Climate change threatens California’s future

California faces a twofold climate challenge: finding cost-effective ways to reduce emissions of greenhouse gases (GHGs) and preparing for the changes that are expected even if global emissions fall. Greenhouse gas emissions pose a serious threat. The state experienced 7 of its 10 warmest years on record from 2012 to 2018, and warming is expected to continue. Sea level is predicted to rise 2 to 7 feet 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.

CALIFORNIA IS GETTING WARMER

Starting in 2006 with AB 32 (the Global Warming Solutions Act), the state has set increasingly ambitious emission reduction goals. In 2018, then-governor Jerry Brown issued an executive order calling for California to become carbon neutral by 2045, and Governor Newsom signed an executive order in 2019 to leverage $700 billion in investments to increase climate resilience.

California’s efforts to reduce GHG emissions have brought the state into conflict with the federal government, which has rolled back several federal climate-related regulations, attempted to block state climate initiatives, and begun to withdraw the United States from the Paris Climate Agreement. The PPIC Statewide Survey has found that about two in three Californians favor the state’s emission reduction goals, and most see California’s global leadership on climate change as important.

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 in 2017 that the state’s emissions were already below the 2020 target. CARB has established a framework for meeting the 2030 emissions target, which will require significant new efforts.

- Reducing transportation emissions is key.
  Transportation is the state’s largest source of GHG emissions (41% in 2017). Emissions from this sector have been on the rise since 2013, after declining significantly from 2007 to 2013. Policies to reduce GHGs include low-carbon 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 to roadways by 2025; a law that aims to reduce vehicle miles traveled by integrating land use with transportation investments; and a plan to reduce emissions from public transit and freight vehicles.
CALIFORNIA'S ECONOMY IS GROWING DESPITE REDUCTIONS IN GHG EMISSIONS

- The state is increasing its reliance on cleaner energy.
  California is committed to providing all of its electricity from renewable and carbon-free sources by 2045 and has increased its 2030 target for renewable energy to 60 percent. The state met its 2020 goal of providing one-third of electricity from renewable sources ahead of schedule—34 percent of retail electricity sales were served by renewable facilities in 2018. Achieving goals for 2030 and 2045 will require additional shifts away from natural gas.

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

- 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 methane emissions.

- Natural and working lands provide opportunities to capture and store carbon.
  More than 90 percent of the state is covered by natural or working lands such as forests, farmland, rangeland, and urban green space. The state has drafted the California 2030 Natural and Working Lands Climate Change Implementation Plan to conserve, restore, and manage these lands as resilient carbon sinks—removing carbon dioxide from the atmosphere and storing it in vegetation and soils. This would have a number of benefits, such as improving air and water quality, wildlife habitat, and recreational opportunities.

California needs to address climate change effects

The effects of climate change are already evident and will worsen over time. California is ahead of other states in developing information on these effects, but more work is needed.

- 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 rising sea level.
• **Wildfire risks are increasing.**
  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 this risk. Wildfires that kill large numbers of trees eliminate a valuable carbon sink and emit carbon dioxide and short-lived climate pollutants.

• **Native biodiversity is under threat.**
  Climate change places added burdens on many of the state’s plants and animals. Many species will need to migrate to suitable habitat as temperatures rise, but development patterns could hinder this movement. Hot, dry conditions during the latest drought—similar to those expected in future droughts—put 18 native fish species at high risk of extinction.

• **Public health threats 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.

• **Water management faces challenges.**
  Climate pressures will make it harder to simultaneously store water for droughts, manage flood risk, and protect freshwater ecosystems. Warming causes the mountain snowpack to melt earlier and reduces snowpack water, while also making drought more severe. More intense winter storms put flood-control structures at risk. 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.

• **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 information and adaptation tools for local governments.**
  The Fourth Climate Change Assessment (2018) provides the scientific foundation for understanding climate-related vulnerability. Cal-Adapt, the California Adaptation Planning Guide, and the California Local Energy Assurance Planning Tool can help local governments identify vulnerabilities and prepare for change.

**Looking ahead**

California hit its 2020 emission reduction targets ahead of schedule and is working toward more ambitious goals. But the state only produces about 1 percent of global emissions. Recent federal policy shifts on energy and climate change have heightened international uncertainty. Even if efforts such as the 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.
Align state actions. The state’s many agencies should identify multi-benefit, multi-agency projects that can provide higher returns on investments. Examples of interagency coordination include the California 2030 Natural and Working Lands Climate Change Implementation Plan and Governor Newsom’s executive order directing the administration to develop a comprehensive strategy to build a climate-resilient water system.

Use land-use planning to reduce potential impacts. 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, power plants, roadways, and airports, response plans and 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 2018–19 fiscal year alone, cap and trade generated more than $3 billion. Some of these funds are earmarked for programs in poor communities, which are often more vulnerable to climate effects. And some support innovative but harder-to-fund projects, such as managing forests to store carbon and helping dairies transform methane into electricity with biodigesters.

Continue to play a leadership role. California’s efforts 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 emission-reducing innovations.
California continues to reshape its criminal justice system

California has reversed a decades-long upward trend in its state prison population, which has fallen by about 48,000 inmates (or 28%) from its 2006 peak. The state has also begun moving its criminal justice system away from incarceration. Since California implemented Public Safety Realignment—the first of several recent reforms—in 2011, statewide violent and property crime rates have remained close to historic lows. However, California’s rearrest and reconviction rates—and its corrections budget—remain the highest in the nation. Identifying and implementing cost-effective rehabilitative programming and services for offenders who are incarcerated, as well as those who have returned to their communities, should remain a high priority at the state and county levels.

California’s prison and parole populations have declined substantially

![Graph showing the decline in prison and parole populations](source: California Department of Corrections and Rehabilitation (CDCR) monthly population reports. Note: “Institutional population” refers to the population in CDCR adult institutions in California; the total population includes inmates in fire camps, community correctional facilities, and facilities outside California.)

California must also continue to address concerns about inequities in its criminal justice system. According to the March 2017 PPIC Statewide Survey, only 29 percent of Californians—and 6 percent of African Americans—feel that the system treats whites and nonwhites equally. While racial disparities in arrest rates have lessened since the early 1990s, they remain significant. There are also significant disparities in incarceration. Policymakers have enacted laws that require data collection on arrests, establish statewide standards for police use of force, and replace cash bail with a new pretrial release system. Bail reform is on hold pending the outcome of a November 2020 ballot referendum, and voters may be asked to weigh in on other reforms as well.

Recent reforms have reduced California’s prison population, but costs remain high

- **California has 34 state prisons; it also houses inmates in other facilities.**
  
  As of July 2019, the prison population was roughly 125,000. Most inmates (114,900) were in California Department of Corrections and Rehabilitation (CDCR) facilities (this group is known as the “institutional population”) and 2,800 were in state-run fire camps. Another 6,200 inmates were in other public and private facilities around the state (often called “contract beds”). By the beginning of July 2019 the state had stopped using private out-of-state facilities to hold inmates.

- **Counties now supervise more released prisoners—and returns to prison have declined.**
  
  Between July 2017 and July 2018, about half of inmates released from state prison (18,000) went to county probation—known as Post Release Community Supervision—instead of state parole (19,200). By July 2019, the parole population was 51,000—a dramatic drop (more than 51%) from 104,800 in September 2011, the month before...
realignment was implemented. Once it was no longer possible to return most California parole violators to state prison, the three-year return-to-prison rate 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 revocations for those released from prison.

- **The state’s incarceration rate is below the US average; its corrections budget is the nation’s largest.** Between 2006 and July 2019, California’s prison incarceration rate dropped from 475 inmates per 100,000 residents to 314; it is well below the 2017 national average of 390. In 2017, the most recent year of comparable data, California had the highest corrections expenditures in the nation—at nearly $9 billion, state spending exceeded the combined expenditures of Texas and New York, the second- and third-biggest spenders.

**Proposition 47 eased jail population pressure**

- **The jail population declined under Proposition 47.** After rising in the first years of realignment, the jail population fell under Proposition 47 (2014), which reclassified some felony drug and property offenses as misdemeanors. It 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 to ease crowding. In June 2019, almost 7,500 inmates were released early due to capacity constraints.

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

- **Sheriffs are expanding reentry services and programs, but many jails are not designed for them.** Counties are introducing or expanding inmate needs assessments as well as mental health and substance abuse services, cognitive behavioral treatment, and employment and housing programs. Prop 47 has shifted some funding to evidence-based programs to reduce recidivism and incarceration. In the first four years, $256 million was redirected to mental health and substance abuse programs, K–12 education, and services for crime victims. But counties are providing 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.

