funding levels increased by 5 percent, or \$2.9 billion.

- **Funding has increased but may still be inadequate.**

California has long spent less per pupil than other states, and education funding cuts were steeper here during the recession. Though funding has recovered and now exceeds prerecession levels, several studies concluded that prerecession funding was not high enough to prepare all students to meet the state's educational standards. Current levels may still fall short. The California Supreme Court recently ruled that there is no constitutional guarantee of

“adequate” school funding levels, frustrating education groups. According to PPIC’s 2016 education survey, insufficient funding is the most important issue facing the state’s public schools, and a solid majority (61%) of Californians say the current funding level is not enough.

CALIFORNIA’S FUNDING LEVELS HAVE IMPROVED BUT MAY STILL BE INADEQUATE



SOURCES: National Center for Education Statistics; National Education Association.

NOTES: Inflation-adjusted spending in 2015 dollars, not adjusted for cost differences across states. The dashed lines represent National Education Association estimated spending since government data are not available. From 1986–87 through 1996–97, per pupil spending is total current expenditures divided by total students. After 1996–97, per pupil spending is total current expenditures divided by average daily attendance.

Looking ahead

To support the state’s economy and ensure that California’s children are equipped to succeed in the 21st century, policymakers should take steps to help public schools build on recent gains.

Align state and federal accountability. The State Board of Education is replacing its previous accountability measure, the Academic Performance Index, with multiple indicators of school and student outcomes that are used in district LCAPs. The new system would include test scores, English Learner proficiency, graduation rates, student suspension rates, and a measure of college and career readiness. However, this approach conflicts with federal regulations that require states to combine indicators into a single index that can be used to identify the lowest-performing schools. The state prefers a system that would include schools that perform poorly on several indicators rather than an index.

Ensure that LCFF funds improve results for English Learners and economically disadvantaged students. LCAPs are intended to focus district efforts on key groups, including English Learners and economically disadvantaged students. However, it is hard to track district and school spending on these students. In particular, support for high-needs students in relatively low-needs districts may be a problem. PPIC’s 2016 education survey found that 65 percent of Californians believe school districts will spend LCFF dollars on these students.

Assess whether reforms succeed in improving students’ college and career readiness. The State Board of Education recently adopted a preliminary college and career readiness indicator, which includes performance in the college preparatory courses (also called a–g courses) required for admission to the University of California and California State University, Advanced Placement exams, International Baccalaureate exams, and dual enrollment in high school and college, among other factors. Additional policies focus on improving college and career readiness by expanding access. The Mathematics Placement Act seeks to help all students, particularly those from underrepresented groups, reach advanced math courses by requiring that districts adopt a fair, transparent, and objective math placement policy for students entering 9th grade. In addition, several major urban districts have made a–g course completion a graduation requirement.

Upgrade the state's educational data system and use the information to improve local programs. California has made considerable progress in building its educational data system and has collected large amounts of data. Unfortunately, the system is unfinished and there are no plans to complete it. Furthermore, educators do not have access to most of the data, and K-12 and higher education information are not linked. By connecting these systems and developing reports for local educators, the state could generate a better return on its public education investments.

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Has California turned a corner?

For many years, California's highly polarized state legislature was unable to resolve major problems, from the troubled water system to a looming pension challenge. Year after year, lawmakers failed to approve the state budget on schedule. During this period, the legislature's approval ratings descended to record lows, reaching 14 percent in the November 2010 PPIC Statewide Survey. The number of voters declining to register with one of the major parties is now at an all-time high, and turnout has been sliding relative to other states.

But there are positive signs of change. Many of California's recent reforms aim to expand the electorate—in contrast to some other states, where new voter laws have triggered debates about constricting the electorate. Additionally, California's new term limits may offer more stability in the legislature, recent state budgets have passed on time, the deficit has shrunk rapidly, voters have passed a bipartisan water bond, and approval of the legislature has risen to 45 percent in the July 2016 PPIC Statewide Survey. Much of the changing public mood appears to be due to the improving economy. But the reforms may have played a role in making the legislative process more effective.

The state is Democratic but not necessarily liberal

- **California has become a solidly Democratic state.**

For many years, California voted slightly Republican in statewide elections. But that began to change in the 1980s. Today, California is one of the most Democratic states at all levels of government. This shift to the Democratic Party has been especially pronounced in the Bay Area and Los Angeles County.

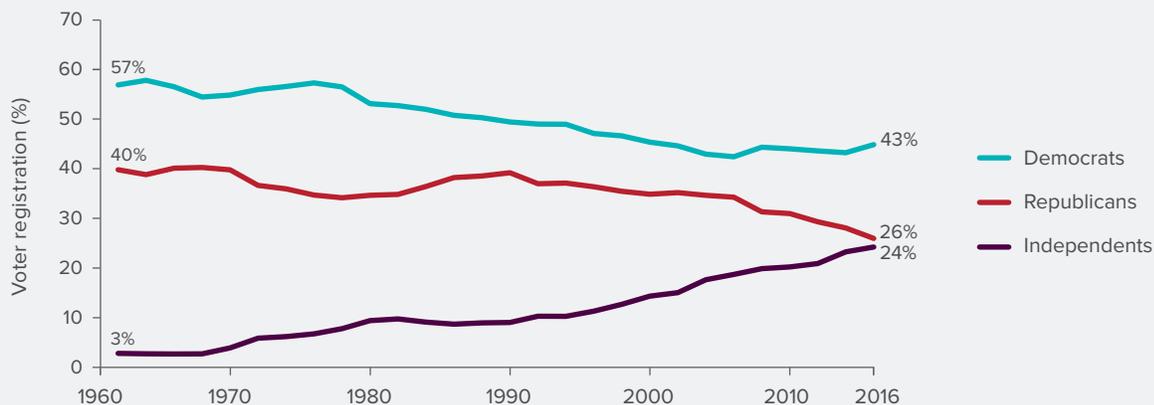
- **Californians are not necessarily liberal.**

While Californians are clearly Democratic, only the Bay Area is strongly liberal on both social issues, such as abortion and gay marriage, and fiscal issues, such as taxes and spending. Even Los Angeles County—with its high levels of support for Democratic candidates—is only modestly liberal on most subjects.

