CALIFORNIA’S FUTURE

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Climate change threatens California’s future

Global emissions of greenhouse gases (GHGs) are raising air and water temperatures as well as sea levels, with serious consequences for California. California’s four warmest years on record have all occurred since 2014, and warming is expected to continue over the century. Sea level is predicted to rise 20 to 54 inches on California’s coast 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

In the face of these threats, California has emerged as a leader in global efforts to reduce GHG emissions. Starting in 2006 with AB 32 (the Global Warming Solutions Act), the state has set increasingly ambitious emission reduction goals. In 2018, Governor Brown—nearing the end of his tenure—issued an executive order that called for California to become carbon neutral by 2045.

The July 2018 PPIC Statewide Survey found that two in three Californians believe the effects of global warming are already happening, and a similar proportion favor the state’s emission reduction goals. The survey also found that state leadership on climate change is important to most Californians. Governor Newsom—who has promised to continue California’s efforts on climate change—faces a twofold policy challenge: finding cost-effective ways to reduce GHG emissions and preparing for the climate changes that are expected even if global emissions are reduced.

California is using a multifaceted approach to reduce emissions

The California Air Resources Board (CARB), which is responsible for implementing the Global Warming Solutions Act, reported that the state’s emissions in 2016 were already below the 2020 target. CARB updated its Scoping Plan in 2017 to establish a framework for meeting the 2030 target.

- Reducing transportation emissions is key.
  The transportation sector is the state’s largest source of GHG emissions (41% in 2016). Emissions from transportation have been on the rise since 2013, after having declined significantly from 2007–11. Policies to reduce GHGs
include low-carbon fuel standards that aim to lower the carbon intensity of fuels by 10 percent by 2020; a plan to add 1.5 million zero-emission vehicles—or electric vehicles—to roadways by 2025; SB 375, which would reduce vehicle miles traveled by integrating land-use and transportation investments; and a plan to reduce emissions from public transit and freight vehicles.

### CALIFORNIA’S ECONOMY IS GROWING DESPITE REDUCTIONS IN GHG EMISSIONS

<table>
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<tr>
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<td>2016</td>
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<td>25 t CO₂e</td>
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**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. The CO₂e of CO₂ is 1, while the CO₂e of methane is 25.

- **The state is increasing its reliance on cleaner energy.**
  With the enactment of SB 100 in 2018, California is committed to providing 100 percent of its electricity from renewable and carbon-free sources by 2045. This bill also increased the 2030 target for renewable energy to 60 percent. California is well on its way to meeting its 2020 goal of providing one-third of electricity from renewable sources—32 percent of retail electricity sales were served by renewable facilities in 2017. Achieving the goals for 2030 and 2045 will require additional shifts away from natural gas.

- **A statewide cap-and-trade program brings flexibility to efforts to reduce GHG emissions.**
  California was the first state to enact a GHG cap-and-trade program. Adopted in 2011, the program was extended to 2030 in 2017. By allowing businesses to trade emissions permits, cap and trade allows market forces to help determine the cost of reducing emissions. Permit auctions now cover 85 percent of the state’s GHG emissions. The auctions began in 2012 with electric utilities and large industrial emitters; transportation and heating fuels were added in 2015.

- **New policies target methane and other potent GHGs.**
  Short-lived climate pollutants—methane, black carbon, and most fluorinated gases—are powerful climate-warming gases and harmful air pollutants. Together, they account for 14 percent of all GHG emissions, with methane the largest source at 9 percent. SB 1383 (enacted in 2016) mandates cutting methane and hydrofluorocarbons by 40 percent and black carbon by 50 percent below 2013 levels by 2030, following a strategy proposed by CARB. The proposal could significantly affect California’s dairy industry, which is responsible for more than half of the state’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. This could create financial incentives to support forestry, grazing, and healthy soils.

- **Californians support action to address climate change.**
  In the July 2018 PPIC Statewide Survey, 67 percent of Californians supported the 2030 target to reduce emissions to 40 percent below 1990 levels. Majorities support action on climate change even if it brings increased costs.
California needs to address climate change effects

California is ahead of other states in developing information on the effects of climate change. For example, the recently released Fourth Climate Change Assessment provides the scientific foundation for understanding climate-related vulnerability. But more work is needed.

- **The effects of climate change are already evident.**
  The mountain snowpack is melting earlier; the spring 2015 snowpack was the lowest on record. Average annual temperatures are rising and wildfires are increasing. Warming and more severe droughts are threatening some plants and animals with extinction.

- **Air quality will worsen and extreme events will increase.**
  As rising temperatures increase the intensity and spread of smog, the state will probably need additional pollution controls to meet air quality standards. An increase in extreme events—heat waves, wildfires, and floods—will also threaten public health and challenge the state’s health care and emergency preparedness systems.

- **Sea level rise threatens coastal infrastructure, homes, and habitat.**
  Seventy-five percent of California’s population lives in coastal counties. By 2040, more than 1,500 miles of roads and 100 miles of railroads will be at risk of flooding. Seaports, airports, power plants, and sewage treatment plants have already experienced climate-driven flooding. Coastal habitat is highly vulnerable to increases in sea level.

- **Climate change is increasing wildfire risks.**
  The scale of wildfires—and the length of the wildfire season—has been growing, with three-quarters of California’s 20 largest wildfires occurring since 2000. Warming temperatures and drier conditions are expected to increase the risk of large wildfires.

- **Water management faces challenges.**
  Climate pressures will make it harder to simultaneously store water for droughts, manage flood risk, and protect freshwater ecosystems. Warming reduces snowpack water and makes drought more severe, while more intense winter storms threaten flood-control structures. Sea level rise threatens the fragile levees of the Sacramento–San Joaquin Delta, which are important for the state’s water supply. The 2017 crisis at Oroville Dam highlighted the risks from aging infrastructure.

- **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 added burdens on many of the state’s plants and animals. As temperatures rise, many species will need to migrate to more hospitable areas, but development patterns could hinder this movement. During the latest drought, hot, dry conditions—similar to those expected in future droughts—put 18 native fish species at high risk of extinction.

- **Readiness to cope is variable.**
  Water and electric utilities have begun to factor climate change into their long-range planning, the state has developed an adaptation strategy for its agencies, and some local governments are developing adaptation plans. But in areas such as ecosystem and flood management, 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 Adaptation Planning Guide, and the California Local Energy Assurance Planning Tool can help local governments understand their vulnerabilities and prepare for change.

**Looking ahead**

California met its emission reduction goals for 2020 ahead of schedule, and the state has begun to work toward more ambitious goals for 2030 and beyond. But California only produces about 1 percent of global emissions. Recent federal policy shifts on
energy and climate change have heightened uncertainty in the international arena. Even if efforts such as the 2015 Paris Agreement prove successful, California faces some inevitable effects of climate change.

**Achieve near-term greenhouse emission reductions.** Large reductions are needed soon to avoid the most severe effects of climate change. Efforts to accelerate clean energy and transportation can make the greatest impact.

**Use land use planning to reduce the effects of climate change.** For example, considering climate change in current land use planning could facilitate migrations of species. Limiting development in flood risk areas will avoid future costs.

**Review adaptation plans for critical infrastructure.** For infrastructure such as dams, aqueducts, and power plants, response plans and funds for upgrades are required to protect public safety and maintain reliable services.

**Spend cap-and-trade revenues in priority areas.** Cap-and-trade auctions have made large sums available for programs to reduce GHG emissions. In the 2017–18 fiscal year alone, cap and trade provided nearly $3 billion. Some of these funds are earmarked for programs in economically disadvantaged communities, which are often more vulnerable to climate impacts. Some funds are also supporting innovative projects with limited access to other funding, such as improving forest management to store carbon and helping dairies transform methane into electricity with biodigesters.

**Continue to play a leadership role.** California’s targets to reduce GHG emissions and increase carbon-free electricity reinforce the state’s commitment to combating climate change and encourage other governments to take action. California is also helping global efforts by sharing information on successful innovations to reduce emissions.
California has reduced its reliance on incarceration

California began to reverse a decades-long trend of explosive growth in its state prison population in 2011, when it shifted responsibility for many non-serious, non-violent, and non-sexual offenders from state prison to county jail and probation systems. This reform—known as realignment—reduced prison overcrowding while increasing the jail population. Realignment was followed by three voter initiatives: Proposition 36 (2012), which revised California’s three-strikes law; Proposition 47 (2014), which reclassified some drug and property felonies as misdemeanors; and Proposition 57 (2016), which expanded early parole for non-violent offenders participating in educational and rehabilitative programming. Altogether, these reforms have helped reduce the prison population by about 44,000 inmates (or 25%) from its peak in 2006 and significantly lessened the state’s reliance on incarceration.

California’s prison and parole populations have declined substantially

Statewide violent and property crime rates are roughly where they were when California began implementing these reforms. But it is important to continue to monitor crime rates, and the new governor faces several additional challenges. Corrections spending remains high, as do rearrest and reconviction rates. Identifying and implementing cost-effective programming and services should be a high priority at the state and county levels. Recently passed bail reform (SB 10) will cause extensive changes to California’s system of pretrial release; it is imperative for the state to guide county implementation and monitor its impact. California must also address persistent concerns about inequities in the criminal justice system.

California relies less on incarceration but has higher corrections costs than other states

- **California has 34 state prisons; it also houses inmates in other facilities.**
  
  As of July 2018, the prison population was roughly 129,000. Most inmates (115,500) were in California Department of Corrections and Rehabilitation (CDCR) facilities—this group is known as the institutional population. Another 6,200 inmates were in other public and private facilities around the state (often called “contract beds”). About 3,500 were in fire camps, and 2,400 were in a private facility in Arizona. Since Prop 47 passed, the out-of-state population has decreased by 6,300 and the contract-bed population has decreased by about 230.

- **Counties now supervise more released prisoners—and returns to prison have declined under realignment.**
  
  In 2017, about half of inmates released from state prison (17,400) went to county probation—known as Post-Release Community Supervision—instead of state parole (18,200). By July 2018, the parole population was 47,500—a dramatic drop (almost 55%) from 104,800 in September 2011. Now that most California parole violators cannot
be returned to state prison, the three-year return-to-prison rate has dropped from nearly two-thirds to less than one-quarter. However, these data do not capture offenders sentenced at the county level. CDCR also reports declines in rearrests and reconvictions for those released from prison.

- **The state’s incarceration rate is below the US average, but its corrections budget is the nation’s largest.**
  Between 2006 and July 2018, California’s prison incarceration rate dropped 32 percent, from 475 inmates per 100,000 residents to 325; this is well below the 2016 national average of 397. In 2015, the most recent year of comparable data, California had the highest state corrections spending as a share of total state expenditures. The state’s General Fund corrections budget (about $9.9 billion) was almost three times that of Texas, the second-highest spender; in fact, California spent $1.3 billion more than Texas, New York, and Florida combined.