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

- **California’s violent crime rate fell slightly in 2018.** After three years of increases, California’s violent crime rate decreased by 1.5 percent in 2018 (the most recent year of available data), to 444 per 100,000 residents, which is nearly 13 percent higher than the recent historical low of 393 in 2014. California’s violent crime rate ranked 15th nationwide and was higher than the national rate of 369 per 100,000 residents. In 2018, nearly 60 percent of California’s reported violent crimes were aggravated assaults, 31 percent were robberies, 9 percent were rapes, and less than 1 percent were homicides.
CALIFORNIA’S VIOLENT AND PROPERTY CRIME RATES ARE STILL AT HISTORIC LOWS

- **The property crime rate reached a new low in 2018.**
  California’s property crime rate decreased by 5.1 percent in 2018, to 2,363 per 100,000 residents. This was a 50-year low, but it ranked 22nd among all states and was higher than the national rate (2,200 per 100,000 residents). Of all reported property crimes in California in 2018, 66 percent were larceny thefts, 17.5 percent were burglaries, and 16.5 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 of about 17 percent in the auto theft rate (approximately 60 more thefts per 100,000 residents), while Prop 47 has led to an increase of roughly 9 percent in the larceny theft rate (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.

- **California might end cash bail.**
  Senate Bill 10 (SB 10), aimed at addressing concerns about racial and economic inequities in California’s bail system, was signed into law in August 2018. But implementation is on hold until November, pending the outcome of a voter referendum. If SB 10 is implemented, it will eliminate cash bail and dramatically reform pretrial detention with the use of risk-assessment tools to weigh the public safety risk of releasing arrestees before and during court proceedings. It would also limit pretrial detention for most misdemeanors.

- **Racial disparities in arrests have become less extreme but are still significant.**
  In 1980, the adult arrest rate for African Americans was 16,653 per 100,000 residents, compared with 9,294 among Latinos and 5,553 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.

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

California’s reforms have eased prison and jail overcrowding, and statewide crime rates are close to historic lows. Programming and services that help inmates reenter communities and minimize returns to jail or prison should continue to be high priorities. Addressing racial and economic disparities in our criminal justice system is also important.

**Monitor crime rates.** Given California’s high pre-reform incarceration levels, the state’s approach to 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 these rates across regions as well as in particular crime categories. According to the May 2019 PPIC Statewide Survey, 27 percent of Californians say violence and street crime is a big problem in their local community.

**Identify and implement cost-effective interventions to reduce recidivism.** Recent reforms heighten the importance of cost-effective, evidence-based programming and services that reduce recidivism. To identify effective and successful interventions, the state will need to support programming evaluation and the collection of high-quality, integrated data from both state and county correctional systems.

**Address equity issues.** California policymakers have adopted and/or enacted some reforms designed to identify and address criminal justice disparities. State and local stakeholders should monitor the impact of these reforms and continue to determine at what points and in what forms inequities occur.

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California’s economy is strong, but underlying economic realities present challenges

By many measures, California’s economy is performing well. The statewide unemployment rate is at a long-term low. Jobs have been growing for an unusually long period, improving in almost all major industries and across California’s diverse regions. These improvements are reflected in family incomes, which have picked up substantially over the past few years. California’s job growth has outpaced national growth for several years, and the state now has the world’s fifth-largest economy.

Although major labor market indicators are outperforming long-term trends, many Californians see jobs and the economy as a top challenge for the state (according to the September 2019 PPIC Statewide Survey). If historical patterns are any guide, California may face an economic downturn in the near future. But even if growth continues, underlying economic realities such as stubbornly high poverty rates, income inequality, high housing costs, and polarized job opportunities may limit the state’s potential. State policymakers face a fundamental challenge: making sure that all Californians—regardless of geographic location, race, or socioeconomic background—can benefit from the state’s prosperity.

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

California’s labor market is strong

The California economy generally moves with the US economy. The state’s labor market tends to be hit harder than the nation as a whole during recessions, but it also benefits from faster recovery rates. According to economy-wide metrics, the labor market is stronger today than it has been in decades.

- **California has experienced ten years of job growth—the longest expansion on record.**
  Over the past 30 years, job growth has averaged about 1.2 percent annually in California and 1.1 percent for the nation as a whole. California’s 2.4 percent job growth over the past eight years has outpaced national growth (1.7%), adding on average 385,000 new jobs every year. In 2019, for the tenth year in a row, both the state and the nation experienced job growth; California’s growth rate held steady, while the US rate declined slightly. Sustained employment growth over such a long period is unprecedented.

- **Unemployment is at historic lows...**
  In October 2019, California’s unemployment rate was 3.9 percent, slightly above the national rate (3.6%) but lower than at any point since 1976. California’s unemployment rate has been higher than the national rate for nearly three decades, in part because of more drastic swings during recent economic downturns, such as the mid-1990s recession and the Great Recession. The number of unemployed Californians was higher three decades ago than it is today (765,300 as of October 2019); this is striking, given that California’s population has grown by nearly 10 million
since then. The shares of discouraged or underemployed workers (those who have stopped looking for jobs but would like to be working or part-time workers who would like to be full time) are also near long-term lows.

- **...but so is labor force participation.**
  To get the full story, we need to go beyond unemployment and look at labor force participation: the share of the population working or actively looking for work. California’s labor force participation rate continues to be historically low, at 62 percent. Labor force participation has trended down since around 2000; much of this decline is due to demographics—California’s population is aging and many baby boomers are retiring—but it is also the result of falling youth employment rates and long-term exits from the labor force during and after the most recent recession.

- **Job growth will continue in service industries and construction, while manufacturing will stagnate.**
  Nearly half of job growth (49%) between October 2018 and October 2019 occurred in three industries: health care, professional and technical services, and accommodation and food services. These industries are expected to lead growth through 2026. The construction, administrative services, educational services, information, and transportation and warehousing industries also grew at a fast rate—faster than the state overall. State and local governments added about as many new jobs as did the construction sector. By contrast, the finance and insurance, retail, and wholesale trade industries shrank, and the manufacturing sector grew less than 1 percent. These trends are likely to continue, with manufacturing expected to add virtually no new jobs by 2026.

**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. However, unemployment continues to be higher in inland and far northern California than in urban coastal areas. Rates are lowest (below 3.3% as of October 2019) in the San Francisco Bay Area as well as the San Diego and Anaheim-Irvine metro regions. Rates elsewhere are typically a few points higher, but they exceed 6 percent in only a few metro areas (Bakersfield, Hanford, Visalia)—in marked contrast to dramatic recession-era differences. El Centro’s high rate (21.2%) remains an exception. Higher inland rates are driven in part by population growth: 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.

**UNEMPLOYMENT VARIES ACROSS CALIFORNIA’S REGIONS**

- **Future job growth is likely to perpetuate today’s polarized labor market.**
  Health care and professional service sector jobs are expected to grow substantially over the next six years; these industries offer many high-wage jobs like health care practitioners and computer occupations ($86,619 and $102,034 median salary in 2018, respectively). Significant growth is also projected in the leisure and hospitality industry, but many of these jobs are low wage. Indeed, most of this industry’s growth is expected to come from food preparation and serving occupations, which had median annual salaries of only $25,232 in 2018. The food services industry alone accounts for nearly 15 percent of the state’s low-wage workers.
• **The lack of affordable housing can curtail economic growth.**
The state’s housing crisis has broad economic effects. High housing costs put a strain on household budgets, leaving many with less money to save or spend. In California, 38 percent of mortgaged homeowners and 55 percent of renters spend more than 30 percent of their total household income on housing, compared with 28 percent and 50 percent nationwide. The lack of affordable housing may make it harder for employers to attract and retain workers. Rising housing costs also mean that many workers, particularly those who are low income, have to live farther from where the jobs are.

• **Employment—even full time—does not eliminate poverty.**
Nearly 2 million Californians ages 25–64 were working but living in poverty in 2017 (12.2% of working adults in that age group). About two-thirds were employed year round—45 percent full time and 21 percent part time—while another third worked less than the full year. California’s minimum wage increased to $12/hour in 2020 (for small employers; large firms must pay $13/hour), but many working-poor adults earn above minimum wage. For these workers, sufficient work hours, affordable child care, and building skills for career advancement are persistent challenges.