- **Independents are the fastest-growing group of registered voters and are politically diverse.**

The share of voters registering as independents, also known as decline-to-state or no party preference, has grown 20 percentage points since the 1960s, while the share of major-party registrants has declined. However, about 60 percent of independents say they lean toward one party or the other and vote reliably that way. In almost every part of the state, these leaners are more likely to tilt Democratic than Republican.

INDEPENDENT VOTER REGISTRATION HAS GROWN DRAMATICALLY



SOURCE: California Secretary of State. Numbers come from the last registration report before each fall statewide election.

California's electorate lags behind other states

- **California's voter participation has fallen below the national average.**

As recently as the 1990s, turnout among eligible voters in California was higher than the average for the rest of the country. Over the past 15 years, presidential election turnout in California has actually climbed slightly in absolute terms. But compared to other states, turnout in both presidential and gubernatorial races has dropped to the point that it matches or falls below levels elsewhere.

- **California voters and nonvoters are very different.**

Compared with those who do not vote, California voters are older, better educated, more rooted in their communities, and disproportionately white. They also tend to hold more conservative views on the size and scope of state government.

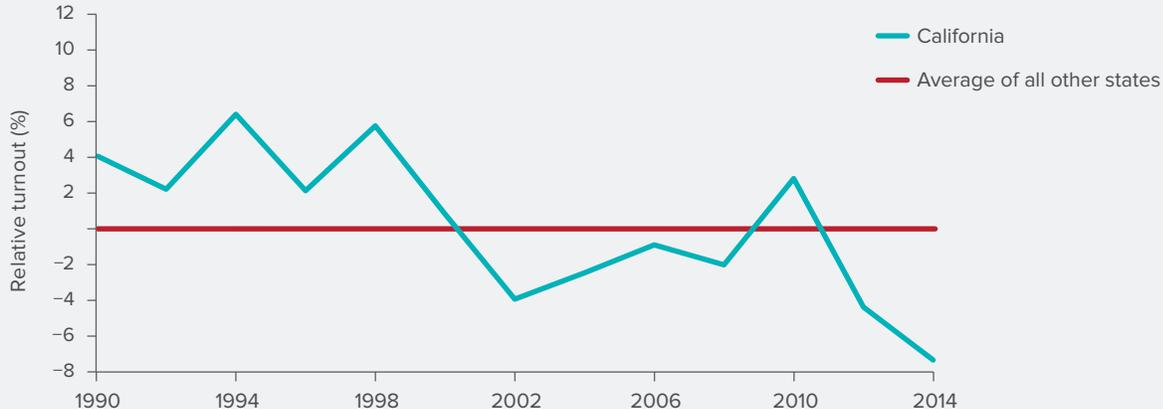
- **The below-average turnout stems mostly from lower voter registration.**

Over the past 25 years, registered voters in California have turned out at higher rates than in the rest of the country. But fewer Californians are registering to vote compared with other states. As a result, California's voter registration rate is below the national average. This is partly because registration is too big a hurdle for some. But it also indicates a lack of engagement among many eligible voters who will not even take the initial step of registering.

- **By themselves, recent reforms intended to increase registration will not solve the turnout problem.**

California has been experimenting with a number of reforms to increase the registration rate, including a fully online registration process, an automated system that seeks to register by default anyone acquiring or updating a driver's license, and a "conditional" registration system that will allow residents to register and vote after the official registration deadline has passed. Research on these reforms in California and elsewhere suggests registration rates may increase substantially, but aggressive outreach will be required to get these new registrants to cast a ballot.

CALIFORNIA'S VOTER TURNOUT IS DECLINING COMPARED WITH ALL OTHER STATES



SOURCE: United States Elections Project.

NOTE: Trend line shows California's turnout rate 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 suggests that California's legislative parties are much further apart than in the US Congress or any other state in the nation. California's partisan divide—the gap between the ideology of 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 often stymied efforts to pass key legislation and may have contributed to the legislature's low approval ratings.

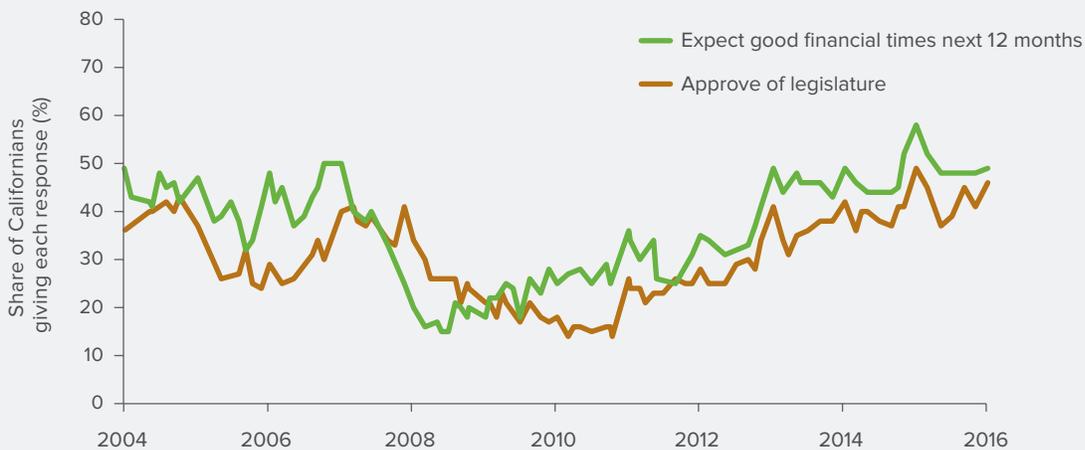
- **The state has passed a flurry of reforms to address legislative dysfunction.**

In the past decade, California has adopted a number of reforms: an independent commission to draw legislative and congressional districts, 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. In the wake of these changes, there are signs that the legislature has become more moderate, though it is unclear yet what role the reforms have played. However, the move to a simple majority for passing a budget has already ended the fiscal stalemates that had been a regular feature of California’s legislative process, albeit at the cost of excluding Republicans from the process.