**Proposition 47 reduced jail population pressure, but challenges remain**

- **The jail population declined after Proposition 47 passed.**
  After rising in the first years of realignment, the jail population fell under Prop 47 and has remained below statewide capacity (around 79,000) since early 2015. County sheriffs are using alternatives such as electronic monitoring, day reporting centers, community service, and alternative work programs. Nevertheless, some counties continue to release inmates because of crowding. In December 2017, almost 6,000 inmates were released early due to capacity constraints.

**PROPOSITION 47 LOWERED THE COUNTY JAIL POPULATION AND THE NUMBER OF CAPACITY RELEASES**

![Graph showing the reduction in jail population and number of capacity releases](image)

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

**NOTE:** As of December 2017, the BSCC sets the statewide rated jail capacity at nearly 79,000 inmates.

- **Longer jail sentences present challenges.**
  Now that many offenders are serving long jail sentences, counties are providing health and reentry services in facilities that were not designed for long-term inmates. The difficulties are especially acute in older facilities. The state has earmarked $2.5 billion for county jail construction, funding more than 15,500 jail beds over the next decade.

- **Sheriffs are expanding reentry services and programs.**
  Counties are introducing or expanding inmate need assessments as well as mental health and substance abuse services, cognitive behavioral treatment, and employment and housing programs. Prop 47 has shifted some funding from incarceration to evidence-based programs to reduce recidivism and incarceration. In the first three years, $177 million was redirected to mental health and substance abuse programs, K–12 education, and services for crime victims.

**Crime rates have fluctuated slightly but remain near historic lows**

- **California’s violent crime rate increased from 2015 to 2017.**
  After rising slightly in 2012, California’s violent crime rate dropped to a 47-year low of 393 violent crimes per 100,000 residents in 2014. But the rate increased over the next three years, to 451 per 100,000 residents in 2017. California’s violent crime rate ranked 16th nationwide and was higher than the national rate of 394 per 100,000 residents. In 2017, 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 VIOLENT AND PROPERTY CRIME RATES ARE STILL AT HISTORIC LOWS

- **The property crime rate decreased in 2017.**
  California’s property crime rate decreased by 2.1 percent in 2017, to 2,491 per 100,000 residents, 1.3 percent above its 50-year low in 2014. California’s property crime rate was above the national rate (2,362 per 100,000 residents) and ranked 25th among all states. Of all reported property crimes in California in 2017, 65 percent were larceny thefts, 18 percent were burglaries, and 17 percent were auto thefts.

- **The impact of recent reforms on crime is limited to auto thefts and larceny.**
  There is no evidence yet that realignment or Prop 47 has affected violent crime, but the reforms have affected thefts of motor vehicles and larceny thefts. Realignment is estimated to have led to an increase in the auto theft rate of about 17 percent (approximately 60 per 100,000 residents), while Prop 47 has led to an increase in the larceny theft rate of roughly 9 percent (about 135 more thefts per 100,000 residents). Crime data show that thefts from motor vehicles account for about three-quarters of the latter increase.

**Racial and economic equity remain areas of concern**

Racial and economic inequities are long-standing issues in California’s criminal justice system—as they are in other states. There has been some progress, but disparities in arrests and incarceration persist.

- **The end of cash bail is on the horizon.**
  The legislature recently passed SB 10 to address concerns about racial and economic inequities in California’s bail system. At passage, the measure was slated to eliminate cash bail in October 2019, it would dramatically reform pretrial release by prioritizing the use of risk assessments in pretrial decision-making. Little is currently known about pretrial release in California due to data limitations.

- **Racial disparities in arrests are less extreme but still significant.**
  In 1980, the adult arrest rate for African Americans was 16,653 per 100,000 residents, compared to 9,294 among Latinos and 5,533 among whites. Arrest rates grew for all groups in the 1980s, but the African American rate in the late ’80s was about four times the rate among whites. Since the early ’90s, arrest rates have declined most for African Americans. In 2016, the African American arrest rate was 9,765, the Latino rate was 3,606, and the white rate was 3,235.

- **African American men remain overrepresented in the prison population.**
  At the end of 2016, 29 percent of the male inmates in state prisons were African American; only 6 percent of the state’s male residents are African American. The incarceration rate for African American men is 4,180 per 100,000. White men are imprisoned at a rate of 420 per 100,000, and imprisonment rates for Latino men and men of other races are 1,028 and 335 per 100,000, respectively.

**Looking ahead**

California’s reforms have eased prison and jail overcrowding, and crime rates are close to historic lows. However, corrections spending is at an historic high and violent crime has risen in recent years. Programming and services that help inmates
reenter their communities and minimize returns to jail or prison should continue to be high priorities. Implementing and monitoring bail reform and addressing disparities in arrest and incarceration are also important.

Monitor crime rates. In the context of high pre-realignment incarceration levels, putting offenders behind bars was not a cost-effective way to prevent crime. With lower incarceration rates, however, reducing prison and jail populations can put upward pressure on crime rates. It is essential to watch rates across regions as well as trends in particular crime categories.

Identify and implement cost-effective interventions to reduce recidivism. Recent state reforms heighten the importance of evidence-based, cost-effective programming and services that reduce recidivism. But California’s criminal justice data is often housed separately in county or state agencies, creating barriers to monitoring outcomes and identifying the most successful interventions. To achieve reform goals, the state will need to support high-quality, integrated data.

Guide and evaluate bail reform. Counties will need guidance in preparing for SB 10 implementation, and the state should monitor the effects of SB 10 on rates of pretrial release, racial disparities in release rates, and levels of pretrial misconduct.

Address racial equity issues. According to the March 2017 PPIC Statewide Survey, only 29 percent of Californians—and 6 percent of African Americans—feel that whites and non-whites are treated equally in the criminal justice system. California should determine at what points and in what forms inequities occur, and take steps to address them.
California’s economy is strong, but persistent disparities could affect long-term growth

By many measures, California’s economy is performing well. The statewide unemployment rate is at a long-term low. Jobs have been growing for more consecutive years than is typical. Improvements have occurred across almost all major industries in the state and across California’s diverse regions. These job market improvements are reflected in family incomes, which have picked up substantially over the past few years.

Although major labor market indicators are outperforming long-term trends, Californians are still concerned about jobs and the economy (according to the September 2018 PPIC Statewide Survey). Indeed, if historical patterns are a guide, California may face an economic downturn in the near future. Even if the next year brings continued economic growth, underlying economic realities such as income inequality and the quality of jobs will shape California’s future. As Governor Newsom takes office, income disparities among millions of California families are greater than at almost any point in at least 50 years. Even with full-time employment, many struggle to meet basic needs—and their challenges are exacerbated by the rising cost of housing.

As California’s economy approaches new heights, it is important to recognize that underlying disparities can limit long-term growth. The boom, bust, and recovery cycle typically widens disparities. The new governor faces the challenge of keeping California’s economic engine running at a high level while ensuring its long-term viability by expanding capacity.

NINE YEARS OF JOB GROWTH ADD UP TO ONE OF THE LONGEST EXPANSIONS IN RECENT HISTORY

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

California’s labor market is strong

The California economy generally keeps pace with the US economy. Though California’s labor market tends to be hit harder than the nation as a whole during recessions, it also benefits from faster recovery rates. Today, based on economy-wide metrics, the labor market is stronger than it has been in decades.

- **California has experienced nine years of job growth—the second-longest expansion on record.**
  California’s employment growth—the broadest measure of economic performance—tends to follow the national rate very closely: over the past 30 years, job growth has averaged about 1.2 percent annually in both California
and the nation. California’s 2.5 percent job growth over the past seven years has outpaced national growth (1.8%), adding more than 300,000 new jobs every year. Both the state and the nation experienced job growth in 2018, for the ninth year in a row; California’s growth held steady, while the US rate ticked up. Historically, this kind of sustained growth is unexpected.

- Unemployment is at historic lows.
  In October 2018, California’s unemployment rate was 4.1 percent, slightly above the national rate (3.7%), and lower than it has been at any point since 1976. California’s unemployment rate has been higher than the national rate for more than 20 years, in part because of more drastic swings during boom and bust periods, such as the mid-1990s recession and the recent Great Recession. But unemployment rates do not tell the whole story.

  ![Unemployment is at a long-term low in California](chart)
  NOTE: Monthly unemployment rate, seasonally adjusted.

- Underemployment has declined—but labor force participation remains historically low.
  The number of Californians who are underemployed—working part-time when they would rather be working full-time—is about the same as the number who are unemployed (approximately 800,000). However, a smaller share of the labor force is underemployed today than at any point since 2006. Similarly, job growth has brought back some who left the workforce during the recession. California’s labor force participation rate (the share of the population working or looking for work) has stabilized at around 62 percent for the past year. The historically low rates in recent years are partly due to baby boomer retirements, but they also reflect the fact that many adults remain disconnected from the labor market.

**Underlying economic conditions remain uneven**

- Regional economic differences persist—but they are smaller than in previous years.
  Sustained economic growth has benefited almost all parts of the state, but differences remain. Unemployment tends to be higher in inland and far northern California than on the urban coast. Unemployment is lowest in the San Francisco Bay Area as well as in San Diego and Orange Counties (2% to 4%). Rates elsewhere are typically a few points higher, but only a few counties (Colusa, Fresno, Kern, Kings, Merced, and Tulare) have rates between 6 percent and 8 percent—a marked change from dramatic recession-era differences. Imperial County, with a drastically higher unemployment rate of 19.2 percent, remains an exception. Higher inland rates are driven in part by a faster-growing population: the working-age populations of the Central Valley, Inland Empire, and Sacramento area are expected to grow more than 10 percent between 2018 and 2030, while the projected growth rate in the rest of the state is only 2 percent.

- Job growth will continue in service industries and construction, while manufacturing will stagnate.
  Nearly half of job growth (52%) in the past year was created by three industries: health care, professional and technical services, and accommodation and food services. These industries are expected to continue leading growth through 2026. The construction, administrative services, and transportation and warehousing industries
also grew at a fast rate between October 2017 and October 2018. Local governments also contributed substantially, adding about as many new jobs as did the construction sector. By contrast, the manufacturing, finance and insurance, retail, and wholesale trade industries grew less than 1 percent in the past year. These trends are likely to continue, with manufacturing expected to add virtually no new jobs by 2026. Future job growth is likely to perpetuate today’s polarized labor market: for example, health care and professional services are fast growing and offer many high-wage jobs, while the accommodation and food services industry, also growing quickly, offers mostly low-wage work.

• **Incomes have improved, but job trends are likely to increase economic polarization.**

The median or “middle-income” family of four in California today is doing about 22 percent better than the median family in 1980, based on income ($84,975 in 2017 and $69,372 in 1980, in today’s dollars). However, the middle-income family—as well as families earning less—has fallen behind the top half of the income distribution. Top-income families (the 80th and 90th percentiles) earn at least 50 to 60 percent more today than in 1980. This income polarization—driven by labor market shifts that favor college degree holders as well as by boom and bust cycles—is at historic levels. The top 10 percent of families make more than 10 times as much as the bottom 10 percent, nearly double the gap in 1980. The lowest-income families have been the slowest to recover from the recession—they did not catch up to 2007 income levels until 2017.