• **Incomes have improved, but economic polarization is increasing.**
The median or “middle-income” family of four in California today is doing about 24 percent better than the median family in 1980 ($87,829 in 2018 and $70,950 in 1980, in today’s dollars). However, top-income families (the 80th and 90th percentiles) earn 50 to 60 percent more today than in 1980. These historically high levels of income polarization are driven by labor market shifts that favor college graduates and also by boom-and-bust cycles. The top 10 percent of families make more than 10 times as much as the bottom 10 percent; this gap has nearly doubled since 1980. The lowest-income families recovered slowly from the recession—their incomes did not catch up to 2007 levels until 2017.

### FAMILY INCOMES HAVE RISEN, BUT THE LARGEST GAINS HAVE ACCRUED TO THE HIGHEST EARNERS

![Graph showing changes in California family income since 1980](image)

- **90th percentile**
  - $246,400
- **80th percentile**
  - $177,700
- **Median**
  - $87,800
- **20th percentile**
  - $38,700
- **10th percentile**
  - $23,500

**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 2018 dollars, and adjusted to pertain to a family of four.

• **Income trends also reflect underlying demographic disparities.**
In 2018, median annual earnings in California for a family of four headed by Asian Americans or whites were about $115,000. Families headed by African Americans or Latinos earned substantially less: $66,000 and $60,000, respectively. Not surprisingly, there are striking differences linked to educational attainment. The median income for a family of four headed by an adult with a college education was $144,000 in 2018, compared with only $63,000 for a family of four headed by an adult with no more than a high school education.

### Looking ahead
California’s economy is strong, but long-standing disparities create challenges that state leaders must confront while also preparing for the next economic downturn. Effective policies require accurate assessments of California’s economic performance and a balanced view of the state’s competitiveness.
Pursue policies that build a skilled workforce. Ensuring access to education that prepares the state’s increasingly diverse workers for in-demand jobs is critical to economic growth and the well-being of California’s families. Promoting education is also an important strategy for addressing inequality and improving economic mobility. State leaders can take actions to ensure that more Californians earn college degrees—and/or career education credentials that can help them access high-paying jobs in fast-growing industries such as health care and professional services.

Address modern labor market challenges. While “gig” work is still a small share of overall employment, it has been the subject of high-profile policy debates. Rideshare and other app-based platforms receive a lot of attention, but the work performed by independent contractors is diverse, encompasses all sectors of the state’s economy, and has been growing for some time. It has been difficult for researchers to determine the prevalence of this kind of work or its long-term effects on Californians’ economic well-being. Better data are needed to fully understand the implications of these labor market developments.

Prepare for the next downturn. Historical patterns suggest that California’s long-running economic expansion will not continue indefinitely. The state has built up budget reserves capable of weathering a mild recession—but further set-asides are needed to avoid deep reductions in support for education and other state programs. Ensuring the fiscal health of both the state’s safety net and skill-building programs that assist dislocated workers will help mitigate the impacts of a future economic downturn on workers and their families.
California is looking to protect and expand health coverage gains

Health care is a major policy issue in this presidential election year. The success of the Affordable Care Act (ACA) in expanding health insurance coverage—as well as the political and legal challenges it has faced—has sparked serious state and national conversations about the role of government and public programs in ensuring that everyone has access to affordable health insurance. In California, the new governor and the Democratic majority in the legislature have signaled their support for further coverage expansions financed primarily with state funds.

Nearly 3 million Californians continue to lack comprehensive insurance coverage. The governor has asked a commission to develop options for providing health coverage to all Californians through a single-payer system—with the state serving as the sole insurer. There are major unknowns about how such a system would be financed and whether it would be politically achievable at state and federal levels. According to the November 2019 PPIC Statewide Survey, more than six in ten Californians believe that ensuring that all Americans have health coverage is the federal government’s responsibility. But there is a partisan divide: 82 percent of Democrats hold this view, compared to 19 percent of Republicans. The outcome of the 2020 election could reduce uncertainty, but state policymakers will need to decide how to advance the health and well-being of Californians.

MOST SAY HEALTH COVERAGE IS A FEDERAL RESPONSIBILITY

California’s coverage landscape is uncertain

The ACA transformed health care coverage across the state, but a large share of Californians are still insured through their employers. Health care costs—and an uncertain federal policy landscape—are a major concern.

- **Employer-provided insurance remains the most common type of coverage.**
  Forty-five percent of all Californians have private health insurance through their employers, while another 9 percent directly purchase individual coverage, most often through Covered California, the state insurance marketplace under the ACA. Nearly two-thirds of adults age 19 to 64 have private coverage through employers (54%) or direct purchase (11%). Most children are covered through either a parent’s employer (45%) or the state’s Medicaid program, Medi-Cal (43%). Medicare, a federal program that serves seniors and the disabled, covers nearly 95 percent of Californians age 65 and older as well as small shares of disabled children and adults. In 2018, the latest year for which data are available, about 7 percent of state residents lacked comprehensive health insurance.

- **Most Californians are worried about the cost of health care.**
  Californians’ concerns mirror state and national policy debates focused on health care costs. The September 2019 PPIC Statewide Survey found that about seven in 10 California adults are “somewhat worried” or “very worried” about their ability to afford health care.
• The shifting federal policy landscape has prompted state action to protect coverage.
California policymakers embraced the ACA during the Schwarzenegger administration and implemented it fully during Governor Brown’s tenure. But the ACA has been embattled at the federal level. California has responded to recent attempts to dismantle the ACA with policies designed to maintain its coverage gains.

Many Californians rely on programs supported by public funds

Most seniors are covered by Medicare, a federal insurance program. Many low-income Californians rely on Medi-Cal, while many with incomes too high to qualify for Medi-Cal can get government subsidies to help them pay for private insurance through Covered California.

• Medi-Cal enrollment has increased dramatically under the ACA.
Medi-Cal expanded in 2014, and enrollment increased more than 60 percent by mid-2016; Medi-Cal currently serves about 13 million Californians—about 30 percent of the state’s population. In some counties, nearly half of all residents are enrolled in Medi-Cal. The federal government covers 90 percent of the cost of newly eligible adult enrollees. In addition, California has used state funds to extend Medi-Cal to undocumented children and to undocumented adults under age 26 beginning in January 2020.

• The federal government covers most Medi-Cal costs, but state spending is significant.
Medi-Cal costs are projected to be nearly $102 billion in 2019–20. Federal funds will cover about 65 percent of total program funding (about $66 billion), while the state General Fund is projected to cover about 23 percent (nearly $23 billion). The state’s reliance on other nonfederal funding sources, which include local government transfers and provider fees, has grown in recent years.

• Covered California relies heavily on federal subsidies.
About 1.25 million (88%) of Covered California enrollees receive federal subsidies that help individuals with incomes up to 400 percent of the federal poverty level ($103,000 for a family of four) cover monthly insurance premiums. These subsidies average about $475 per month, with people at higher income levels receiving less.

• State policies and investments have helped Covered California thrive.
The repeal of the ACA’s individual mandate threatened to destabilize Covered California by allowing healthy people to drop their coverage, which would increase premiums for the sicker people who remained. The state adopted an individual mandate that takes effect in 2020. Penalties for not having coverage will help fund about $343.6 million in subsidies for moderate-income Californians (incomes up to $154,000 for a family of four) who are not eligible for federal subsidies. Covered California estimates that 229,000 people will be newly insured and the premium rate will increase 0.8 percent in 2020. All 11 health insurance companies that offered plans in 2019 will continue to participate in Covered California.
Health care access varies across regions and types of insurance

Several regions in California do not have an adequate supply of health care providers to meet the needs of residents. Hundreds of communities face shortages of primary care, dental care, and mental health providers.

- **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.

- **A shortage of physicians participating in Medi-Cal creates potential barriers to health care.**
  The number of physicians providing care through Medi-Cal has not kept pace with the dramatic increase in beneficiaries. The statewide ratio of physicians per 100,000 Medi-Cal enrollees is below national and state recommendations for both primary care and specialty care. As a result, some enrollees have difficulty accessing health care compared with individuals with other types of health insurance. A new state program offers loan repayment to physicians who provide care to Medi-Cal beneficiaries, but more efforts are needed to increase participation.

The state faces the challenge of providing care to uninsured Californians

- **Further expansion of health coverage could be difficult.**
  Significantly increasing the number of insured Californians could prove challenging because many who remain uninsured are not connected to traditional enrollment conduits such as employers 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 39 percent are noncitizens. About 42 percent worked full time throughout 2018, another 31 percent worked part time, and more than 27 percent were not in the labor force. Almost half of uninsured Californians live in households with earnings under 200 percent of the federal poverty level ($51,500 for a family of four).