- **Approval of the legislature has recovered after hitting deep lows.**

Public approval of the legislature hit new lows in the PPIC Statewide Survey during the financial crisis and ensuing fights over state budget cuts. Since then, approval has steadily climbed back to new highs. The improving economy probably accounts for most of this change. Approval of the legislature has long tended to move in sync with views on the economy, and the connection has been especially strong since Jerry Brown became governor in 2011.

APPROVAL OF LEGISLATURE STRONGLY TIED TO ECONOMY



SOURCE: PPIC Statewide Survey time trends.

NOTES: Question wording for “Expect good financial times next 12 months”: “Turning to economic conditions in California, do you think that during the next 12 months we will have good times financially or bad times?” Question wording for “Approve of legislature”: “Overall, do you approve or disapprove of the way that the California Legislature is handling its job?”

Looking ahead

California’s political system is at a crossroads. The state is growing more racially and ethnically diverse. The share of independent voters has risen tremendously and will likely continue to grow. At the same time, California is moving toward the sort of one-party dominance that carries a risk of lower accountability, particularly for decisions not in the public spotlight. Given these realities, the state can take steps to foster a robust and representative democracy.

Make voting as simple—and voter outreach as aggressive—as possible. It is notoriously difficult to increase turnout beyond the people who are already inclined to show up, but it still makes sense to make it as easy to vote as possible. California has now made the registration process the simplest of almost any state, placing renewed attention on getting registrants to cast a ballot. To facilitate voting, the state has recently permitted counties to use the Colorado model, in which every voter is mailed a ballot and a handful of official vote centers replace traditional polling places. Beyond these reforms, there needs to be an ongoing and aggressive effort to get every voter to take part in every election, with special emphasis on those least likely to participate.

Eliminate differential treatment of independents and party members. Voters registered without a party preference are already on track to become a plurality of the electorate, and the new automated registration law will likely greatly accelerate that trend. 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 decision making. Otherwise, the number of voters making these decisions will continue to shrink.

Push decisions to the local level. Shifting decision making from Sacramento to local governments might be a key part of the effort to move the state's policies forward in productive ways. Corrections realignment, the new school funding formula, and proposals to lower thresholds for passing school parcel taxes are three examples of new authority for local governments. Surveys have long shown that the public has a preference for local government. Bringing decisions to the local level might lower the stakes in Sacramento and increase public satisfaction with the political process.

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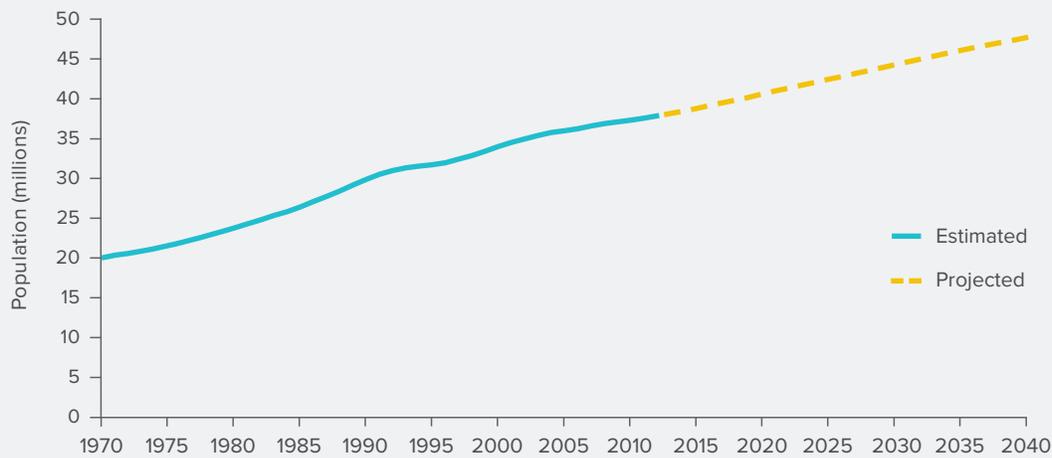
PUBLIC POLICY
INSTITUTE OF CALIFORNIA

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 countries, and no race or ethnic group constitutes a majority of the state's population. In the early 21st century, growth has slowed. Growth rates have averaged less than 1 percent in each of the past 10 years, making this the slowest-growing period in state history. Even so, the number of people added to the state's population has been substantial—about 275,000 new residents each year. The California Department of Finance's most recent estimate, made in January 2015, places the state's population at 38.7 million.

California will continue to gain millions of new residents in each of the next two decades, increasing demand in all areas of infrastructure and public services—including education, transportation, housing, water, health, and welfare.

CALIFORNIA'S POPULATION WILL CONTINUE TO GROW



SOURCE: California Department of Finance projections, 2013 series.

NOTE: Population as of July of each year.