**INCOME INEQUALITY IS HIGH BY HISTORICAL STANDARDS—EVEN THOUGH FAMILY INCOMES HAVE RISEN**

![Income Inequality Graph](image-url)

**SOURCE:** Author calculations from Current Population Survey Annual Social and Economic Supplement data.

**NOTE:** Income is defined as all cash earned or received in a family unit, in 2017 dollars, and adjusted to pertain to a family of four.

• **Income trends also reflect underlying disparities among demographic groups.**

In 2017, the median Asian and white families in California earned about $114,000 (adjusted to pertain to a family of four). The median African American and Latino families earned substantially less: $70,000 and $60,000, respectively. Not surprisingly, there are striking differences across families depending on their educational attainment. In 2017, the median income for a family of four headed by an adult with a college education was $148,000, compared to only $60,000 for a family of four headed by an adult with no more than a high school education. A highly educated workforce has historically drawn business to California and has long driven its economic competitiveness.

**Looking ahead**

California’s economy is strong, but long-standing disparities create challenges that the state’s new leadership will have to confront, while also preparing for the next economic downturn. Effective 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 build a skilled workforce and spur economic growth. Ensuring access to education that prepares the state’s increasingly diverse workers for in-demand jobs is a key challenge both for future economic growth and for the economic well-being of California’s families. Continuing strong job growth is the first step in creating broad-based economic opportunities. Because the state economy demands a highly skilled workforce, education plays a crucial role in helping California remain economically competitive. Promoting education is also an important strategy for addressing inequality and improving economic mobility. State leaders can take actions to ensure more Californians earn college degrees—and/or career education credentials that can help them get in-demand middle-skill jobs.

Address barriers to work. A smaller share of California’s population is participating in the labor force than at any time in the past four decades. The aging population is a factor—and it raises concerns of its own. But the state must also focus on the share of the population that is disconnected from work or underemployed. Boosting skills and addressing barriers such as transportation and child care are key to expanding economic opportunities and maximizing the potential of California’s workforce.

Recognize that broad labor market indicators often mask challenges. Though statewide economic indicators are a useful gauge of overall performance, economic policy should reflect the breadth and diversity of the state’s economy—which features a mix of industries and a wide range of occupations and workers. Strong job growth and low unemployment statewide are positive signals, but long-term economic vitality depends on the quality of jobs created, the competitiveness of all regions of the state, and broad-based participation in the labor market.
California continues to explore options for universal coverage

California’s embrace of the Affordable Care Act (ACA) has resulted in historic declines in the number of uninsured residents. Since 2014, the state’s uninsured rate among residents under age 65 has decreased from nearly 20 percent to 8.5 percent. Medi-Cal, the state’s Medicaid program, is responsible for much of the coverage gain, while Covered California, the state’s insurance marketplace, has maintained steady enrollment. Still, nearly 3 million Californians lacked health insurance coverage in both 2016 and 2017—which suggests that coverage gains may have plateaued.

Federal policy shifts—including the repeal of the requirement that nearly all Americans have health insurance or face a tax penalty—could further erode California’s coverage gains under the ACA. In response, state policymakers have been exploring options for maintaining current coverage levels and expanding health insurance to all Californians. An advisory council tasked with developing options to expand coverage within an efficient health care financing system was established under the current year’s budget. The new governor has signaled support for such a plan. Still, major components of a state-based system are as yet unknown—including how it would be financed. Californians seem supportive, although there are differences across age groups.

Progress toward universal coverage will be difficult under current policy

- **Reaching Californians who remain uninsured will be a challenge.**
  The uninsured population is holding steady at about 2.8 million, and further gains in insuring Californians could be difficult because many who remain uninsured are not connected to traditional enrollment conduits such as employers and/or are not eligible for public insurance programs due to their immigration status. Almost two-thirds (63%) of those who are uninsured are Latino, and about 42 percent are noncitizens. Slightly more than 40 percent worked full time throughout 2017, another 33 percent worked part-time, and more than 25 percent were not in the labor force. About half of uninsured Californians live in low-income households, with earnings under 200 percent of the federal poverty line (about $49,000 for a family of four).

- **The health care safety net will continue to be essential.**
  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 public hospitals are key access points for Medi-Cal patients, particularly for inpatient and specialty care. California’s public hospital system is also a critical component of the state’s emergency medical system, as well as a key provider of trauma care and physician training. Whether or not the state moves toward universal coverage, it will be important to preserve the health care safety net’s capacity to provide care to California’s diverse low-income communities.
Medi-Cal covers one-third of all Californians

Under the ACA, the state chose to expand Medi-Cal to cover about 3.8 million low-income adults who do not have a qualifying disability or responsibility for a dependent child. Congressional attempts to restructure the Medicaid program in recent years have not succeeded, but federal changes to the program are still being discussed and would have major implications for Medi-Cal and the state budget.

- **Medi-Cal enrollment has increased more than 50 percent under the ACA.**
  Since the Medi-Cal program expanded in 2014, enrollment has increased nearly 55 percent. Medi-Cal currently serves about 13.2 million Californians—about a third of the state’s population. In some counties, half of all residents are enrolled in Medi-Cal. The federal government currently covers 93 percent of the cost of newly eligible adult enrollees, but the federal share of program costs will drop to 90 percent in 2020 and remain at that level.

![MEDI-CAL ENROLLMENT HAS DRIVEN DECLINES IN UNINSURED RATE](image)

**MEDI-CAL ENROLLMENT HAS DRIVEN DECLINES IN UNINSURED RATE**

- **The federal government provides almost two-thirds of total Medi-Cal funding.**
  Program costs are projected to be nearly $105 billion in 2018–19. The federal government is expected to contribute about 64 percent of total program funding (about $67 billion). But state General Fund expenditures are expected to be nearly $23 million, more than 10 percent higher than in the previous year. In addition, the state faces near-term fiscal challenges: the sunset of the managed care organization (MCO) tax in 2019 and the end of the state’s current 1115 Medicaid waiver in 2020 could reduce two additional sources of federal funding.

![IN RECENT YEARS, THE SHARE OF FEDERAL FUNDS SUPPORTING THE MEDI-CAL PROGRAM HAS GROWN](image)

**IN RECENT YEARS, THE SHARE OF FEDERAL FUNDS SUPPORTING THE MEDI-CAL PROGRAM HAS GROWN**

- **SOURCES:** California Department of Health Care Services, Trend in Medi-Cal Program Enrollment, July 2013, and Medi-Cal Certified Eligibles, Summary Pivot Table, Most Recent 48 Months, April 2018; California Department of Finance E-1 Population Estimates for Cities, Counties, and the State with Annual Percent Change: American Community Survey (ACS), 2008–17.
  **NOTES:** The share of Californians covered by Medi-Cal is based on Medi-Cal enrollment in January of the given year divided by the population estimate for that year. Uninsured rates are based on the ACS, which measures whether an individual has insurance coverage at the time of the survey, which is conducted throughout the year.

- **SOURCE:** California Department of Health Care Services, Medi-Cal Local Assistance Estimates.
  **NOTE:** Other nonfederal funds include provider fees and transfers from local governments.
Covered California has maintained enrollment levels and health plans

Covered California allows individuals and small businesses to shop for and enroll in health plans. Enrollment has remained steady, and all 11 health insurance companies that offered coverage in 2018 will continue to participate in the marketplace in 2019.

- **Covered California relies heavily on federal subsidies.**
  More than 1.2 million (87%) of Covered California enrollees receive federal subsidies to help cover the cost of monthly insurance premiums. These subsidies average about $450 per month. Nearly half (45%) of Covered California enrollees also benefit from cost-sharing reductions (CSRs) that lower out-of-pocket expenses such as co-payments and deductibles. CSRs were designed to prevent low-income individuals (with family incomes that are between 100% and 250% of the federal poverty line) from delaying care because of the cost. Federal policy changes have eliminated CSR payments, but insurers responded by increasing premiums and federal premium subsidies absorbed much of the increase, insulating most Covered California enrollees from additional costs.

- **The repeal of the individual mandate has affected enrollment projections and premiums.**
  When Congress repealed the individual mandate (the requirement that nearly all US residents have comprehensive insurance coverage or pay a tax penalty) in December 2017, more healthy people were expected to drop their health coverage, which in turn would drive up premiums for those who purchase insurance on the individual market. Covered California estimates 262,000 fewer enrollees in 2019 due to repeal. And while the average 2019 premium increase of 8.7 percent is lower than the double-digit increases of the last two years, Covered California estimates that premiums would be 2.5 percent to 6 percent lower if the individual mandate had not been repealed. Fortunately, Covered California has implemented sound policies that have allowed it to maintain its selection of health plans and enrollment.

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

- **Health can be assessed in a variety of ways.**
  Health can be measured by looking at health status, access to and quality of care, personal behavior, and social and physical environments. According to most of these measures, there are significant differences across socioeconomic, racial, ethnic, and regional groups.

- **Several regions in California are experiencing shortages of health care providers.**
  Many Californians live in areas where the supply of primary care providers is below established benchmarks intended to ensure adequate access to care. Certain regions have long had physician shortages, particularly the Inland Empire and parts of the San Joaquin Valley. Regardless of how California’s health care system evolves in the future, addressing the unequal distribution of health care resources across the state will remain an important task.

Looking ahead

As California policymakers contemplate a state-based, publicly financed health system, the question of how federal funding would be incorporated looms large. In the shorter term, the state needs to address fiscal pressures on Medi-Cal and ensure that beneficiaries have access to quality health care. The continuing uncertainty of federal policy and the difficulty covering all uninsured Californians make the health care safety net more important than ever.

**Insuring all Californians.** California’s uninsured rate hit an historic low of 7.3 percent in 2016 but seems to have reached a plateau.
Lowering the number of uninsured would be difficult even without federal policy shifts that could continue to have a negative effect on coverage rates. Efforts to provide universal coverage to all Californians are being discussed in earnest, but there are important questions that remain to be answered.

**Federal funding.** Nearly half of California’s total health expenditures (public and private) are funded by the federal government, with Medicare comprising the largest share (20%), followed by Medi-Cal (17%), tax subsidies for employer-based coverage (10%), and Covered California premium subsidies (2.5%). Any public state health system would need to incorporate the federal funds that support health care in California or find another large revenue source.

**Medi-Cal program.** Medi-Cal plays a central role in California’s health care system. While the possibility of large federal funding cuts seems to have receded, the state faces other fiscal pressures stemming from the expiration of the state’s 1115 Medicaid waiver, the sunset of the MCO tax, and the growing share of costs borne by the state for covering newly eligible adults. While budgetary issues often dominate the policy discussion, it is equally important to consider the program’s importance for some of California’s most vulnerable residents.