- **The health care safety net will continue to be essential.**
  Low-income 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 hospital systems 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 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.
Looking ahead

As California policymakers contemplate universal insurance coverage, the question of federal funding looms large. In the shorter term, the state needs to address Medi-Cal's fiscal challenges and improve access to care. For uninsured Californians, the health care safety net is more important than ever.

2020 presidential election. Health insurance is a leading issue in the 2020 presidential election, and the winning candidate could dramatically reshape federal priorities on health care. Policies such as Medicare for All or a public option for health insurance could change California’s insurance coverage landscape and budget priorities.

Medi-Cal program. Medi-Cal faces fiscal pressures stemming in part from the growing share of state costs for covering newly eligible adults and, over the long term, the needs of an aging population. 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—including seniors and the disabled, who rely on Medi-Cal for access to health care.

Covered California. Covered California invested heavily in technology and infrastructure to create a robust marketplace that has been able to withstand federal policy changes aimed at weakening the ACA. While insurance premiums continue to rise, the 2020 increase is the lowest since the marketplace’s launch. It will be important to monitor the impact of state subsidies for moderate-income Californians on enrollment and affordability.

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 deliver necessary health care to all Californians.
Higher education is a driver of economic mobility in California

The value of a college degree is the highest it has been in decades. The typical full-time worker with a bachelor’s degree earned $81,000 in 2017, while the typical worker with only a high school diploma earned $36,000. Educational attainment is associated with lower unemployment and less strain on the social safety net, as well as higher tax revenue and greater civic participation. In addition, awarding more bachelor’s degrees is key to meeting California’s future need for college-educated workers.

PPIC polling finds that a majority of Californians see a four-year degree as very important for economic and financial success in today’s economy. However, there are large and persistent gaps between socioeconomically disadvantaged groups and their peers—as well as across racial/ethnic groups—in college preparation, access, and completion. California has made progress in these areas, but more needs to be done. Targeted financial aid could expand access and improve completion. A more robust transfer pipeline would better connect community colleges—where most low-income and underrepresented students start—to four-year universities. Ongoing reforms in remedial (or developmental) education have the potential to remove a key obstacle.

WAGES HAVE GROWN FOR HIGHLY EDUCATED WORKERS

California needs more college graduates

For the first time ever, a large group of highly educated workers—the baby boomers—is retiring. And although more students are applying to college and completion rates have been improving, young adults are not graduating at high enough rates to meet rising economic demand for degree holders.

- More students than ever are eligible for college—but slots at UC and CSU are limited.

The good news is that the proportion of California high school graduates completing a college preparatory curriculum (known as the A–G requirement) 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 higher than the 12.5 percent and 33 percent eligibility levels recommended by the state’s Master Plan for Higher Education. While California universities are accepting more students than ever, many qualified students are still not able to attend their college of choice. For example, space constraints at 19 of the 23 CSU campuses prevent many qualified applicants from enrolling in their chosen majors. In 2017–18, CSU campuses rejected more than 16,600 qualified freshmen applicants, an increase of 36 percent since 2013–14. Both UC and CSU now redirect applications to other campuses, but student take-up is low.
RECENT INCREASES IN UC AND CSU APPLICATIONS INDICATE A GROWING DEMAND FOR HIGHER EDUCATION

![Bar chart showing recent increases in UC and CSU applications](chart.png)

**SOURCES:** University of California, California State University, California Department of Education.

**NOTE:** California residents only.

- **UC, CSU, and the community colleges need to help students graduate or transfer more quickly.**
  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 as a part of its Graduation Initiative 2025 program. On-time graduation rates are increasing at both institutions, and CSU has seen notable increases in six-year graduation rates. At the community colleges—which enroll large shares of lower-income and historically underrepresented students—fewer than half (48%) of students transfer, obtain a degree or certificate, or complete 60 units within six years. However, the vast majority of students who do transfer to UC and CSU earn bachelor’s degrees.

- **College readiness—and effective remediation—is key in helping students meet academic goals.**
  A lack of academic preparation can delay or prevent student progress toward associate degrees or transfers to four-year colleges. For many students, however, developmental education has also been a stumbling block. Community colleges are implementing new policies aimed at getting most students into college-level courses sooner and offering new courses designed to improve remediation. CSU discontinued remediation as of 2018, enrolling all entering students in college-level courses and providing support for underprepared students.

**College costs have risen, but most graduates benefit from earning degrees**

- **Tuition increases have leveled off, but college costs remain high.**
  During the Great Recession, General Fund allocations per student fell by about 20 percent at CSU and UC, prompting both systems to more than double tuition between 2006 and 2011. State and institutional financial aid increased to cover tuition at public institutions for low-income students. Since the recession, state higher education funding has risen moderately and tuition has held steady or increased slightly. But the total cost at public institutions—including room and board, books, and transportation—is much higher than the cost of tuition.

- **High college costs have caused students to rely on loans.**
  Student borrowing has returned to pre-recession levels at UC (about 40% among first-time freshmen as of 2017), while the share of borrowers at CSU (38%) has remained above those levels. Californians at public institutions are less likely to take out loans and tend to borrow less money than students attending public schools in other states; they are also less likely to borrow than Californians who attend private colleges (53%). Loan default rates are less than 6 percent for students who attend public and private four-year universities but more than 50 percent for students who attend for-profit institutions.

- **Labor market outcomes are strong for college graduates.**
  In 2018, unemployment rates for college graduates (those with at least a bachelor’s degree) were about half those of high school graduates (3.0% versus 5.7%, according to the Current Population Survey). Full-time, year-round
workers with a college degree earned, on average, more than twice as much as those with only a high school diploma. This wage differential has grown consistently over time.

- Career education can bring substantial wage returns.

A third of future jobs will require some postsecondary education but less than a bachelor’s degree. Community colleges offer a lot of this training—known as career education—at a lower cost than private for-profit two-year colleges. Career education often focuses on skilled trades, applied sciences and technologies, and career preparation. On average, students completing a program in one of the six biggest career education fields see a 20 percent earnings increase. Some credentials and fields are particularly valuable. For example, students who earn associate degrees in health more than double their earnings, on average. Short-term certificates (earned in less than a year) generally have much smaller payoffs; even so, they can be initial steps on longer career pathways.

Looking ahead

California faces a shortfall of college-educated workers. At the same time, growing demand for higher education is putting pressure on public colleges and there is widespread concern about college affordability and economic mobility. Effective responses to these challenges will have a profound impact on California’s future well-being.

Update higher education goals. California has not updated its vision for higher education since it created the Master Plan almost 60 years ago. There have been signs of progress—for example, all three public systems are working to improve graduation rates. Setting measurable goals—such as expanding eligibility for UC and CSU, increasing transfers from community colleges to four-year colleges, and ensuring that college is affordable for all students—is essential to a shared vision of the state’s future.

Plan for funding challenges during the next recession. California tends to cut higher education spending during economic downturns, which can affect access, affordability, and quality. Policies for managing higher education finances 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 and affordability 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 living expenses have heightened concerns about homelessness and food insecurity. The California Student Aid Commission’s Student Expenses and Resources Survey provides fine-grained data on student costs and could help the state explore ways of making college an option for its lowest-income residents. Also, colleges with policies and practices in place to help students with different backgrounds succeed can offer key insights on increasing upward mobility.

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 links student progress from K–12 through college and into the workforce. The
The governor and the legislature have taken initial steps toward creating such a system. The state should work with higher education leaders, researchers, and stakeholders to develop a system that can ensure student privacy and data security while evaluating the effectiveness of educational institutions and policies.
California’s housing challenges have widespread effects

The high cost of housing has emerged as a threat to California’s future. Many Californians see homelessness and housing costs as the state’s most important challenges, according to the PPIC Statewide Survey (September 2019). This is not surprising, considering that California has the second-highest homelessness rate in the nation and ranks near the top in cost-burdened households—second among homeowners and third among renters. Indeed, according to the California Association of Realtors, only 31 percent of households can afford to buy a median-priced home in California in the third quarter of 2019, 25 percentage points lower than the nation’s average. What is more, California has one of the highest poverty rates in the nation when housing costs are accounted for.

The governor and the state legislature have taken steps to spur housing production and address homelessness. The 2019–20 state budget includes $1 billion to address homelessness, a historic $1.75 billion investment in new housing, and incentives for cities to approve new home construction. The governor signed 18 bills in 2019 designed to help jump-start housing production, including major legislation (SB 330) aimed at removing local barriers to housing construction and speeding up new development; he also signed a statewide rent control measure. At the same time, several local jurisdictions have dramatically expanded funding for affordable housing and homelessness prevention and services.