As growth continues, regional and racial/ethnic populations will shift

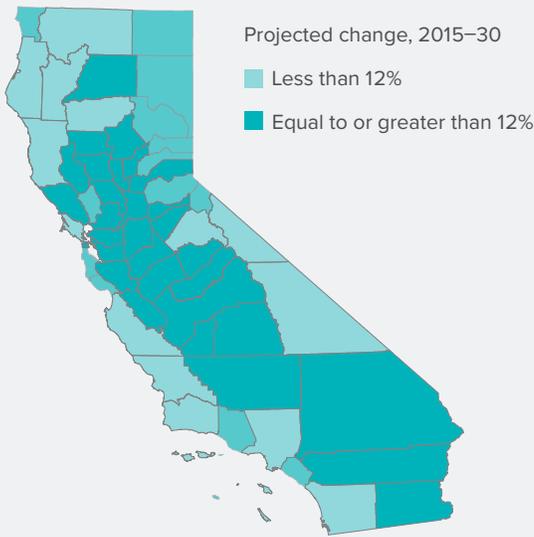
- **Population gains are projected to continue.**

By 2030, California's population is projected to reach 44.1 million. Annual growth rates are expected to be just under 1 percent, similar to growth experienced in the first decade of this century. Even so, average annual increases between now and 2030 will exceed 340,000—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 came from migration, primarily from the rest of the United States. Since 1990, most of the state's growth has been from natural increase, that is, the excess of births over deaths. Over the past 10 years, gains from international migration have been partially 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 27 percent of the state's population in 2030, the same share as in 2013.

INLAND AREAS WILL EXPERIENCE FASTER POPULATION GROWTH



SOURCE: California Department of Finance projections.

- **Inland areas will grow at higher rates.**

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. That pattern is projected to continue, with the Inland Empire, the Sacramento region, and the San Joaquin Valley projected to grow faster than other areas of the state.

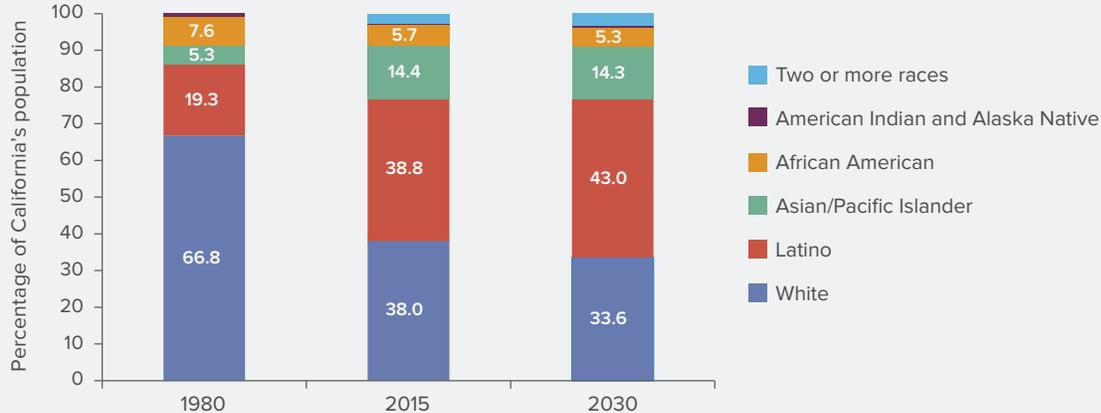
- **Latinos have surpassed whites as the state's largest ethnic group.**

No ethnic group represents a majority of California's population. In 2014, Latinos surpassed non-Hispanic whites to become the state's largest ethnic group. By 2030, 43 percent of the state's population will be Latino and 34 percent will be white. Latinos already make up 52 percent of children age 17 and younger.

- **In the past 10 years, immigration from Latin America has slowed while immigration from Asia has increased.**

Since 2006, Asia has replaced Latin America as the leading source of new immigrants. In 2015, almost three times as many immigrants arrived from Asia as from Latin America, and China replaced Mexico as the leading country of origin. For many decades before 2006, the majority of immigrants arriving in California were from Latin America.

LATINOS HAVE BECOME CALIFORNIA'S LARGEST ETHNIC GROUP



SOURCES: 1980 Census; Annual Estimates of the Resident Population by Sex, Race, and Hispanic Origin for the United States, States, and Counties: April 1, 2010 to July 1, 2014; and California Department of Finance projections.

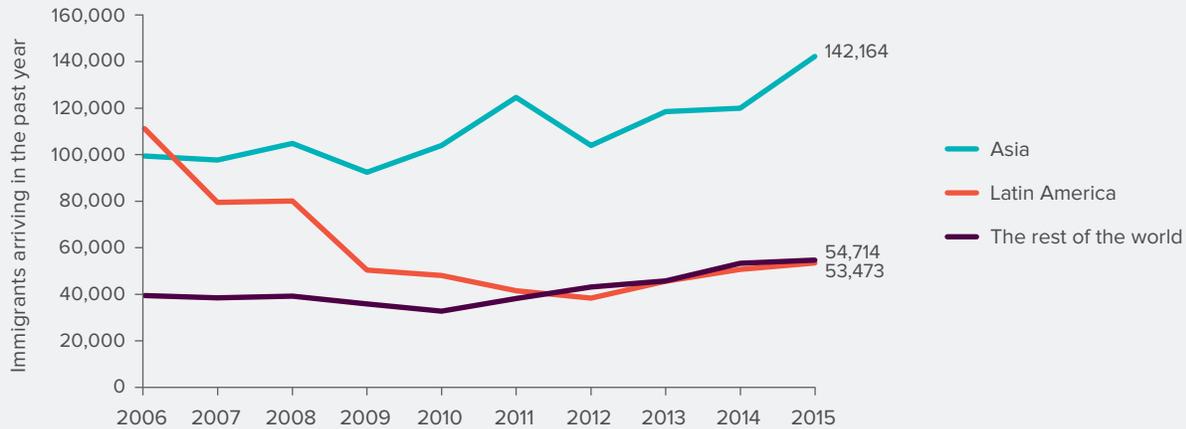
- **Immigrants from Asia tend to be highly educated.**

About 60 percent of newly arrived immigrants from Asia age 25 to 64 have at least a bachelor's degree, compared with 30 percent of newly arrived immigrants from Latin America and 35 percent of Californians born in the United States. The largest number of immigrants with a bachelor's degree or higher comes from India (85% of immigrants from this origin have earned at least a bachelor's degree).