**Covered California.** Covered California invested heavily in technology and infrastructure to create a robust marketplace that thus far has been able to withstand federal policy changes aimed at dismantling the ACA. Still, insurance premiums have experienced steady increases over the past few years and it is unclear how the individual market will evolve.

**Health care safety net.** Now more than ever, policymakers must monitor the effectiveness and financial condition of the state’s health care safety net to ensure that its providers—including public hospital systems, emergency departments, primary care clinics, and comprehensive health centers—can continue to provide care to all Californians.
California is facing a shortfall of college-educated workers

Higher education benefits individuals and the state: college graduates are more likely to be employed and earn higher wages than nongraduates, boosting state tax revenues and reducing pressure on the social safety net. However, 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.

Governor Newsom has proposed investing more in higher education to avoid tuition increases, as well as creating an entity to help coordinate California educational institutions. Future challenges, including closing the skills gap, require setting new goals for higher education and making investments to improve educational outcomes and increase the number of college-educated workers. Improving access and completion rates for underrepresented groups, including Latinos, African Americans, and students from low-income families, will also be essential for increasing economic mobility. To ensure that its investments pay off, the state will need to measure progress toward its goals and identify programs and policies that improve student success.

California needs more college graduates

Given economic demand for skilled workers, the state needs to respond to two demographic trends that will undercut increases in the number of college graduates. First, the baby boomers—a large and well-educated group—are reaching retirement age; for the first time ever, a large number of workers with college degrees are leaving the workforce. Second, college completion has been improving, but young adults are not graduating at sufficiently high rates to close the gap.

- **California’s economy increasingly demands highly educated workers.**
  For decades, employment growth has been strongest for workers with college degrees, as a result of changes across and within industries. For example, rapid growth in health care and information technology is boosting demand for workers with college degrees. Also, within most sectors, more jobs are requiring degrees than ever before.

- **More students than ever are eligible for college ...**
  The good news is that the proportion of California high school graduates completing a college preparatory curriculum has grown. A recent state study found that about 14 percent of graduates are eligible for the University of California (UC), and about 41 percent are eligible for California State University (CSU). These shares are larger than the 12.5 percent and 33 percent eligibility levels recommended by the state’s Master Plan for Higher Education.
... but they are competing for limited slots at UC and CSU. Eligible applicants are being turned away from their colleges of choice due to capacity constraints. UC redirected more than 10,000 eligible students to UC Merced as a part of their referral pool process, but few of these students enrolled there. In 2017, CSU denied admission to more than 30,000 eligible students. This year, CSU is implementing a referral process that can redirect students to campuses with open slots. Some denied or redirected students enroll elsewhere in the state, but growing numbers are leaving California to attend college—40,000 first-time students enrolled in other states in 2016.

Obtaining a degree is challenging for many

- Many take longer than expected to graduate or transfer.
  
  About three in five first-time freshmen at CSU and about four in five at UC earn a bachelor’s degree within six years. However, only one in five CSU students and three in five UC students graduate “on time,” in four years. UC is working to improve on-time graduation, and CSU has adopted ambitious new goals for four-year and six-year graduation rates as a part of its Graduation Initiative 2025 program. At the community colleges, fewer than half (47%) of students either transfer, obtain a degree or certificate, or complete 60 units within six years. Importantly, the vast majority of students who do transfer to UC and CSU earn bachelor’s degrees.

- Remediation can be an obstacle, but institutions are reforming remediation practices.
  
  A lack of academic preparation or improper placement into remediation can delay or prevent students from earning associate degrees or transferring to four-year colleges. Historically, about 80 percent of community college students and a third of CSU entering freshmen required remediation before taking college-level courses. Community colleges are implementing shorter course sequences designed to improve the remediation process and are revising placement policies per AB 705; these reforms could allow most students to enroll in college-level courses sooner. CSU discontinued remediation as of 2018, putting all entering students in college-credit-bearing courses and providing support for underprepared students in hopes of increasing persistence and graduation rates.

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

- Students have seen only small increases recently, but college costs remain high.
  
  During the Great Recession, per-student General Fund allocations fell by about 20 percent at CSU and UC, prompting the systems to more than double tuition between 2006 and 2011. State financial aid grants for students rose along with tuition and continue to cover tuition at public institutions for the lowest-income students. After the recession ended, state support increased moderately and tuition remained flat or increased slightly. But Californians are still concerned about costs. The November 2018 PPIC Statewide Survey showed that 58 percent of adults think affordability is a big problem at California’s public universities. The total cost of college—including room and board, books, and transportation—is much higher than the cost of tuition.

- Higher costs have increased reliance on loans.
  
  The share of students taking out loans grew during the recession. Once tuition flattened in 2012, borrowing returned to pre-recession levels at UC (40% of first-time freshmen) but remained above pre-recession levels at CSU (38%). Larger shares of students borrow at private nonprofit universities (53%), and more than two-thirds borrow at private for-profit institutions. Only 3 percent of first-year community college students borrow. Default rates are less than 6 percent for students from public and private four-year universities but more than 50 percent for students from for-profit institutions.
Tuition is only one part of the cost of college

SOURCE: Integrated Postsecondary Education Data System.
NOTES: Data are from 2017. Costs are calculated as one year of education. Community college (CCC) tuition is calculated as taking a full-time load of 12 units per quarter. Average room and board and other costs are the average cost of living for first-time, full-time freshmen weighted by the proportion of students living on campus, off campus, or with family. Other costs include books, transportation, and other associated costs.

- **Labor market outcomes are strong for college graduates.**
  Labor force participation rates are high and unemployment rates are low for college graduates. In 2018, unemployment rates for college graduates (those with at least a bachelor’s degree) were about half those of workers with only a high school diploma (3.0% versus 5.7%, according to Current Population Survey data). Among full-time, year-round workers, the annual earnings of those with a college degree ($95,400) were, on average, more than twice those of high school graduates ($44,800). This wage differential is near an all-time high.

- **Career education can bring substantial returns.**
  One-third of future jobs require some postsecondary education but less than a bachelor’s degree. Career education programs often focus on skilled trades, applied sciences and technologies, and career preparation. Community colleges offer a lot of this training at a lower cost than private for-profit two-year colleges. Many career education fields show substantial returns for students—in particular, health credentials net students a 50 percent boost in earnings, on average. However, short-term certificates (earned in less than a year) generally have much smaller payoffs and may be most valuable as steps on longer career pathways.

- **Some colleges increase economic mobility more than others.**
  A college education offers most people a pathway to upward economic mobility. College attendance differs greatly across levels of parental income and educational attainment, so the big challenge is to ensure that the benefits of college reach first-generation, low-income, and underrepresented students. Recent research has found that the upward mobility of graduates differs greatly across institutions; UC and CSU fare well compared to their peers in other states.

**Looking ahead**

California is facing a serious shortfall in its supply of college-educated workers. Growing demand for higher education is putting pressure on public colleges, and there is widespread concern about college affordability and economic mobility. If the state can respond effectively to these challenges, it will have a profound impact on California’s future well-being.

**Update higher education goals.** The legislature has shown renewed interest in updating California’s Master Plan for Higher Education, which was released in 1960. The state should consider increasing the share of high school graduates eligible for UC and CSU and set new goals for transfer, completion, and time to degree. Creating a new coordinating body to set priorities and align the efforts of K-12 and higher education systems could further improve student outcomes.

**Plan for funding challenges in the next recession.** California tends to disproportionately cut higher education spending during economic downturns, which can affect access, affordability, and quality. Developing policies for managing higher education finances and college tuition in tough economic times can help stabilize student costs and keep California on track to achieve its goals. Evaluation of recent changes to the funding structure for the community college system can shed light on the impact of performance-based funding.
Ensure access for low-income students and promote their success. Although state financial aid continues to cover tuition for most low-income students at public colleges, the high cost of housing and other college costs have heightened concerns about housing and food insecurity. The California Student Aid Commission’s upcoming Student Expenses and Resources Survey should provide fine-grained data on the costs of college and help the state explore ways of using financial aid to make college an option for its lowest-income residents. Also, learning from colleges with policies and practices that help students of different backgrounds succeed is key to increasing upward mobility in our state.

Collect, link, and use data to improve higher education. California is one of only a handful of states without a comprehensive, longitudinal data system that can follow students from K–12 through college and beyond. Linking educational and workforce data can help California answer important questions about the impact of its investments in higher education. Connecting data will also help California’s higher education systems work together to achieve state goals.

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California’s housing challenges continue

The rising cost of housing has emerged as a threat to the state’s future economy and the well-being of its citizens. Indeed, when housing costs are accounted for, California has one of the highest poverty rates in the nation. According to the PPIC Statewide Survey (May and September 2017), 47 percent of Californians—including 61 percent of renters—say housing costs are a financial strain.

The housing crisis is undoubtedly one of the biggest issues facing the new governor. California is home to the ten least-affordable major markets in the country and ranks near the top in cost-burdened households—second among homeowners and fourth among renters. It also has the second-highest homelessness rate, the second-lowest homeownership rate, and the second-lowest number of housing units per capita. Of course, housing markets vary widely across the state. For example, housing is especially unaffordable in coastal areas, and homelessness is highest in Los Angeles. Increasing the supply of housing, improving affordability for low- and middle-income homeowners and renters, and addressing homelessness are critical issues for the state.

**HOME VALUES ARE HIGH AND RISING BUT WIDE VARIATION EXISTS ACROSS THE STATE**

![Home values graph](source: Zillow. NOTE: Values for selected counties, the state, and the US are reported in nominal dollars from January 2002 to September 2018.)

**Housing remains expensive for most Californians**

- **California home values remain the highest in the nation ...**
  The state’s median home value was $546,100 as of October 2018, higher than its 2006 peak. But gains in home values have been uneven across the state. In 16 counties—most of them coastal—values are at their highest levels ever. In three San Francisco Bay Area counties (San Mateo, San Francisco, and Santa Clara), median home values are now over $1.3 million, about 70 percent above previous highs. Meanwhile, in another 15 counties, mostly in the San Joaquin Valley and the Central Sierra, home values remain more than 15 percent below their peaks.

- **... and they will continue to rise.**
  Statewide median home values have increased every year since 2012. However, growth may be slowing down. For the first time since October 2012, year-over-year growth fell to 6.4 percent in October 2018. Experts at the UCLA Anderson Forecast, Zillow, and the California Association of Realtors forecast that home prices will continue to increase in 2019, but at a slower pace than in 2018.
• Rents are also high and rising.
California has six of the nation’s fifteen most-expensive large metropolitan rental markets: San Francisco (number one), San Jose, Oakland, Orange County, San Diego, and Los Angeles. Since 2015, rents have risen anywhere from 25 percent to 50 percent in these areas. According to estimates by the US Department of Housing and Urban Development (HUD), the median fair-market rent for a two-bedroom apartment in these areas ranges from $1,934 in Los Angeles to $3,085 in San Francisco.