There are no quick fixes to California’s housing crisis, which has been decades in the making. State efforts to improve housing affordability, increase housing supply, and address homelessness must interact with local policies. This means that identifying and implementing effective strategies will require sustained cooperation between state and local stakeholders.

HOME VALUES VARY WIDELY ACROSS THE STATE

Housing remains expensive for most Californians

- **California home values have risen significantly since the recession...**
  The state’s median home value remains the second highest in the nation (after Hawaii) at $550,800 as of September 2019, 2.4 times higher than home values nationwide. Statewide, home values in real (inflation-adjusted) terms are 63 percent higher than the March 2012 low ($337,900), much greater than the nationwide increase (39%). In real terms, the majority of counties have not surpassed their pre-recession peaks. Indeed, home values in eight counties,
including Kern, Monterey, and Merced, remain more than 35 percent below their peaks. However, in three San Francisco Bay Area counties (San Mateo, San Francisco, and Santa Clara), home values are 20 to 30 percent above previous highs. If we look at home values in nominal terms, 16 counties have home values above previous highs.

- **...but the pace has slowed.**
  In the first nine months of 2019, year-over-year growth was on average 2.4 percent, compared to 7.6 percent on average in the first nine months of 2018. Moreover, since July 2018, home values in California have been growing at a slower pace than home values in the nation as a whole; since March 2019, home values are trending down in several counties, including Santa Clara, San Mateo, Alameda, and Sonoma.

- **Rents are 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 36 percent to 60 percent in nominal terms in these areas. According to US Department of Housing and Urban Development (HUD), the median rent for a two-bedroom apartment in these areas ranges from $2,113 in Los Angeles to $3,477 in San Francisco. Statewide, inflation-adjusted rents have risen by 13 percent since 2012, compared with 8 percent nationally, according to Zillow estimates.

- **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 44 percent above the nationwide median—while California’s median household income is only 22 percent higher than the nationwide median. This means that the share of Californians with excessive housing costs is quite high: 38 percent of mortgaged homeowners and 55 percent of renters spend more than 30 percent of their total household income on housing, compared with 28 percent and 50 percent nationwide.

- **Housing is especially unaffordable in coastal areas, where two-thirds of Californians live.**
  Eight of the ten least-affordable major metropolitan areas in the nation in the third quarter of 2019 were in California, according to the National Association of Home Builders. Seven of these areas are along California’s coast; fewer than one in four households could afford a median-priced home in these metros. The San Francisco metropolitan area (San Francisco and San Mateo Counties) was the least affordable: only 8.4 percent of the homes sold were affordable to families earning the area’s median income of $133,800. Metropolitan Los Angeles, Orange County, San Jose, San Diego, Ventura, Oakland, and Stockton, were also in the top 10. A few areas remain relatively affordable. For example, in metropolitan Bakersfield, 57.7 percent of homes sold were affordable to median-income families.

**Supply shortages will continue to put upward pressure on home prices**

- **New construction permits are not meeting 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. However, today the statewide numbers are moving in the wrong direction. Only 104,000 residential permits were issued in 2018, and about 95,000 are projected for 2019.

- **Vacancy rates are low and household sizes are high—especially for renters.**
  In 2018, California’s 4.0 percent vacancy rate for renters was 2.1 percentage points lower than the nationwide rate and the third lowest in the nation. Meanwhile, California’s homeowner vacancy rate was 1.2 percent, compared with 1.5 percent nationwide. California’s rate of overcrowding—the share of housing units with more than one resident per room—was 8.3 percent in 2018, well above the national rate of 3.4 percent. Overcrowding is especially high for rental units: at 13.4 percent, it is more than twice the national rate and the highest in the nation.

- **Homeownership rates remain low.**
  In 2018, 54.8 percent of California housing units were owner occupied—10.2 percentage points lower than the rate in the rest of the nation. Indeed, New York is the only state with a lower rate. Homeownership remains 3.2 percentage points below pre-recession levels; the largest decline has occurred among 35- to 44-year-olds (9 percentage points).
NEW HOME CONSTRUCTION PERMITS DIPPED IN 2019

- High land prices—as well as labor shortages—are key drivers of unaffordability.
  According to data from the Federal Housing Finance Agency (FHFA), 16 of the 42 counties in the country with median land prices above $1 million per acre are in California. Land prices increased sharply in many California counties between 2012 and 2017: 14 California counties were among the 20 nationwide with the largest percentage increases. Increases were especially large in San Benito, San Joaquin, Merced, Contra Costa, and Sacramento Counties. Labor shortages are also a growing concern; the unemployment rate for the construction industry has reached new lows, falling from 14.9 percent in September 2012 to 2.7 percent in September 2019.

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 2018 (the most recent statewide data), HUD estimated that about 130,000 people in California were homeless—almost a quarter of the nationwide total and double the state’s share of the US population (12%). California’s rate of homelessness, 33 per 10,000 residents, is the second highest in the nation. What is more, 69 percent of homeless in California are unsheltered, living on the street or in parks and other makeshift spaces; this is the highest rate in the nation.

- Many counties saw spikes in homelessness in 2019.
  Los Angeles County recorded nearly 59,000 homeless people in 2019. In per capita terms, however, homelessness is a bigger problem in San Francisco and Santa Cruz Counties. Between 2017 and 2019, the number of homeless increased in all of California’s large urban counties except San Diego. Santa Clara, Alameda, and Contra Costa Counties saw two-year increases of more than 40 percent. It should be noted that improvements in the accuracy of homeless counts make comparisons to past years difficult.

Looking ahead

California needs short- and long-term policies that improve housing affordability and remove unnecessary barriers to increasing supply. Because state efforts must interact with local land-use and zoning policies, addressing California’s housing challenges will require the sustained cooperation of state and local governments as well as developers.

It will take time, funding, innovation, and coordination to end the homelessness crisis. The 2019–20 budget’s $1 billion commitment to fighting homelessness is a step in the right direction, but continued investment is needed. Addressing homelessness requires coordination between the federal, state, and local levels, as well as collaboration across sectors (housing, health, and social services). Policies that fund both housing and supportive services are crucial: getting people into homes as quickly as possible (rapid rehousing) and connecting them to health care, treatment, education, and employment services (permanent supportive housing) are proven approaches. Leveraging private sector and philanthropic resources should be a key element of any strategy moving forward.
Localities are trying a range of approaches to improve affordability and reduce homelessness. Several cities with especially severe housing challenges recently passed local bonds to fund new housing as well as assistance for low- and middle-income households and people experiencing homelessness. For example, Los Angeles voters approved a $1.2 billion bond measure in 2016 to help fund housing for homeless people. In 2018, San Francisco voters approved a tax on larger businesses to generate $250–300 million per year for homelessness prevention and services; two additional affordable housing measures were approved in 2019. Berkeley and Oakland voters have also increased or instituted new taxes to generate revenue for housing.

Solving the affordable housing crisis requires balancing local and state control. California’s tight housing market reflects not only a scarcity of developable land but also an array of policy choices. Changes to zoning and other regulatory policies are needed to help reduce the cost of building housing. Traditionally, these policies have been made at the local level, but the state has recently enacted reforms—such as streamlining the development of accessory dwelling units (ADUs)—that supersede local rules and/or motivate local policy changes.

Land-use policies should incentivize more housing while meeting environmental goals. California has passed legislation that aims to lower harmful emissions by encouraging coordination of new housing development with transportation networks at the local level. 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, partly due to local opposition, and usually produces fewer units than development at the edges of urbanized areas.

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California faces the challenge of improving outcomes for high-need students

California educates more than 6 million children in its K–12 public schools. More than half of these students are economically disadvantaged. About one in five are English Learners (ELs), compared with one in ten nationwide. In 2013, the state created the Local Control Funding Formula (LCFF) to simplify school funding and significantly increase funding for high-need students (those who are low-income, EL, homeless, and foster youth). California’s school system has also adopted new educational standards in math, English, and science, and the state has revamped its assessment system accordingly.

Given the pivotal role of education in California’s future, improving the academic outcomes of high-need students remains the central challenge facing California’s schools. State test scores have seen modest improvements over the past five years, but high-need students still score at much lower levels than other students do. The LCFF provides additional funding for districts with large numbers of high-need students, with the goal of helping these students succeed.

Expanding preschool is one strategy for boosting long-term student outcomes. Governor Newsom is developing a multiyear early childhood education plan that includes enrolling more low-income children in high-quality preschools. Policymakers are also exploring fiscal, governance, and program reforms that improve outcomes for disabled students. And, although school funding has risen in recent years, it remains a challenge—in part because districts are facing increased costs. In November, voters may decide the fate of a ballot measure that would increase K–12 funding.