- **Some 75 percent of California immigrants are legal residents of the United States.**

The vast majority of immigrants in California have visas or are naturalized. Naturalization rates are at the highest levels in more than 30 years, with 49 percent of the state's immigrants becoming citizens.

ASIA HAS SURPASSED LATIN AMERICA AS THE LEADING SOURCE OF NEW IMMIGRANTS



SOURCE: American Community Survey.

California's population is aging

- **Large numbers of Californians are reaching retirement age.**

In 2014, 12.9 percent of Californians were age 65 and older, compared with only 9 percent in 1970. By 2030, that share will grow to 19 percent. The total number of adults age 65 and older is projected to grow from 5 million in 2014 to 8.6 million in 2030.

- **By 2030, no ethnic group will compose a majority of the senior population.**

The number of seniors in every major racial/ethnic group will increase by 2030. Whites will remain the largest group and are projected to grow by 45 percent (1,321,000 people) between 2014 and 2030. However, the fastest rates of growth will occur among nonwhite populations, especially Latinos (140%, or 1,324,000 people) and Asians (91%, or 672,000 people). The African American senior population will increase by 81 percent, or 210,000 people.

- **The number of children will increase very slowly.**

From the 2013–14 to the 2023–24 school year, the number of children in public schools is projected to remain virtually unchanged, according to the California Department of Finance. This is a consequence of slight declines in birth rates and small increases in the number of women of childbearing age, 15 to 44. By contrast, in the 1990s, the number of school-age children grew more than 20 percent.

Looking ahead

The state's growing, changing population will put pressure on infrastructure and public services. There are several key areas to watch.

Health and human services. Meeting the needs of a large, fast-growing senior population will pose challenges. For example, although 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. Finding alternatives to nursing home care, which is especially expensive, will be critical.

Housing. California's largest population group is young adults in their 20s. Between 2015 and 2030, these young adults will become middle-aged, 35 to 44 years old. This is the age range when adults typically get married, start families, and establish their own households. As a result, housing demand will rise.

Schools. The slow growth in the number of school-age children is likely to lead to further increases in per student aid as the state budget grows. Demand for higher education should remain strong as improvements in graduation rates boost the number of students graduating from high school and a greater share of students complete a college preparatory curriculum.

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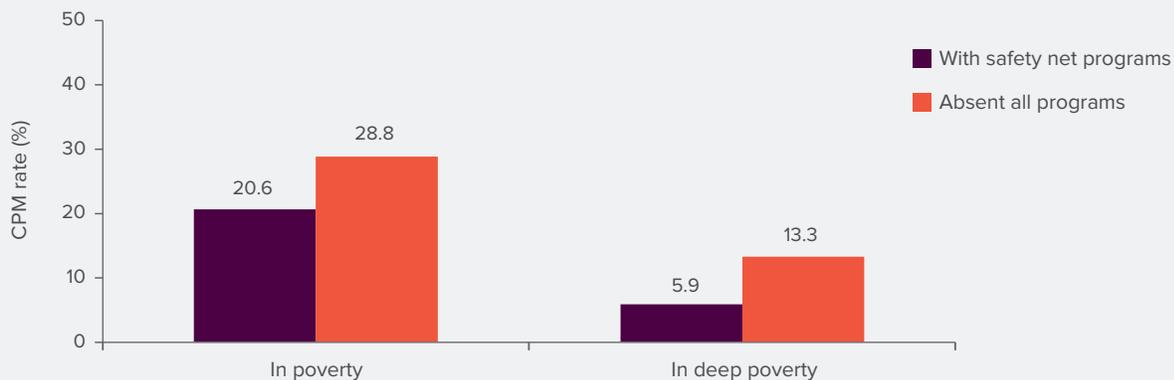
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The social safety net assists millions of Californians

California's social safety net is designed to help people in economic need. It has several other short- and long-term goals, such as increasing employment, safeguarding adequate access to food, and improving children's well-being. Safety net assistance takes a number of forms, including cash grants, nutritional support, housing assistance, and tax credits. The largest programs help millions of Californians each year. For example, in 2015–16, an average of 1.29 million state residents received monthly support from CalWORKs, California's cash assistance program for families with children. And an average of 4.35 million Californians received a monthly food benefit from CalFresh, popularly known as food stamps or EBT. These and other safety net programs substantially moderate poverty, particularly among children. PPIC research finds that while 23 percent of California children lived in poverty in 2014, 37 percent would have been poor had it not been for safety net programs.

In 2016, California implemented a state Earned Income Tax Credit, available to tax filers with very low earnings—under about \$14,000 a year for those with two children and about \$6,500 for those without children. The state has also made a commitment to raise the statewide minimum wage from \$10 to \$15 an hour by 2022. The first incremental increase—to \$10.50—took effect in January 2017. Since most families have at least some income from employment, these changes promise to ease economic need—assuming California's economy continues to expand.

THE SOCIAL SAFETY NET MODERATES POVERTY



SOURCE: [2014 California Poverty Measure estimates](#).

NOTES: Figure shows estimates for all persons. The bars show 2014 California Poverty Measure (CPM) poverty rates and poverty rates without safety net resources including CalFresh, school meals, Special Supplemental Nutrition Program for Women, Infants, and Children, the Earned Income Tax Credit, the Child Tax Credit, CalWORKs, General Assistance, Supplemental Security Income, and federal rental assistance. Unlike official poverty rates, CPM rates factor large-scale safety net programs into family resources and incorporate regionally varying cost of living adjustments. Poverty denotes combined resources that fall short of the CPM threshold. Deep poverty denotes combined resources that are less than half of the CPM threshold.