• Californians spend disproportionate shares of their income on housing.
Among homeowners with mortgages, median monthly housing costs are 50 percent higher in California than in the nation as a whole. California renters pay 43 percent above the nationwide median—while California’s median household income is only 19 percent higher than the nationwide median. This means that the share of Californians with excessive housing costs is quite high: 38.4 percent of mortgaged homeowners and 55.3 percent of renters spend more than 30 percent of their total household income on housing, compared with 27.5 percent and 49.5 percent nationwide.

• Housing is especially unaffordable in coastal areas, where two-thirds of Californians live.
High home prices together with slow-growing household incomes are pushing affordability to the lowest levels observed since 2009. According to the National Association of Home Builders, in the third quarter of 2018, the ten least-affordable major metropolitan areas in the nation were all in California. In eight of these areas, fewer than one in five households could afford a median-priced home. The San Francisco metropolitan area (San Francisco and San Mateo counties) was the least affordable: only 6.4 percent of the homes sold were affordable to families earning the area’s median income of $116,400. Metropolitan Los Angeles, Orange County, San Jose, San Diego, Oakland, Santa Rosa, Ventura, Stockton, and Modesto were also in the top ten. Only a few areas remain relatively affordable: in metropolitan Redding and Bakersfield, about 50 percent of homes sold were affordable to families at the median income.

Supply shortages will continue to put upward pressure on home prices

• New construction permits are not growing fast enough to meet demand.
California has underbuilt for years. Estimates from Beacon Economics put the backlog at about 2.3 million housing units in 2017. Just to keep pace with its growing population, California needs an average of 180,000 new homes every year, according to state housing officials. New residential permits are set to end up around 110,000 in 2018—up from 33,000 in 2009 but far below the number of new homes needed. The 180,000 yearly average is not unattainable: an average of 200,000 units were permitted each year from 2003 to 2005.

• California’s low vacancy rates contribute to its high housing prices.
California’s vacancy rate for renters is one of the lowest in the nation; its homeowner vacancy rate is second only to Washington. In 2017, California’s homeowner vacancy rate was 1.0 percent, compared to 1.6 percent nationwide. Meanwhile, the rental vacancy rate was 3.5 percent, down 2.4 percentage points from its most recent peak in 2010 and far below the 6.2 percent rate nationwide.

NEW HOME CONSTRUCTION PERMITS ARE ALMOST BACK TO 2007 LEVELS

![Graph showing new home construction permits](image)


Note: September 2000 to September 2018.
• **High housing costs continue to have an effect on household sizes.**

California’s rate of overcrowding—the share of housing units with more than one resident per room—was 8.3 percent in 2017, well above the national rate of 3.4 percent. Overcrowding is especially high for rental units: at 13.3 percent, it is more than twice the national rate and the highest among the 50 states.

• **Homeownership rates have risen slightly but remain low.**

In 2017, 54.8 percent of California housing units were owner occupied—a rate that is 10.2 percentage points lower than the rate in the rest of the nation. After 12 years of annual declines or stagnation, the California homeownership rate increased in 2017 by 1.1 percentage points. This translates into 182,000 owner-occupied units. But California’s homeownership rate remains second-lowest only to New York.

**Homelessness is widespread**

• **A quarter of the nation’s homeless population lives in California.**

HUD estimates homelessness by conducting a point-in-time count on a single night in January. In 2017, HUD estimated that about 134,300 individuals in California were homeless—a quarter of the national total and twice the state’s share of the US population (12%). California’s rate of homelessness, 34 per 10,000 residents, is the second highest in the nation. Also, 12 percent of the nation’s homeless people in families with children (21,522 people) are in California, as are 38 percent of all unaccompanied homeless youth (15,458 people), and 29 percent of all veterans (11,472 people).

• **The state’s homeless population is growing.**

Between 2016 and 2017 the number of homeless people in California increased by 14 percent. The increase was even more dramatic in Los Angeles: according to HUD estimates, 55,200 people were homeless in Los Angeles in 2017, up 26 percent from the previous year and up 61 percent since 2014.

• **Most of California’s homeless are unsheltered.**

About 32 percent of homeless Californians are in shelters or other residential programs—the lowest share in the nation. Moreover, California reports the second-highest share of unaccompanied youth who are unsheltered (87%) and the highest share of unsheltered veterans in the nation (67%). Recent research has shown that homelessness is strongly correlated with housing costs.

**Looking ahead**

California needs short- and long-term policies that improve housing affordability and remove unnecessary barriers to increasing supply. State-level action has been contentious given the role played by local governments in housing policy. State efforts must interact with local land-use and zoning policies; this means that addressing California’s housing challenges will take many years of sustained cooperation between state and local officials.

**Land-use policies should incentivize more housing.** California’s tight housing market reflects not only a scarcity of developable land but also an array of policy choices. Many local zoning and planning regulations make it difficult to increase the supply of housing, while policies that promote economic growth boost demand. Incentives for commercial development, such as tax breaks for businesses that relocate, should be balanced by policies that encourage new housing. In 2017, the state legislature passed a series of bills to facilitate housing production by promoting higher density, speedier regulatory permitting, streamlined housing approvals, and the zoning of land for housing. For the first time, local jurisdictions could face substantial penalties for failing to plan adequately for future housing needs.

**The state should continue its efforts to expand affordable housing.** Voters recently approved a $4 billion general obligation bond to fund various affordable housing programs. In 2017, the governor signed the Building Homes and Jobs Act, which imposes a $75 fee on real estate transaction documents to provide ongoing funding for affordable housing. These are steps in the right direction, but more work needs to be done to build more housing.

**California should expand housing options for homeless individuals and families.** Reducing homelessness requires coordinated investments, policies, and programs at the federal, state, and local levels, as well as collaboration across sectors (housing, health, and social services). Legislation passed in 2016 requires state agencies and departments that provide services to the homeless or those at risk of homelessness to incorporate core components of the Housing First model. This approach prioritizes getting homeless people into housing and providing services as needed. In 2018, additional legislation streamlined the approval of certain affordable housing projects that include units for the homeless.
Localities are trying a range of approaches to affordable housing and homelessness. Voters in Los Angeles, Berkeley, Santa Rosa, and Emeryville recently passed local bonds to fund housing projects as well as assistance for low- and middle-income households and people experiencing homelessness. San Francisco passed a gross receipts tax to increase services to the homeless—including housing, rent subsidies, shelter beds, legal assistance, and mental health and substance abuse services. Oakland passed a vacant-property tax to address homelessness and illegal dumping. Several Napa County communities passed hotel taxes to fund workforce housing.

New housing development can help achieve environmental goals. California has passed legislation to encourage local land-use planning that reduces driving—and lowers harmful emissions. The goal is to coordinate new housing development with transportation networks. Infill (new construction in built-up areas) is one way to achieve this goal, but there is a trade-off: infill development tends to be more expensive than building on vacant land and usually produces fewer units. In the past, much of California’s most affordable housing was built at the edge of urbanized areas. Identifying water sources for new development is also an issue in some parts of the state.
California faces the challenge of narrowing achievement gaps

California educates more than 6 million children in its K–12 public schools. More than half of these students are economically disadvantaged. Almost a quarter are English Learners (ELs), compared with fewer than one in ten nationwide. In order to better serve its student population, the state has enacted several reforms in recent years—and state funding for K–12 education has increased for seven consecutive years. The state adopted new educational standards in math (2010), English (2010), science (2013), English-language development (2012), and computer science (2018) and has been revamping its assessment system accordingly. In addition, the state finished implementing the Local Control Funding Formula (LCFF), which was enacted in 2013 to simplify school finance, increase funding for high-need (low-income, EL, and foster youth) students, and revamp school accountability.

The new governor brings a fresh perspective to the challenges facing K–12 education—as well as a focus on early childhood education. Governor Newsom will be asked to weigh in on proposals to strengthen district accountability for funding intended to help shrink achievement gaps. He is also likely to get requests for additional funding from districts facing very tight budgets. Finally, the Newsom administration will be implementing new federal laws that seek to improve low-performing schools and prepare students for college and careers.

State performance data show a long road ahead

With the LCFF fully implemented, policymakers are increasingly interested in its efficacy: How and when will we know if it is working? Given the LCFF’s focus on high-need students, the size of achievement gaps is an especially important barometer. Boosting achievement among these students represents a critical challenge.

PERFORMANCE GAPS BETWEEN MAJOR STUDENT GROUPS HAVE SHOWN LITTLE SIGN OF NARROWING

SOURCES: Smarter Balanced Assessment Consortium (SBAC) and California Department of Education.
• **State test scores have not improved substantially.**
  About a third of students perform at or above levels the state considers proficient. The shares of students meeting state English and math standards have risen only slightly since 2015. As students get older, English scores generally improve but math scores tend to decline.

• **Major achievement gaps persist.**
  California’s African American, Latino, low-income, and EL students score lower on state and federal tests than other student groups. Over time, there has been little improvement in the performance of these groups, leaving achievement gaps virtually unchanged. In general, income-based gaps are wider than gaps among racial/ethnic groups.

• **Graduation rates have steadily improved.**
  In 2016–17, the graduation rate for the cohort of students who entered high school four years earlier was 82.7 percent—up almost 4 percentage points in five years. Graduation rates vary widely across racial/ethnic groups. Asian students are most likely to graduate (93%), followed by white (87%), Latino (80%), and African American students (73%). However, graduation rates for Latino and African American students have improved much more—rates for both groups have increased by 9 percentage points over the past five years.

## Funding for K–12 education remains a pressing concern

California’s school funding has improved since 2013, but district costs are also rising—and several studies have concluded that current funding levels are insufficient to prepare all students to meet the state’s academic standards.

• **Funding levels have risen but are still below the national average.**
  Per pupil funding has increased over the past seven years and is now higher than before the recession. But California has long spent less per pupil than other states, and funding cuts to education were steeper here during the recession. The most recent data available show that California’s K–12 spending averaged $10,785 per student in 2017, about $1,200 less than the average amount in the rest of the nation. According to the April 2018 PPIC Statewide Survey, 60 percent of Californians think that state funding for K–12 schools is not adequate.

### STATE FUNDING HAS RISEN FROM RECESSION LOWS—BUT STILL LAGS BEHIND THE REST OF THE NATION

SOURCE: National Center for Education Statistics (NCES).

NOTE: Data are per pupil expenditures for current educational costs (not including capital outlay and interest costs).
• **Despite better funding, many districts are struggling to balance their budgets.**

  Districts are wrestling with two significant fiscal trends. First, enrollment has been declining in half of all districts. These districts lost an average of about 5 percent enrollment from 2012–13 through 2017–18. Declining enrollment means less funding, but district costs typically do not fall in concert with enrollment. Second, to ensure the long-term fiscal health of the Public Employees’ Retirement System (CalPERS) and State Teachers’ Retirement System (CalSTRS) funds, the state is requiring districts to make larger contributions to these systems for each employee. In each of the next three years, district pension costs will increase by more than $1 billion, which will consume a large share of any new state funding.