Student performance data show a long road ahead

Policymakers are increasingly interested in the efficacy of recent reforms. Given the LCFF’s focus on high-need students, districts face twin goals of raising the overall level of student performance and shrinking gaps among student groups. LCFF performance measures show that districts are finding mixed success in achieving these goals.

- State test scores are slowly improving, but major gaps persist.

In 2018–19, about 51 percent of California’s students met or exceeded state standards in English, compared with 40 percent in math. The shares of students meeting standards have risen 5 to 10 percentage points since new state tests were first administered in 2015, depending on the grade. Proficiency rates in math are lower for African American (21%), Latino (28%), low-income (27%), EL (13%), and disabled (13%) students.

AVERAGE TEST SCORES ARE SLOWLY IMPROVING IN MOST GRADES

SOURCES: Smarter Balanced Assessment Consortium (SBAC) and California Department of Education.

NOTE: Data represent the average share of students who score at or above the state standard in English language arts and mathematics.
• **Chronic absenteeism can cause performance problems—with equity implications.** Reducing chronic absenteeism, defined as being absent at least 10 percent of the school year, is a critical step in improving student achievement. Simply put, students are not learning when they are not in class. In 2017–18, 11 percent of students were chronically absent. Rates are higher among African American (20%) and Latino students (12%) and lower among Asian American (4%) and white students (10%). These rates are mostly unchanged compared with 2016–17, when the state began collecting this data.

• **Graduation and college preparation rates have steadily improved, but disparities persist.** The statewide graduation rate for the class of 2018 was 83 percent—up 2.6 percentage points since 2013. In addition, nearly half of graduates completed college preparatory coursework—known as the A–G requirement—that makes them eligible for admission at the University of California (UC) and California State University (CSU), an increase of 6 percentage points since 2013. During this period, A–G completion improved significantly among African American students (from 29% to 40%) as well as Latino students (from 29% to 43%), though both remain below the state average.

• **The state is making efforts to accelerate progress.** While the early evidence shows student outcomes are slowly improving, the state is pursuing several strategies to spur improvements in performance. Because early learning opportunities are linked with school success, expanding public child care and preschool programs is a state budget priority. In addition, the state is developing technical assistance programs to help districts implement reforms and improve student outcomes. This assistance is important—only seven in ten districts have implemented the Common Core State Standards, nine years after they were adopted by the state.

### K–12 funding remains a central issue

K–12 funding has risen dramatically from its low point in 2011, but district costs are also rising. Several studies have concluded that current funding levels are insufficient for preparing all students to meet the state’s academic standards.

• **Funding levels have risen to just below the national average.** California has long spent less per pupil than other states, and it made steeper funding cuts to education during the recession. The most recent data available show that, after increasing steadily over the past eight years, California’s K–12 spending averaged $12,143 per student in 2017—only $62 less than the average amount in the rest of the nation. These data do not account for California’s higher cost of living, however. About 60 percent of Californians think that state funding for K–12 schools is not sufficient, according to the April 2019 PPIC Statewide Survey.

![STATE FUNDING HAS Risen FROM RECESSION LOWS AND IS NOW CLOSE TO THE NATIONAL AVERAGE](chart.png)

**Source:** United States Census Bureau.

**Note:** Data are per pupil expenditures for current educational costs (not including capital outlay and interest costs).
• **Declining enrollment is forcing districts to cut budgets.**
  Falling birth rates in California and the relocation of families out of high-cost areas are contributing to falling enrollment in over half of the state’s K–12 districts. Enrollment in these districts dropped about 6.7 percent between 2013–14 and 2018–19, on average. Funding is tied to the number of pupils, but district costs typically do not fall as quickly as enrollment. As a result, many districts are facing difficult budget and operational challenges even as per pupil funding rates increase.

• **Rising pension and special education costs are also putting pressure on district budgets.**
  District costs have risen as a result of legislation passed in 2014 to shore up the California State Teachers’ Retirement System, the state’s primary teacher pension fund. The district contribution has been gradually increased; it will be 19 percent in 2020–21, more than double the 8 percent district share in 2013–14. In addition, local costs for special education have risen in recent years, while state funding has remained relatively flat. The 2019–20 state budget included $3.15 billion in onetime funding to cover some of the pension increases and $646 million to ease local special education budgets. But these actions only reduce the funding pressure, and districts will continue to be responsible for the higher costs in these areas.

• **Two ballot initiatives could increase K–12 funding significantly.**
  An initiative has qualified for the fall 2020 ballot that would tax commercial and industrial property based on current value rather than purchase price (residential property taxes would not be affected). This would generate between $3 billion and $4.5 billion annually for K–12 and community college districts. A second initiative would authorize $15 billion for the building and repair of K–12 and college facilities ($9 billion for K–12 schools and $6 billion for the public universities and community colleges).

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**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. The state has challenges and opportunities in several areas.

**Expanding preschool and early childhood education.** The enacted 2019–20 budget includes more than $1 billion to expand child care and preschool to more low-income four-year-olds and build more child care facilities. To guide decisions in the coming years, the administration is developing a Master Plan for Early Learning and Care that would offer preschool to all three- and four-year-olds. Expanded training for early childhood educators is also a priority, as the state faces a critical shortage of early childhood educators.

**Addressing issues in special education.** Special education represents the largest remaining state funding program outside of the LCFF. While growth in costs is a major concern, the budget also calls for more substantial reforms to be incorporated in the 2020–21 budget. This could include significant modifications to the state’s special education funding formula and other governance or program changes that would improve services to students.

**Balancing local control and state oversight.** The LCFF reforms allow local districts substantially more spending leeway than the previous state funding programs. But limited improvement in test scores and test score gaps have prompted many to call for increased transparency and accountability—in particular, better information on school-level spending for high-need students. This lack of transparency has been a central issue in recent complaints and lawsuits over improper use of LCFF funding. Federal policy now mandates such reporting; making these data publicly available may lead to a better understanding of how LCFF funding is being distributed within districts.

**Improving academic success for all English Learners.** Educators are hoping that the implementation of English Language Development standards and new guidance for ELs who have special needs will help boost EL achievement. There are also ongoing discussions about accountability, tracking spending on ELs, and expanding the bilingual teacher workforce. Over the next few years, districts will need to standardize reclassification requirements in compliance with the federal Every Student Succeeds Act. Specifically, districts will need to implement new state policies on the use of English basic skills data and teacher recommendations in the reclassification process.

**Using data to improve student success.** The Newsom administration has begun the planning for a database that follows the progress of California’s students from preschool through K–12 schools, higher education, and beyond. Separate data systems currently exist for K–12 and higher education, but following the progress of students from one system to the next
is fraught with technical and logistical problems. Connecting existing databases across school, employment, and social service systems and making the data more accessible could help policymakers coordinate, assess, and improve K–12 and higher education programs.

**Building a system to support the implementation of new state policies.** As they enact multiple reforms, state policymakers are taking steps to support local implementation. Helping the nearly 30 percent of districts that have not yet implemented the new math and English standards is an important step toward better student outcomes. More policy changes are in the offing—UC and CSU are considering requiring students to take more quantitative reasoning and science in high school. The LCFF calls for county offices of education and a new state agency—the California Collaborative for Educational Excellence (CCEE)—to assist schools and districts in implementing better programs for students. This new support system has focused on developing resources that respond to local needs. The CCEE and the county offices of education have much to learn about how best to help local educators boost student outcomes.
Representation in California faces growing challenges

California has had a Democratic governor since 2011 and the Democrats have a supermajority in the legislature. This has allowed for progress toward Democratic policy goals. Most Californians have been supportive of Governor Newsom’s agenda thus far, and there is widespread support for state opposition to some federal policies. But one-party dominance carries a risk of lower accountability, particularly when it comes to issues outside the public spotlight.

While voter turnout has improved in California, it continues to lag behind turnout in other states, and the demographic differences between voters and nonvoters reflect a growing economic divide. Californians who vote regularly tend to be older, white, affluent, college educated, and homeowners, while nonvoters are more likely to be younger, Latino, lower income, less educated, and renters. Voters are more likely to identify as “haves” and nonvoters more likely to identify as “have nots.” Nonvoters tend to prefer a bigger government that combats income inequality, while those who vote regularly tend to prefer a smaller government; this has important implications for policymaking.

**The state is increasingly Democratic—but not necessarily liberal**

- **In the Trump era, the statewide shift toward Democrats has intensified.** 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 in these areas. California’s presidential primary has been moved from June to March in 2020, giving state voters a bigger say in the selection of the Democratic candidate.