State, local, and federal governments work together to deliver major safety net programs

Major safety net programs come in several different forms. CalWORKs and General Assistance provide cash grants. The Earned Income Tax Credit and the Child Tax Credit reduce tax obligations and typically mean tax refunds. CalFresh, school meals, and the Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (commonly referred to as WIC) offer nutritional support. Public housing and voucher programs help people afford housing. These programs have different eligibility requirements, funding mechanisms, and oversight structures.

- **Federal funds are essential to California’s safety net.**

The federal government is involved in nearly all safety net programs. Some are underwritten mainly at the federal level. For example, CalFresh benefits are mostly covered by federal funds and the allocation is not capped. In contrast, federal funding for CalWORKs covers only about half of total program costs and the amount is fixed. At the same time, the state has considerable decision-making authority in spending CalWORKs dollars—far more latitude than it has with CalFresh expenditures.

- **The state and counties play key roles.**

The state covers a share of costs, which varies by program. It also provides oversight and shapes program rules to the extent allowed by federal law. The state has long extended benefits to legal immigrants who are ineligible for federally supported CalWORKs and CalFresh benefits and has augmented Supplemental Security Income (SSI) amounts. The state also augments school meal payments by a small amount. The counties administer programs but also underwrite benefits for General Assistance and a portion of CalWORKs and cover some administrative costs.

- **Other local agencies and nonprofits also contribute, adding to the social safety net’s complexity.**

Local housing authorities obtain federal grants to administer subsidized housing schemes. Schools and school districts enroll students in free or low-cost meal programs. Local WIC agencies provide pregnant women and mothers with nutrition education and vouchers to purchase specified foods for themselves and for their infants and young children. Nonprofits help families find subsidized child care. And each of California’s 58 counties has a First 5 program, funded with Proposition 10 tobacco revenues, dedicated to improving the lives of children age 5 and under.

PROGRAMS ARE SUPPORTED BY A MIX OF FEDERAL, STATE, AND COUNTY FUNDS

Program	Recipients (millions)	Expenditures on benefits		
		Federal (\$ billions)	State (\$ billions)	County (\$ billions)
CalFresh	4.35	7.41	0.07	–
Federal Earned Income Tax Credit (EITC)	3.10 (filers)	7.40	–	–
Child Tax Credit (CTC)	2.70 (filers)	3.11	–	–
School breakfast and lunch (free and reduced price)	2.38	2.07	0.17	–
WIC	1.19	0.44	–	–
CalWORKs	1.29	0.99	0.07	2.20
Supplemental Security Income (SSI)	1.30	7.30	2.80	–
Housing vouchers and public housing	0.81 (housing units)	3.87	–	–
State EITC	0.36	–	0.19	–
General Assistance	0.14	–	–	0.33

SOURCES: California Department of Education; California Department of Social Services; Center on Budget and Policy Priorities; Food and Nutrition Service, US Department of Agriculture; Internal Revenue Service; Office of Management and Budget; US Department of Housing and Urban Development.

NOTES: CalFresh, CalWORKs, SSI-SSP (Supplemental Security Income–State Supplementary Payment), and General Assistance statistics for state fiscal year 2015–16; school meals and WIC statistics for federal fiscal year 2015; housing subsidies statistics for 2015; EITC and CTC (refundable portion only) statistics for the 2014 tax year. Except where otherwise noted, the table shows average recipients and total expenditures. County CalWORKs expenditures include the Special Fund amount provided to counties by the state. School breakfast and lunch expenditures include reimbursements for free, reduced price and paid meals.

California's 2016–17 budget includes modest increases for several safety net programs

- **Much of the additional funding benefits children.**

Starting in 2017, funding for child care and preschool will increase by \$145 million, creating roughly 3,000 new preschool slots. The 2016–17 budget also dedicates \$95 million to repeal California's policy of excluding children from the policy of not providing CalWORKs benefits to children who are born while their families are enrolled in the program, expanding its reach to approximately 130,000 additional children. CalWORKs grants are being modestly increased (by roughly \$10 more per month per family), which is costing the state \$35.4 million in 2016–17.

- **State assistance to disabled and elderly Californians has also increased.**

The State Supplementary Payment to the federal cash assistance program for disabled, elderly, and blind residents (Supplemental Security Income) has seen its first cost of living adjustment—a modest increase of 2.75 percent—since 2005.

Looking ahead

Safety net programs in their current state do mitigate poverty in California. The November 2016 election introduced uncertainty about the federal role in most safety net programs. But, to the extent that these programs—or a future reshaping of the social safety net—support work and offer assistance when and where it is needed the most, they have the potential not just to lessen poverty but also to improve economic mobility.

Supporting work. In addition to the new state Earned Income Tax Credit that taxpayers could claim on their 2015 tax returns, California's minimum wage is slated to continue to increase over the next several years. Several cities and counties, including San Francisco and Los Angeles, have adopted local minimum wage increases. These recent policy changes are having varying effects on family budgets and work opportunities. An assessment of their combined impact can help policymakers build on emerging efforts to support employment.

Helping with child care. Child care is a major expense for families with infants and preschool-age children. Only a fraction of families with incomes that make them eligible are receiving subsidies for child care or preschool. This has prompted state officials to consider expanding or restructuring state-funded child care programs. Policymakers are also exploring ways to balance the program goals of supporting working parents and promoting child development. The 2014 federal reauthorization of the Child Care and Development Block Grant, a key source of funds for CalWORKs child care, is focusing additional attention on the quality and continuity of care.

Staying in sync with the economy. Because jobs are a key source of income for families in and out of poverty, current economic growth is reducing the need for assistance among vulnerable Californians. In 2015, the CalWORKs caseload fell modestly (1.2%) and CalFresh grew by 1.9 percent (a much smaller increase than in recent years). But these programs need to have the budgetary and administrative capacity to grow when unemployment ticks up so they can provide a buffer against extreme economic need.