  • **Special education costs continue to rise.**

  Special education represents the largest remaining state funding program outside of the LCFF. State special education funds are based on the overall number of students enrolled in a district. Because overall enrollment has remained flat, state special education funding has also been relatively constant—while district special education costs have risen. Local costs can rise for a number of reasons—including increases in the number of students identified for special services, pay raises for teachers, and higher retirement costs. In 2014–15, districts paid for 60 percent of program costs, with the other 40 percent funded by the state and federal governments.

  • **District financial needs compete with policymaker interest in expanding preschool.**

  To help cover their costs, districts will ask the governor and legislature for new Proposition 98 funds in the form of higher LCFF grants. At the same time, reform advocates will press policymakers to direct new funds to specific new programs. Expanding preschool has considerable support in the legislature, but Governor Brown never supported a major expansion of the program. Currently, only one-third of eligible children receive subsidized early childhood education, at an annual cost of about $1.1 billion.

  • **How will the new administration balance local control with effective state oversight?**

  The LCFF’s bias toward local control is based on research suggesting that most problems are better left to local educators to resolve. Nevertheless, legislators frequently propose new programs or regulations in response to local problems. The 2018–19 Conference Committee, for instance, considered proposals to earmark state funds for teacher training, school climate, and charter school facility grants. Governor Brown approved some proposals, but he did not agree to any permanent new programs. In some cases, a stronger state approach may be appropriate. For instance, concerns about how some districts are spending state funds intended for low-income and EL students are resulting in proposals to allow districts less discretion in the use of this funding.

**Looking ahead**

California’s public education policies have changed significantly over the past decade, and there are many questions about how they will continue to evolve. There are challenges and opportunities in several areas.

**Expanding early childhood education.** In 2015 the legislature passed a bill that would provide “preschool for all.” Although the bill was vetoed, spending on early childhood education has risen in recent state budgets. The April 2017 PPIC Statewide Survey found that about 80 percent of California public school parents think the state should fund preschool attendance. Universal preschool advocates cite the importance of early brain development and the potential return on investment (e.g., fewer students in need of special education services). Concerns about quality, cost, and the availability of trained teachers are all cited as barriers.

**Tackling federal opportunities and challenges.** The passage of the Every Student Succeeds Act (ESSA) gives states more authority to design assessments, measure student success, and implement district improvement systems. After months of negotiation, the US Department of Education recently approved California’s ESSA plan. The plan went into effect in fall 2018, and now the state faces the ESSA challenge of identifying and assisting the lowest-performing 5 percent of schools. Also, the reauthorization of the Carl D. Perkins Career and Technical Education Act pushes states to focus on student success after graduation. California will need to collect better data to get a clear picture of student outcomes in this area.

**Using data to improve student success.** California maintains a multifaceted database of student demographic and educational data. But plans for creating a K–16 student database were never realized, and educators and researchers have limited access to the data. By connecting the educational databases across systems and making the data more accessible,
the state could create a new tool for getting better results and give policymakers more information about student progress over time.

**Determining how new science standards and tests will align with other policies.** California schools are beginning to implement the Next Generation Science Standards (NGSS), and a new standards-aligned assessment—the California Science Test—will be fully operational in spring 2019. Student science scores may be included in the state’s accountability reporting. In addition, the University of California and California State University may decide to strengthen eligibility (or “a–g”) requirements in science to align with the new standards.

**Building a system to support the district improvement process.** Districts often need assistance in their efforts to help teachers and administrators learn new approaches to promoting student success. The LCFF calls on county offices of education and a new state agency—the California Collaborative for Educational Excellence (CCEE)—to support district improvement efforts. The Brown administration was slow to develop the system of supports, and there are many questions about how the county offices and CCEE will work together to perform this critical function.
California is in transition

California has a new Democratic governor, Gavin Newsom, with a Democratic supermajority in the legislature that can pass tax increases without Republican support. This opens the possibility for significant policy changes. It also continues the state’s movement toward the sort of one-party dominance that carries a risk of lower accountability, particularly when it comes to decisions made outside the public spotlight. The California electorate is generally supportive of the new governor’s agenda, as well as the state’s opposition to some federal policies. But Californians see some areas as more important than others. Also, while California’s voter turnout has improved, it continues to lag behind turnout in other states, and the electorate does not reflect the state’s diverse population. This raises questions about whether California’s government can represent the broader population.

The state is increasingly Democratic—but not necessarily liberal

- **California has become a solidly Democratic state.**
  Until the 1980s, California leaned slightly Republican in statewide elections. Its turn toward the Democratic Party started in the San Francisco Bay Area and Los Angeles County and has since spread to other parts of the state. Today, California is one of the most Democratic states at all levels of government.

- **In the Trump era, the statewide shift toward Democrats has expanded.**
  The rise of Donald Trump in 2016 led to a backlash in California that included traditionally Republican areas, and this backlash deepened in the 2018 election. The Trump administration’s positions on key issues such as immigration and climate change are at odds with those of a majority of voters in California, and the state government has strongly contested the federal government on these points.

- **Independents—the fastest-growing group of voters—are politically diverse.**
  The share of voters registered as independents—also known as decline-to-state or no-party-preference voters—has risen by 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. Knitting together this range of views would be challenging for a new party that sought to rival the Democrats and Republicans in size and influence.

### MAJOR-PARTY REGISTRATION HAS DROPPED AS INDEPENDENT REGISTRATION HAS CLIMBED

![Graph showing voter registration trends](source: California Secretary of State.)

Source: California Secretary of State.

Note: Numbers come from the last registration report before each fall statewide election.
Many voters are only somewhat liberal, even in heavily Democratic parts of the state. 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—which has high levels of support for Democratic candidates—is only modestly liberal on most issues. But the electorate has become more open to taxation in recent years, supporting tax increases to pay for education and infrastructure.

Governor Newsom’s agenda seems largely in line with California opinion

Californians see Newsom’s education and health care initiatives as high priorities. During the campaign, Newsom proposed universal preschool and tuition-free community college programs that amount to “cradle-to-career” government support, and also said he intended to explore universal health care for the Golden State. These parts of his agenda are viewed favorably by most Californians. Six in ten say universal health coverage should be a very high or high priority. About half say the same about tuition-free community college and universal preschool.

Environmental and transportation projects seem to be lower priorities. Newsom campaigned on scaled-back versions of high-speed rail and water infrastructure projects, plus robust support for the state’s climate change policies. Californians give these issue areas lower priority, with one in five or fewer mentioning the environment or updating transportation and water systems as the most important priority, compared to four in ten who name jobs and the economy. Likewise, only one in four say building a high-speed rail system should be a very high or high priority.

Californians generally take the state’s side in conflicts with the federal government. Californians mostly support the California government’s opposition to the Trump administration’s policies on climate change and immigration. A solid majority of Californians (65% in July 2018) support state-level policymaking to address global warming; majorities have supported state action since 2005. Similarly, two in three Californians (58% in October 2018) favor state action to protect the legal rights of undocumented immigrants. A strong, bipartisan majority (85% in January 2018) also favor the federal DACA (Deferred Action for Childhood Arrivals) program. Two in three Californians (64%) favor a state single-payer health insurance program (May 2018).

California needs to expand voter participation

Voter participation in California has fallen below the national average. As recently as the 1990s, turnout among eligible voters in California was higher than the average in the rest of the country. Over the past 15 years, presidential election turnout in California has actually climbed slightly in absolute numbers. But when compared to other states, turnout in both presidential and gubernatorial races has dropped to the point that it matches or falls below levels elsewhere. However, turnout among Californians who are registered to vote has been above rates in the rest of the country over the past 25 years.

California voters tend to be older, more affluent, and whiter than nonvoters. Compared with Californians who do not vote, likely voters in PPIC Statewide Surveys are older, more affluent, better educated, more likely to own homes and to have been born in the United States, and disproportionately white. They also tend to hold more conservative views on the size and scope of state government. However, likely voters in 2018 were slightly more diverse than the recent norm.

The below-average turnout stems mostly from lower voter registration. While registered voters in California turn out at higher rates, the share of Californians who are registered falls below the national average. There are probably many reasons for this lag, but a lack of engagement among California’s Latino and Asian American communities plays a key role—even with their higher participation in the 2018 election. As they become a larger share of the voting-eligible electorate, their lower registration rates pull down overall registration levels.

The state has taken steps to increase registration, but voter outreach is also needed. California has implemented a number of reforms to improve the registration rate, including a fully online registration process, a seamless registration process for anyone acquiring or updating a driver’s license, and “conditional” registration for residents who decide to register and vote after the deadline has passed. These new systems were
in place for the 2018 election; automated registration added a large number of voters, and some registered conditionally. Registration rates have risen and will probably increase more, but aggressive outreach over time will be required to get new registrants to consistently cast a ballot.

![Voter Turnout Remains Below the National Average](chart)

**VOTER TURNOUT REMAINS BELOW THE NATIONAL AVERAGE**

Looking ahead

The Democrats have a chance to push an aggressive policy agenda. At the same time, one-party dominance carries a risk of lower accountability, particularly for decisions made behind the scenes. Given these realities, policymaking should reflect the priorities of all Californians, and the state should take steps to foster a robust and representative democracy.

The gap between California’s electorate and its nonvoters creates risks. Democrats have solid control of state government, and the public mostly favors the policy agenda they have proposed. But the voting electorate is not wholly representative of the overall population. This raises the risk of policymaking that still does not entirely reflect the views of the whole community. California’s elected officials should be sensitive to broader needs while continuing to back efforts to bring more people into the electorate.

Make voting as simple—and voter outreach as aggressive—as possible. It is notoriously difficult to increase turnout beyond the voters 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. To facilitate voting, the state recently permitted counties to mail ballots to every voter and replace traditional polling places with a small number of official vote centers. 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 without a party preference are already on track to become a plurality of the electorate, and the new automated registration law may greatly accelerate that trend. These voters are already allowed full participation in every congressional and legislative primary election under the state’s 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.
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An accurate 2020 Census is important for California

California has long been known for, and even defined by, its tremendous population growth. In 2018, the state almost certainly reached another demographic milestone, becoming the first to reach 40 million residents. Texas, the state with the second-largest population, has not yet reached 30 million. Equally remarkable is California’s diversity: its population includes large groups of immigrants from more than 60 countries, and no single race or ethnic group constitutes a majority. The rate of population growth has slowed in recent decades, but the number of people added to the state’s population has been substantial—323,000 each year, on average, from 2010 through 2017.

California is gearing up for the decennial census in 2020. An accurate count is crucial, as the census is used to allocate billions of dollars in federal funding and determine the number of congressional districts in each state. The state, along with community organizations and others, will need to make extra efforts to ensure that all Californians are counted. California has long had disproportionate shares of populations that are difficult to count, including young adults, renters, and immigrants. The challenge is particularly acute now. Not only is the 2020 Census underfunded, but federal rhetoric and actions on border security, deportation, and immigrant rights—along with the possible inclusion of a question about citizenship—could dampen participation. PPIC research shows that a poor count would cost California a seat in the House of Representatives; with an accurate count, the state might gain a seat.