- **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 70 percent of independents say they lean toward and vote reliably for one party or the other. Across the state’s regions, the lean is more likely to be Democratic than Republican. Any party that seeks to rival the Democrats and Republicans in size and influence would face the challenge of knitting together this range of views.
• **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 fiscal issues such as taxes and spending. Even Los Angeles County—where there are 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. In 2020, California voters will probably decide the fate of additional tax measures, including a construction bond for the K–12 and higher education systems and a measure to change the way commercial properties are taxed under Proposition 13. A majority of Californians and likely voters have said they would vote yes on a school construction bond. Voters have been less supportive of a proposal to change the way commercial properties are taxed.

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**Californians largely support Governor Newsom’s agenda**

• **Californians generally take the state’s side in conflicts with the federal government.**
   As the presidential election approaches, Californians mostly support the state government’s opposition to the Trump administration’s climate and immigration policies. Three in four Californians favor requiring all automakers to further reduce greenhouse gas emissions from new cars; meanwhile, the Trump administration is rolling back Obama-era vehicle emissions standards and attempting to revoke California’s legal authority to set its own standards. A solid majority of Californians (64%) support state-level policymaking to address global warming; majorities have supported state action since 2005. Similarly, about six in ten Californians (61%) favor state action to protect the legal rights of undocumented immigrants.

• **Californians support Governor Newsom’s investments in early childhood programs.**
   After making cradle-to-career education a central part of his campaign, the governor has proposed several early childhood policies. Most Californians have favorable opinions of his universal preschool and full-day kindergarten proposals. Three in four Californians support his proposal to expand pre-kindergarten and early childhood programs and facilities, and two in three support his plan to increase the number of full-day kindergarten programs. Six in ten also support his plan to expand full-day, full-year preschool to all eligible low-income four-year-olds.

• **Plans to address housing and homelessness also garner support.**
   Governor Newsom’s plan to increase housing production, which includes an expansion of state tax credits for the development of low- and moderate-income housing, has the support of seven in ten Californians. Three in four Californians support his proposal to address homelessness, which includes onetime spending on emergency aid, mental health programs, and programs that coordinate housing and health and social services at the local level.

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**California needs to expand voter participation**

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

• **California voters tend to be older, more affluent, and whiter than nonvoters.**
   According to the PPIC Statewide Survey, likely voters 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. There has been some progress: likely voters in 2018 were slightly more diverse than the recent norm.

• **The state has made it easier to vote by mail.**
   A large and growing number of Californians vote by mail. As of 2019, all vote-by-mail ballots include postage-paid return envelopes. Also, a new state law recently authorized counties to mail ballots to every voter and replace traditional polling places with a small number of official vote centers. In 2018, five counties switched to this system: Madera, Napa, Nevada, Sacramento, and San Mateo. Evidence suggests the reform produced a modest increase in turnout, but time will tell if the effect is a lasting one. More counties have adopted the reform, so that more than half of registered voters will be covered by the system in 2020.
California’s below-average turnout stems mostly from lower voter registration.
The share of Californians who are registered is below the national average; this suggests that getting people to register is as much of a challenge as getting voters to the polls. There are probably many reasons for California’s low registration rate, but the state’s Latino and Asian American communities play a key role: their share of the adult citizen population has been growing, but they register at lower rates. Even though turnout in these communities increased in 2018, their lower registration rates over time have gradually pulled down California’s registration levels in relation to other states.

The state has taken steps to increase registration.
To reverse the downward trend and diversify its electorate, California has implemented a number of reforms to improve its registration rate. The state developed a fully online registration process, a seamless registration process for anyone acquiring or updating a driver’s license, and “conditional” registration after the deadline has passed. These new systems were in place for the 2018 election; a large number of voters used automated registration, and some people registered conditionally.

VOTER TURNOUT REMAINS BELOW THE NATIONAL AVERAGE

Looking ahead
While Californians largely support Democratic policies, one-party control of state government raises the risk of unrepresentative policymaking. So too does the state’s relatively small and unrepresentative electorate. There has been progress in recent years, but California has a long way to go before its electorate reflects the size and diversity of the state as a whole.

The gap between California’s electorate and its nonvoters creates risks. The voting electorate is not wholly representative of the overall population. But effective policy is made by taking the entire population into account. California’s elected officials should be sensitive to broader needs while continuing to back efforts that 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 participate, but it makes sense to make voting as easy as possible. California now has one of the simplest registration processes in the nation, and it has taken steps to make voting easier. But the state also needs to make ongoing and aggressive efforts to get every voter to take part in every election, with special emphasis on those who are least likely to participate.

Eliminate differential treatment of independents and party members. Voters without a party preference are on track to become a plurality of the electorate, and the new automated registration law may greatly accelerate that trend. These voters can participate in every congressional and legislative primary election under the state’s top-two primary law. But they should also have full access to presidential primaries and internal party decision making. Otherwise, the number of voters making these decisions will continue to fall.
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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 2019, the state reached another demographic milestone, becoming the first state with 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 growth has slowed in recent decades, but the number of people added to the state’s population has been substantial—300,000 each year, on average, from 2010 through 2019.

California has invested significantly in preparations for the 2020 decennial census. An accurate count is crucial, as the census is used to allocate billions in federal funding and determine the number of congressional districts in each state. The state, local governments, community organizations, and other stakeholders are making 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 this year. Not only has the 2020 Census been underfunded by the federal government, but federal rhetoric and actions on border security, deportation, and immigrant rights 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.

Population projections suggest that California will gain millions of new residents in each of the next two decades. These gains will support a growing economy and require new incentives to improve infrastructure and public services—including education, transportation, housing, water, and health care.

Regional populations will shift and immigration will remain important

California’s population is projected to be almost 44 million by 2030, with annual growth at 0.8 percent—lower than 20th-century rates but higher than rates over the past several years. Average annual increases are projected to exceed 300,000—between 2020 and 2030, the state could add about 4 million residents. However, if the recent slowdown in growth continues, gains could be substantially lower.

- **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 then, 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 inflows of international migrants have been partially offset by
domestic outflows. In the past decade, birth rates have fallen to the lowest levels ever recorded and the number of births has declined by 100,000. Department of Finance population projections assume an increase in migration and a continued slowdown of natural increase—as the population ages, births will continue to decline and deaths will increase. By 2025, migration is expected to account for more growth than natural increase.

- Inland areas are growing at higher rates—though most Californians still live in coastal regions.

  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, according to Department of Finance projections. Inland areas have experienced faster growth than coastal areas for many decades, but inland growth has slowed since 2010, while coastal growth has accelerated. The fastest-growing regions have been the Inland Empire, the San Francisco Bay Area, and the Sacramento metropolitan area. Coastal (and bay) counties are still home to 69 percent of the state’s population.

  - Latinos have become the state’s largest ethnic group.

    No ethnic group makes up a majority of the state’s population. Latinos became the state’s largest ethnic group in 2015. By 2030, 41 percent of the state’s population will be Latino and 37 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 new immigrants in California 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 adults (aged 25 to 64) from Asia have at least a bachelor’s degree, compared with 30 percent of Latin American immigrants 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 US foreign-born population. In 2018, the most recent year of data, 27 percent of California’s population was foreign born—about twice the US percentage. This share is projected to hold steady over the next few decades. According to estimates by the Center for Migration
Studies, the vast majority of immigrants in California are legal US residents: 53 percent are naturalized citizens and another 26 percent have green cards, visas, or some other legal status. Still, more than 2 million immigrants in California are undocumented—nearly a quarter of the nation’s undocumented population and more than 6 percent of the state’s overall population. The Migration Policy Institute estimates that California is home to more “dreamers” (undocumented immigrants who came to the US as children and have temporary legal status) than any other state. In August 2018, about 200,000 dreamers lived in California, 29 percent of the nationwide total.

**California’s population is aging**

Even though California's population is the seventh-youngest in the country, it is aging rapidly. In 2018, 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 5.7 million in 2018 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 will remain the largest group—projected to grow by 39 percent (or 1,330,000 people) between 2018 and 2030. But the most dramatic growth will occur among nonwhite populations, especially Latinos (by 94%, or 1,115,000) and Asians (by 52%, or 450,000). The African American senior population will increase by 73 percent, but this translates to only 218,000 people.

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

**Change in California population by age group, 2018 to 2030 (thousands)**


- **The number of children will decrease.**
  From the 2017–18 to the 2027–28 school year, the number of children enrolled in public schools is projected to fall by 4 percent, according to the California Department of Finance. This is a consequence of declining 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.