Coping with California's cost of living. The state's high cost of living, especially in urban and coastal areas, means that the bar for meeting basic needs is higher for most Californians than it is in many other states. Because housing drives the cost of living, increasing the supply of affordable housing substantially would help more families make ends meet.

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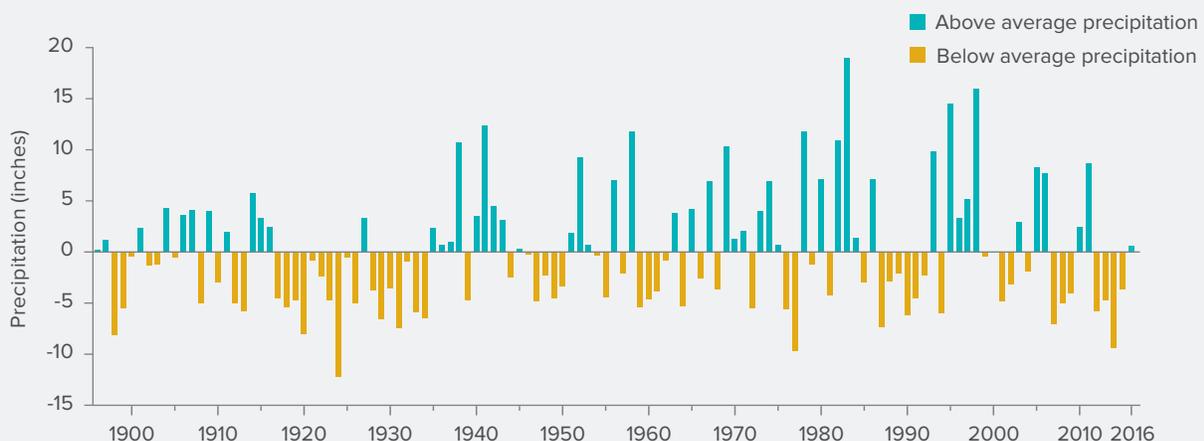
California faces growing water management challenges

Water management in California has always been challenging. The state’s variable climate is marked by long droughts and severe floods, with stark regional differences in water availability and demand. California has adapted by building a vast network of storage and conveyance facilities that deliver water from the wetter parts of the state to population and farming centers in the Bay Area, the San Joaquin Valley, and Southern California.

The Sacramento–San Joaquin Delta is a fragile, weak link in the state’s water supply network. Agricultural demand is becoming less flexible, as farmers are increasing tree crops (especially nuts), which must be watered every year. Conflicts are growing between human water use and water needed to support fish and other wildlife. And the current drought is stressing all water management systems in California, giving a glimpse into an uncertain future under climate change.

Solutions to water management challenges in California are not easy, but they are achievable. They will involve difficult and sometimes costly trade-offs, as well as contentious legal and political changes.

CALIFORNIA'S VARIABLE CLIMATE LEADS TO DROUGHTS AND FLOODS



SOURCE: Western Regional Climate Center.

NOTE: Bars show number of inches above or below the long-term California statewide average precipitation (21.43 inches) based on water year (October–September) since 1896.

California’s latest drought reveals strengths and weaknesses

The year 2016 marked a fifth year of drought. Rains in Northern California in early 2016 provided some relief, but Southern California remained critically dry. This drought has set records for lowest river flows, smallest snowpack, and highest average temperatures—a “stress test” of California’s water systems that provides key lessons for drought management today and in the future.

- Managing demand and investing in diversified water supplies pays dividends during drought.**
 The drought has not significantly affected California’s overall economy. This is because most urban and suburban areas—the source of 98 percent of the state’s gross domestic product—have been coping fairly well, benefiting from conservation and significant past investments to improve and diversify supplies.
- Groundwater is the state’s most important drought reserve, especially for agriculture.**
 During droughts, farmers rely heavily on groundwater to make up for reduced surface-water supplies. However, unsustainable groundwater withdrawals are making this resource less reliable and causing other problems, including sinking lands (which damage infrastructure) and reduced river flows (which harm aquatic habitat). The 2014 Sustainable Groundwater Management Act requires local water users to manage their basins sustainably over time.

- **Drought increases hardships for disadvantaged rural communities.**

Many small, poor rural communities have lost drinking water supplies as their wells have gone dry. Well water is also contaminated in some regions. Although emergency response has improved, long-term solutions are needed to ensure safe and clean water supplies.

- **Drought stresses the state's rivers, wetlands, and forests.**

Low river flows and high water temperatures have pushed 18 fish species close to extinction, including most salmon runs. Shrinking wetlands threaten waterbirds. Severe wildfires threaten public safety and the long-term health of the state's conifer forests.

Instability in the Sacramento–San Joaquin Delta is a major challenge

The Delta supplies water to more than 25 million people and 3 million acres of farmland in the Bay Area, the San Joaquin Valley, and Southern California. Sea level rise and earthquakes threaten the levees that protect water quality. Water management to help declining native fishes—many protected as endangered species—disrupts water exports. Solutions to the Delta's problems have been plagued by political indecision and an unwillingness of many parties to craft a negotiated solution.

- **A strategic decision is needed on Delta exports.**

The current system relies on moving water directly through Delta channels to pumps in the southern Delta. An ambitious new management plan, known as California WaterFix, would construct two tunnels to tap water upstream on the Sacramento River and move it underneath the Delta to the pumps. This plan would improve export water reliability and quality and provide flexibility in managing water for the environment. The investment is costly and entails many uncertainties, but failing to resolve the Delta's problems will also be costly in terms of declining water supply reliability.