In each of the next two decades, California will continue to gain millions of new residents; these gains will increase demand for infrastructure and public services—including education, transportation, housing, water, and health care.

Regional populations will shift and immigration will remain important

By 2030, California’s population is projected to reach 44 million. Annual growth rates are expected to be 0.8 percent, similar to the first decade of this century. Even so, average annual increases between now and 2030 will exceed 333,000—in that time frame, the state will add another 4 million residents.

- **Natural increase and international migration account for all of California’s growth.**
  Before 1990, most of California’s population growth came from migration, primarily from other states. Since 1990, most of the state’s growth has resulted from natural increase—that is, a greater number of births than deaths. Migration still adds to the state’s population, but those additions are relatively small, as positive flows of international migrants are partially offset by domestic migration losses. Population projections suggest this pattern will continue.
• **Inland areas are growing at higher rates—though most residents still live along the coast.**

The Department of Finance projects that the Inland Empire, the San Joaquin Valley, and the Sacramento metropolitan area will be the fastest-growing regions of the state over the next several decades. While inland areas have experienced faster growth than the coastal areas for many decades, inland growth has slowed since 2010, while growth has accelerated in the coastal regions. This decade, the fastest-growing regions have been the Inland Empire and the San Francisco Bay Area. Coastal (and bay) counties are still home to 69 percent of the state’s population.

• **Latinos have replaced whites as the largest ethnic group.**

While no ethnic group makes up a majority of California’s population, Latinos replaced non-Hispanic whites as the state’s largest ethnic group in 2015. By 2030, 41.5 percent of the state’s population will be Latino and 35.8 percent will be white. Latinos already make up 52 percent of children age 17 and younger.

• **Immigration from Latin America has slowed, while immigration from Asia has increased.**

Asia replaced Latin America as the largest source of California’s new immigrants in 2006. By 2015, almost three times as many immigrants were arriving from Asia as from Latin America, and China had replaced Mexico as the leading country of origin. Immigrants from Asia tend to be highly educated. About 60 percent of newly arrived adult immigrants (aged 25 to 64) from Asia have at least a bachelor’s degree, compared with 30 percent from Latin America and 35 percent of Californians born in the United States. Immigrants from India are the most likely to be highly educated: 85 percent of newly arrived adults have earned at least a bachelor’s degree.

• **Three-quarters of California immigrants are legal residents of the United States.**

California is home to almost 11 million immigrants—about a quarter of the foreign-born population nationwide. In 2017, the most recent year of data, 27 percent of California’s population was foreign born—about twice the US percentage. The share of immigrants in the state’s population is projected to remain at its present level over the next few decades. The vast majority of immigrants in California are legal US residents: half are naturalized citizens and another 26 percent have green cards, visas, or some other legal status. Still, more than 2 million undocumented immigrants live in California—nearly a quarter of the national total and more than 6 percent of the state’s population.
California’s population is aging

Even though California’s population is the seventh-youngest in the country, it is aging rapidly. In 2017, 14 percent of Californians were 65 and older, compared with only 9 percent in 1970. By 2030, that share will be 19 percent. The total number of adults 65 and older is projected to grow from 5.5 million in 2017 to 9.1 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—projected to grow by 53 percent (1,637,000 people) between 2016 and 2030—will remain the largest group of seniors. However, the most dramatic growth will occur among nonwhite populations, especially Latinos (118%, or 1,242,000 people) and Asians (61%, or 504,000 people). The African American senior population will increase by 90 percent, or 251,000 people.

![CALIFORNIA’S POPULATION IS AGING](chart)

**SOURCE:** California Department of Finance projections.

- **The number of children will decrease.**
  From the 2016–17 to the 2026–27 school year, the number of children enrolled in public schools is projected to decrease by 3 percent, according to the California Department of Finance. This is a consequence of declines in birth rates and small increases in the number of women of childbearing age (15 to 44). During the 1990s, by contrast, the number of school-age children grew more than 20 percent. In many school districts, declining enrollment will lead to difficult choices about closing schools.

Looking ahead

The state’s growing, changing population continues to put pressure on housing, infrastructure, and public services—underlining the importance of an accurate census count as well as comprehensive immigration reform. There are several key areas to watch.

**2020 Census.** California has already taken measures to encourage full participation in the census, budgeting about $100 million to improve outreach and reduce the undercount. It will be important to target efforts where need is highest. PPIC has produced a series of maps that show the locations of hard-to-count groups. Trusted messengers, including community-based organizations, will need to play a key role in reaching households that are hard to reach or might be reluctant to participate.

**Immigration reform.** Immigration policy is a national concern, but it has enormous implications for border states like California. Over the years that Congress and the executive branch have been unable to agree on comprehensive reform, a patchwork of executive orders and court rulings has created discord and uncertainty. Majorities of Californians oppose building a wall along the Mexican border and support state and local governments making their own policies to protect
the legal rights of undocumented immigrants. A comprehensive solution should benefit California, which has the world’s fifth-largest economy and relies on its large immigrant population to fuel growth and innovation. Indeed, three out of every ten highly educated workers in California are immigrants.

**Housing.** California already faces a housing shortage. During this decade, the state has gained more than 2.5 million people, but there has been a net increase of only about 500,000 housing units. Continued population growth will put even more pressure on housing. California’s largest population group is young adults in their 20s. By 2030 these young adults will have reached the ages when adults typically establish their own households. As a result, housing demand will rise.

**Education.** The slight decline in the number of school-age children is likely to lead to further increases in per student funding as the state budget grows. Some districts will face difficult decisions about which schools to close as enrollment declines. 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.

**Health and human services.** Meeting the needs of a large, rapidly growing, and increasingly diverse senior population poses challenges. For example, although they are not the largest group of Medi-Cal enrollees (the share of children enrolled is far larger), 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.
The social safety net assists millions of Californians

California’s social safety net is designed to help people in economic need. It also has several other short- and long-term goals, such as increasing employment, safeguarding adequate access to food, and improving children’s health. 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 2017–18, an average of about 1 million state residents—82 percent of them children—received monthly support from CalWORKs, California’s cash assistance program for families with children. And an average of 4 million Californians received a monthly food benefit from CalFresh, popularly known as food stamps or EBT. Safety net programs substantially moderate poverty, particularly among children. PPIC research finds that while 21 percent of California children lived in poverty in 2016, 35 percent would have been poor had it not been for safety net programs.

After several years of statewide economic expansion, both the CalWORKs and the CalFresh caseloads have fallen substantially—a sign that family budgets are improving. At the same time, nearly one in five Californians experience economic hardship. State leaders—including the new governor—will need to decide what further steps to take to address poverty in the state. Levers include expanding social safety net programs to help families afford the high cost of living and driving down the cost of living with additional, targeted housing policies. Uncertainty at the federal level about funding for key existing safety net programs (most importantly CalFresh) as well as the proposed broadening of the federal public charge rule—which will have a chilling effect on immigrant households with eligible members—will factor into these decisions.

THE SOCIAL SAFETY NET MODERATES POVERTY

SOURCE: 2016 California Poverty Measure (CPM) estimates. The CPM is a collaborative effort between researchers at PPIC and the Stanford Center on Poverty and Inequality.

NOTES: Figure shows estimates for all persons. Unlike official poverty rates, CPM rates factor large-scale safety net programs into family resources and incorporate regionally varying cost-of-living adjustments. The bars show 2016 CPM poverty rates and deep poverty rates without safety net resources including CalFresh, school breakfast and lunch, WIC (Special Supplemental Nutrition Program for Women, Infants, and Children), state and federal Earned Income Tax Credits, the Child Tax Credit, CalWORKs, General Assistance, Supplemental Security Income (SSI), and federal rental assistance. Poverty denotes combined resources that fall short of the CPM threshold, which averaged $31,027 statewide in 2016 for a family of four. Deep poverty denotes combined resources that are less than half of the CPM threshold.
Federal, state, and local governments work together to deliver major programs

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

- **Federal funds are essential to California’s safety net.**
  The federal government is involved in nearly all safety net programs—and most 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 is fixed, and it covers only about half of total program costs. At the same time, the state has far more latitude in spending CalWORKs dollars than it has with CalFresh expenditures. Changes to regulations and funding that might be made at the federal level could have large consequences for the state’s social safety net.

- **The state and counties play key roles.**
  The state covers a share of costs that varies by program. It also typically provides oversight and shapes program rules to the extent allowed by federal law. The state has long augmented Supplemental Security Income (SSI) payments and extended CalWORKs and CalFresh benefits to legal immigrants who are ineligible at the federal level. The state also augments school nutrition payments by a small amount. The counties administer programs; they also underwrite General Assistance benefits and cover a portion of CalWORKs and some administrative costs.

- **Other local agencies and nonprofits also contribute.**
  Local housing authorities obtain federal grants to administer subsidized housing schemes. Schools and school districts enroll students in free and reduced-price nutrition 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 by Proposition 10 tobacco revenues—dedicated to improving the lives of children age five and under.

THE LARGEST SHARE OF PROGRAM FUNDING IS FEDERAL

![Graph showing Expenditures on benefits ($ billions) for different programs with the largest share being federal funds at $9.4 billion, followed by state funds at $7.4 billion, county funds at $6.6 billion, and others.](https://example.com/graph)

**Sources:** California Department of Education; California Franchise Tax Board; California Department of Social Services; US Department of Agriculture Food and Nutrition Service; Internal Revenue Service; US Department of Housing and Urban Development.

**Notes:** CalFresh, CalWORKs, General Assistance, SSI, and WIC amounts for state fiscal year 2017–18; school nutrition amounts for federal fiscal year 2017; housing subsidies statistics for 2017; EITC and CTC (refundable portion only) benefits for the 2016 tax year; State and federal EITCs are combined. State Supplementary Payments (SSP) are combined with SSI. State CalWORKs expenditures include amounts for the Cash Assistance Program for Immigrants (CAPI) and CalFresh expenditures include amounts for the California Food Assistance Program (CFAP) and the Work Incentive Nutrition Supplement (WINS). County CalWORKs expenditures include the special fund amount provided to counties by the state pursuant to 1991 realignment and Assembly Bill 85 (2013). WIC amounts exclude infant formula rebates.
California’s safety net reduces income inequality; its impact on poverty varies across regions

• Economic inequality would be 40 percent higher without the social safety net.  
  Incomes are increasingly polarized in California. Comparing family incomes near the top (90th percentile) of the spectrum with family incomes near the bottom (10th percentile) yielded an income ratio of about 13.5 to 1 in 2012–13, when California was beginning to recover from the last recession. PPIC research finds that adding in resources from social safety net programs reduces the gap between high and low incomes to about 8 to 1. For those near the bottom of the spectrum, SSI, CalFresh and other nutrition programs, and federal housing assistance play the largest roles.

• Certain coastal counties have the state’s highest child poverty rates.  
  Child poverty ranges between 10.6 percent and 27.8 percent (2014–16 average) across the state’s counties, according to the California Poverty Measure. Child poverty was highest in Los Angeles County and lowest in El Dorado County.

• The impact of safety net programs is biggest in the state’s inland and northern regions.  
  Social safety net programs play a substantial role in lowering poverty in all areas of the state, but their relative importance to family budgets is highest in northern and inland California. Among programs, the federal and state EITC (combined) and CalFresh have the largest impact.

State lawmakers continue to support the existing social safety net

• The 2018–19 state budget expands CalEITC and CalFresh and increases CalWORKs grants.  
  CalEITC—which has been available since 2015 to tax filers with very low earnings—is set to be expanded to both younger and older low-income workers. The state is also ending a long-time policy of excluding SSI recipients from eligibility for CalFresh (while dedicating state funds to maintain benefits for CalFresh families who would otherwise be adversely affected by this change). CalWORKs grants go up by 10 percent in April; this increase constitutes a major portion of new ongoing commitments that policymakers made in this year’s budget.

• Work is key to family well-being, but state policymakers are wary of rigid work requirements.  
  Most families have at least some income from employment, and policymakers have taken a number of steps to support work in the past several years. In 2016, California committed to raising the statewide minimum wage to $15 an hour by 2022. The third incremental increase—to $12 or $11, depending on employer size—occurred in January 2019. And California has expanded eligibility for CalEITC. At the same time, there is a recognition that thoughtful reexamination of training and employment efforts in programs like CalFresh and CalWORKs can improve the longer-term trajectories of participants.

• Concern about housing affordability continues.  
  The state budget includes one-time funds to help counties address homelessness, along with expanded funding to address homelessness among CalWORKs families and seniors. These funds come on the heels of a legislative package signed into law in 2017 aimed at increasing the production of affordable housing, streamlining development of certain types of housing projects, and holding local areas more accountable for realistic housing plans and implementation. Proposition 1 and Proposition 2—both approved by voters in November—emerged from this 2017 package of housing legislation.

Looking ahead

Amid continued uncertainty about the federal role in key programs, California has been augmenting and updating its social safety net. To the extent that this safety net supports work and offers assistance when and where it is needed most, it has the potential not just to lessen poverty but also to improve economic mobility.

Supporting work. State policymakers continue to show an interest in boosting the work-focused safety net. One key part of that safety net is CalWORKs, which provides cash grants—time-limited for adults—and offers supports such as subsidized child care and access to education and training. The program turned 20 in 2018, and the state and the counties have launched parallel efforts—California CalWORKs Outcomes and Accountability Review (Cal-OAR)
and CalWORKs 2.0—to redesign this critical program and reinvigorate its commitment to improving outcomes for CalWORKs parents and children.

**Preparing for economic downturns.** A deposit of $200 million into a special account to support CalWORKs and Medi-Cal will give lawmakers additional flexibility during the next economic downturn. However, it will be important to be mindful of lessons learned from the last recession about the best strategies for supporting these programs when state revenues shrink.

**Continuing to increase access to child care.** Child care is a major expense for families with infants and preschool-age children—and an important support for working parents. But only a fraction of income-eligible families are receiving subsidies for child care or preschool. New federal funds are enabling the state to increase the number of subsidized child care spaces, but there is more to be done to make publicly supported child care broadly accessible.

**Improving housing affordability.** Experts agree that recent efforts are steps in the right direction, but they are not adequate to fully address the state’s housing crisis—median rent and mortgages are high by national standards and as of 2012–15, 31 percent of low-income families with young children were spending more than half of their combined earnings and social safety net resources on housing.

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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’s “water grid”—the network of surface and groundwater storage and conveyance systems that connects most water use in the state—was designed to move water from wetter regions to population and farming centers in the Bay Area, the San Joaquin Valley, and Southern California, while also protecting residents from floods.

As the state has changed, its water challenges have intensified. The Sacramento–San Joaquin Delta is an increasingly fragile link in the state’s water grid. California’s extensive network of dams is aging. Agricultural demand is becoming less flexible, as farmers increase tree crops (especially nuts), which must be watered every year. Some poor—mostly rural—communities do not have safe drinking water. Conflicts are growing between human water use and water needed for fish and other wildlife. And the latest cycle of droughts and floods highlights the growing challenges of climate change.

Climate pressures are making it harder to simultaneously store water for droughts, manage flood risk, and protect freshwater ecosystems. Whether or not the state moves forward with California WaterFix, a plan to improve water conveyance by building tunnels under the Delta, the new governor will need to work with all levels of government and the private sector to update the water grid and make it more climate ready.

Climate extremes reveal strengths and weaknesses in California’s water system

The 2012–16 drought set records for lowest river flows, smallest snowpack, and highest temperatures. In 2017, the state experienced near-record precipitation that stressed dams and other flood infrastructure. These extremes offer key lessons.

- Managing demand and investing in diversified water supplies pays dividends during drought.
  
  At the height of the latest drought, cities and suburbs reduced water use by nearly 25 percent. Yet the economy remained strong. This is because most urban areas—responsible for 98 percent of the state’s gross domestic product—reduced less-essential uses, such as landscape watering. They also benefited from significant past investments in supplies.
• **Wet years create opportunities to recharge groundwater, California’s main drought reserve.**

During droughts, farmers rely on groundwater to make up for reduced surface water. But unsustainable pumping is making groundwater less reliable and causing sinking lands (which damage infrastructure) and reduced river flows (which harm wildlife). The 2014 Sustainable Groundwater Management Act requires water users to manage their basins sustainably. Restoring balance entails recharging more and, in some regions, pumping less. Moving water from lower- to higher-revenue uses through water trading reduces the economic impact of pumping less.

• **Drought increases hardships for poor rural communities.**

Some rural communities rely on contaminated wells, and some wells went dry during the drought. More action is needed to connect these communities to larger systems wherever feasible and provide on-site solutions elsewhere.

• **Drought also threatens freshwater ecosystems and headwater forests.**

Low river flows, shrinking wetlands, and high temperatures during the latest drought threatened fish and water-birds. Hot, dry conditions also led to widespread tree mortality in headwater forests, where wildfires are becoming more extreme.

**California has just begun to address extreme flood risks**

One in five Californians lives in areas with significant flood risk, and most are not insured. Flood risk will be heightened by climate pressures such as rising seas and more intense storms. More investments are needed in flood protection, along with efforts to keep development out of harm’s way.

• **California’s aging dams are under stress.**

Half of California’s dams are more than 50 years old, and all were designed for past climate conditions. The 2017 Oroville Dam crisis—which led to the evacuation of nearly 200,000 residents and more than $1 billion in repairs—has spurred efforts to evaluate dam safety and develop emergency plans. Setting levees back from rivers and allowing water to spread on undeveloped floodplains can also improve flood protection and boost habitat.

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

Federal flood insurance regulations restrict new development only in areas of extreme risk (susceptible to a “100-year flood”). A 2007 state law requires double that level of protection for new homes in the Central Valley, but the weaker federal standards still apply elsewhere. State law requires cities and counties to consider climate change in hazard mitigation planning, but it does not mandate reduced development in areas with growing risk.

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

The Delta exports water to more than 2.5 million people and 3 million acres of farmland in the Bay Area, the San Joaquin Valley, and Southern California. It is also home to a complex and vulnerable ecosystem.

• **The quality and reliability of Delta water supplies are at risk.**

Rising seas and earthquakes threaten levees that protect water quality and Delta farms. Water management to help endangered fishes disrupts exports. The system moves water through channels to pumps in the southern Delta.

• **A strategic decision is needed on water supplies.**

The state must decide whether to proceed with California WaterFix—building two tunnels to tap the Sacramento River and move water under the Delta to the pumps. WaterFix would improve the reliability and quality of exports and increase flexibility in environmental water management. The plan is costly and entails many uncertainties, but failing to resolve the Delta’s problems will also be costly.

**Californians must decide how to fill funding gaps**

Local agencies raise most of the $30-plus billion spent annually in the water sector, and urban water and wastewater agencies are covering costs reasonably well. But several “orphan” areas face funding gaps: providing safe drinking water to poor communities, protecting residents from floods, managing polluted stormwater, and improving ecosystem health.

• **California needs to move beyond bonds to fill critical gaps.**

Californians pay for most water expenditures through their water and wastewater bills and local taxes. But the sector has also been relying on state general obligation bonds—roughly $10 billion has been approved for water since 2014. These bonds—reimbursed with general tax dollars—have helped, but additional sources are needed.
Local agencies raise most of the money spent in the water sector

Annual water system spending (2014–16)

- Legal constraints are an obstacle to sustainable local funding.
  Three constitutional amendments 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. Legal uncertainty also makes it harder for water and wastewater agencies to raise fees during droughts and offer lifeline rates to poor residents.

California must improve management of freshwater ecosystems

- A change in course is needed to arrest the decline in native fishes.
  Populations of native fish species—important indicators of ecosystem health—are declining across California, despite several decades of well-intentioned efforts. These declines are leading to tighter and costlier restrictions on water supply, wastewater, and flood management projects, heightening conflicts among water management goals.

- Ecosystem-based approaches can help.
  Environmental management is often siloed: agencies and projects address particular issues in specific locations with no overarching plan. Coordinated, flexible approaches that improve watershed health would better protect native species—and help California allocate environmental funding and water more efficiently.

Looking ahead

California has the tools to secure a safe and reliable water supply, manage droughts, improve watershed health, and reduce flood risks. But population growth and climate change are intensifying the challenges. Policy reform, better planning, and new investments are essential to the state’s future. Several issues require sustained attention.

A climate-ready water grid. Adapting to a more volatile, warming climate requires a more robust, integrated water grid to manage supplies and protect residents from floods. The state should assess weaknesses—including dam safety in light of bigger storms and conveyance to support underground storage—and launch a major upgrade.

The Delta. If the state moves ahead with WaterFix, it must address uncertainties about governance, financing, environmental benefits, and mitigation for Delta residents. Alternatives include reducing the project’s size or reducing dependence on water exports.

Drought-resilient communities. Urban drought plans should include “climate stress tests” that evaluate supply reliability in the context of longer droughts and warmer temperatures. Some cities still need to diversify supplies. The state must implement durable strategies to improve drinking water access in poor, mostly rural communities.
Ecosystem stewardship. Watershed-level planning should inform water supply and flood management decisions to make ecosystems more drought resilient. Priorities include water acquisition, habitat restoration, and prioritizing conservation areas for greatest impact—including protecting environmental strongholds that can support species during droughts.

Sustainable groundwater. The groundwater law is pathbreaking. But implementation will be challenging, especially for farming regions that rely on excessive pumping. As water users develop local sustainability plans, regional coordination will be key. The state should support strong water accounting and facilitate recharge and water trading.

Funding. New state and local fees and taxes are needed to provide ongoing funding for fiscal orphans. Minor legal changes could better align the state’s water pricing and funding laws with the goals of modern water management.