California has only just begun to address extreme flood risks

One in five Californians live in areas with significant flood risk, and most are not insured. Flood risks are expected to grow with climate change and sea level rise. Although the state has recently increased investments in flood control infrastructure, more work is needed to keep development out of harm's way.

- **Local governments and residents need incentives to limit flood risk exposure.**

Federal flood insurance regulations only restrict new development in areas of extreme flood risk (susceptible to a "100-year flood"). State legislation from 2007 requires that local governments within the Central Valley provide double that level of protection for new homes, but the weaker federal standards still apply elsewhere. Neither federal nor state policies adequately account for increasing risks from climate change and sea level rise.

- **Local governments should also consider future conditions when approving new development.**

State law requires cities and counties to consider sea level rise and climate change in hazard mitigation planning. But they are not required to reduce development in areas likely to be at higher risk in the future.

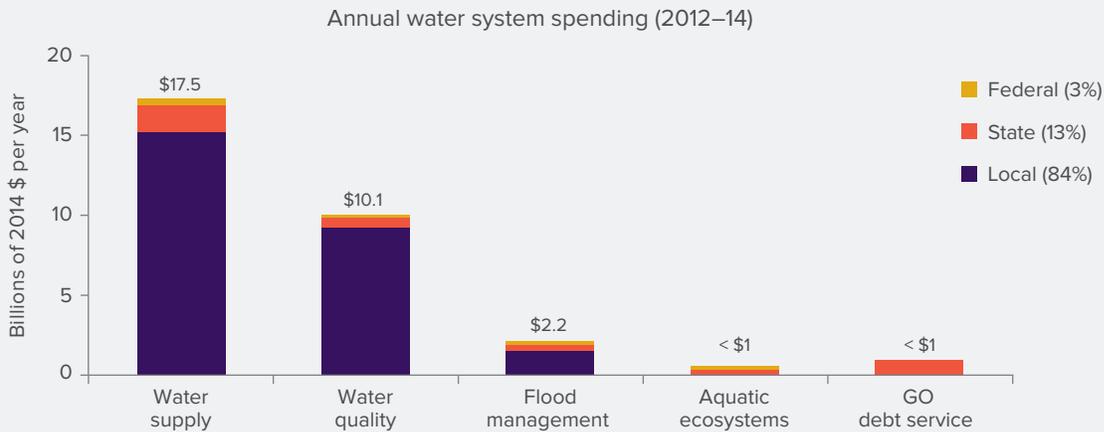
Californians must decide how to fill funding gaps

California's local agencies raise most of the \$30+ billion spent annually in the water sector, and urban water and wastewater agencies are doing reasonably well at raising funds to provide safe and reliable service. In contrast, the state faces critical funding gaps in five "orphan" areas: provision of safe, affordable drinking water in small, disadvantaged communities; flood protection; management of stormwater and other polluted runoff; aquatic ecosystem management; and integrated water management.

- **California needs to move beyond bonds.**

Californians pay for the vast majority of water system expenditures through their monthly water and wastewater bills, but since 2000 the sector has been relying more heavily on state general obligation (GO) bonds. These bonds—reimbursed with general tax dollars—have helped local water agencies fund some innovative projects. Yet even with the passage of a new \$7.5 billion bond in November 2014, other funds are needed; bonds provide at most \$1 billion per year, and they do not address all critical gaps.

LOCAL AGENCIES RAISE MOST OF THE MONEY SPENT ON THE WATER SECTOR



SOURCE: Updated from Ellen Hanak et al., *Paying for Water in California* (PPIC, 2014).

NOTES: The figure reports average spending for 2012–14. Local expenditures are net of grants from higher levels of government. The water quality category includes management of wastewater and approximately \$500 million for polluted stormwater and other runoff.

- **Legal constraints are an obstacle to sustainable local funding.**

Three constitutional reforms approved by voters since the late 1970s—Propositions 13, 218, and 26—have severely limited the ability of local agencies to raise funds for some essential programs and services. Legal uncertainty also threatens the funding reliability of water and wastewater agencies. With minor changes, the state’s water pricing and funding laws could be better aligned with the goals of modern water management.

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. And the drought has highlighted major challenges in meeting some environmental goals.

- **The state needs to arrest the decline in native fishes.**

Populations of native fish species—an important indicator of overall freshwater ecosystem health—are declining across California, despite several decades of well-intentioned efforts and expense. These declines heighten conflicts with other water management goals because they lead to tighter and costlier restrictions on water supply, wastewater, and flood management projects.

- **Ecosystem-based approaches can help.**

Environmental management is often siloed, with each agency and each project addressing particular issues in specific locations—water quality, wetlands, flows, habitat—with no integrated vision of how to contribute to the overall improvement of ecological conditions. Coordinated, flexible 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 efficiently.

Looking ahead

California has the tools to help secure a safe and reliable water supply, improve the health of wetlands and rivers, and reduce flood risks. 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.

Drought preparation. California should learn from the latest drought to be better prepared for the next one. The state must improve its management of water rights, water transfers, ecosystems, and interagency coordination.

The Delta. If the state moves ahead with the WaterFix plan, it must address uncertainties over governance, financing, benefits for the environment, and mitigation for Delta residents and landowners. Alternatively, the state will need a plan to adapt as water supply reliability from the Delta declines.

Ecosystem protection. Across California, a more comprehensive and coordinated approach is needed to support the state's aquatic ecosystems and the native species that depend on them.

Groundwater management. The groundwater law is likely to improve management of most basins in California. But implementation will be challenging, especially for agricultural regions that rely heavily on unsustainable groundwater withdrawals.

Flood risk exposure. To reduce risks to new development, floodplain mapping should account for climate change and increasing flood risks. The state should also create incentives for communities to reduce risk.

Funding. Legal reforms are needed to enable local and state agencies to fill funding gaps for drinking water quality, flood protection, stormwater management, aquatic habitat, conservation, and integrated water management.

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