**Looking ahead**

The state’s growing, changing population continues to support economic growth; it also reinforces the need for improved housing, infrastructure, and public services. In the national context, California has a big stake in both an accurate census and comprehensive immigration reform. There are several key areas to watch.

**2020 Census.** California has taken measures to encourage full participation in the census, budgeting almost $200 million to improve outreach and prevent or minimize an undercount. PPIC has produced a series of maps that show the locations of California's large number of hard-to-count residents. Trusted messengers, including community-based organizations, are playing a key role in reaching households that are hard to find or might be reluctant to participate.
Immigration reform. Immigration policy at the national level has enormous implications for states like California. Comprehensive reform efforts have long been stymied by a partisan divide, and a recent uptick in executive orders and court rulings has created additional discord and uncertainty. PPIC Statewide Surveys consistently find that most Californians believe undocumented immigrants should be allowed to stay in the United States if they meet certain requirements. Most support state and local policymaking to protect the legal rights of undocumented immigrants, and a majority oppose a wall along the Mexican border. A comprehensive solution should benefit California—it has the world’s fifth-largest economy and relies on a large and relatively young immigrant population to fuel growth and innovation.

Housing. From 2008 to 2018, the state gained about 2.8 million people, while the net increase in housing units was less than 900,000. Continued population growth will put even more pressure on housing. California’s largest population group is young adults in their 20s. By 2030, this group will have reached the ages at which adults typically establish their own households.

Education. The slight decline in the number of school-age children is likely to lead to increases in per student funding as the state budget grows. However, because costs do not fall in lockstep with enrollment, many districts will face budget and operational challenges as enrollment declines. Some districts will also face difficult decisions about which schools to close.

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

California’s multifaceted social safety net assists low-income adults and children through cash assistance, tax credits, food assistance, and housing supports. It also has several other short- and long-term goals, such as increasing employment, safeguarding access to food, and improving children’s health. The largest safety net programs help millions each year. For example, in 2018–19, an average of about 970 million Californians—83 percent of them children—received monthly support from CalWORKs, the state’s cash assistance program for families with children. And an average of 3.9 million Californians received a monthly food benefit from CalFresh, popularly known as food stamps.

Safety net programs substantially moderate poverty. PPIC research finds that while 18 percent of Californians lived in poverty in 2017, 25 percent would have been poor had it not been for safety net programs. The safety net has an even larger impact on child poverty. Nonetheless, California struggles with high poverty rates and widening inequality. The PPIC Statewide Survey indicates that nearly two-thirds of Californians (63%) believe there is an economic divide between the state’s “haves” and “have nots.”

California has experienced several years of economic expansion, and caseloads for both CalWORKs and CalFresh continue to decline—a sign that family budgets are improving. In 2017, one in twenty Californians (5%) lived in deep poverty—with incomes below 50 percent of the poverty threshold—but more than a third (36%) had economic resources that were less than 150 percent of the poverty threshold. Robust growth in revenues in 2019 allowed state leaders to expand the state Earned Income Tax Credit (CalEITC) and increase CalWORKs grants, and California is expanding health insurance coverage to some groups of undocumented residents. But families with undocumented members are largely excluded from some large-scale safety net programs—most notably the CalEITC. Moreover, there is ongoing uncertainty about federal funding—which covers the bulk of program costs—and the outcome of the upcoming presidential election could have major implications for the state’s safety net.

SAFETY NET PROGRAMS MODERATE POVERTY

SOURCE: 2017 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. Right-hand bars show 2017 CPM poverty rates, deep poverty rates, and near 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, federal and state Supplemental Security Income (SSI/SSP), and federal rental assistance. Poverty denotes combined resources, less necessary work and out-of-pocket medical expenses, that fall short of the CPM threshold, which averaged $32,359 statewide in 2017 for a family of four but ranged between $24,438 and $41,221 across counties. Deep poverty denotes combined resources that are less than half of the CPM threshold. Near poverty denotes combined resources that are less than 1.5 times the CPM threshold.
Federal, state, and local governments work together to deliver major programs

Major safety net programs take several forms and have different types of eligibility, funding, and oversight. For example, CalWORKs and General Assistance provide cash grants, while the Earned Income Tax Credit (EITC) and the Child Tax Credit typically lead to tax refunds.

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

### The Federal Government Provides the Largest Share of Program Funding

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<th>Program</th>
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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 calendar year 2018; school nutrition amounts for federal fiscal year 2018; housing subsidies statistics for 2018; federal EITC and CTC for 2017 tax year; state EITC estimated for 2019 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 Nutritional Supplement (WINS). County CalWORKs expenditures shown are mostly the special fund amount provided to counties by the state pursuant to 1991 realignment and Assembly Bill 85 (2013). Not shown are substantial CalWORKs program funds devoted to services and supports, including child care vouchers, and to Cal Grants for low-income college students. WIC amounts exclude infant formula rebates.

- **California could lose some federal safety net funding.**
  Developments at the federal level could have outsized consequences for California. For example, the Trump administration recently expanded the number of safety net programs covered by the public charge rule, which disallows entry or permanent residency to immigrants if they are likely to be dependent on government assistance. This change is being challenged in court, but it may already be affecting California, which has a large share of households with immigrant members. Also of concern is the possibility of an undercount in the 2020 Census. While California has made significant outreach efforts, the census has been underfunded at the federal level. Young children in particular were undercounted in 2010; federal rhetoric on immigration may have a dampening effect. An undercount could cause the state to lose some federal funding for safety net programs—and undercut the accuracy of information about the state’s diverse populations.

- **The state and counties play key roles.**
  The state covers a share of costs that varies across programs. It also typically provides oversight and shapes program rules to the extent allowed by federal law. In 2015, California instituted its own state EITC that augments the federal credit. 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 that is funded by Proposition 10 tobacco tax revenues and dedicated to improving the lives of children age five and under.

**California’s safety net reduces income inequality; its impact on poverty varies across regions**

- **The safety net reduces economic polarization.**
  Incomes are increasingly polarized in California. Comparing individuals with pre-tax family incomes near the high end of the spectrum (the 90th percentile) with individuals near the low end (10th percentile) yields an income ratio of about 12 to 1 in 2017. PPIC research finds that accounting for taxes paid and adding in resources from safety net programs reduces the gap between high and low incomes to about 6 to 1. SSI, CalFresh and other nutrition programs, and federal housing assistance play the largest roles for those at the low end of the spectrum.

- **Child poverty rates vary widely across counties.**
  Child poverty ranges between 8 percent and 26 percent (2015–17 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 largest in the state’s inland and northern regions.**
  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 EITCs (combined) and CalFresh have the largest impact.

**State lawmakers continue to support the existing safety net**

- **The 2019–20 state budget expands the CalEITC and increases CalWORKs grants.**
  The CalEITC—which has been available since 2015 to tax filers with very low earnings—has been expanded for the third time and now includes an additional credit of up to $1,000 for families with children under six years of age. CalWORKs grants have increased for the second year running. In addition, adults who are employed are able to combine their earnings with CalWORKs cash assistance more easily—and their asset limits will be higher starting in June 2020. The state also launched the California CalWORKs Outcomes and Accountability Review (Cal-OAR) in 2019 to assess a wider range of successful outcomes than hours of work.

- **State policymakers have taken a number of other steps to support working families.**
  Most families earn at least some income from employment, and policymakers have taken several steps to support work in recent years. In 2016, California committed to raising the statewide minimum wage to $15 an hour by 2022. The fourth incremental increase—to $13 or $12, depending on employer size—took effect in January 2020. In addition to expanding eligibility for CalEITC, California lengthened paid family leave from six to eight weeks starting in 2020.

- **The state continues to grapple with its housing crisis.**
  Median rent and mortgage payments in California are high by national standards; as of 2017, 25 percent of low-income Californians were spending more than half of their combined earnings and safety net resources on housing. In addition, the state has the second-highest rate of homelessness in the nation. The 2019–20 budget includes funds for tax credits to incentivize building affordable housing; it also increases local responsibility to plan for housing for those at all income levels. In addition, lawmakers provided funds to help cities and counties address homelessness.
Looking ahead

Amid continued uncertainty about federal policy, California has been augmenting and updating its social safety net. By supporting work and offering assistance when and where it is needed most, the safety net can reduce poverty and improve economic mobility. There are several key areas of interest.

**Preparing for economic downturns.** A second deposit into a special account to support CalWORKs and Medi-Cal brings the total to $900 million; this and the broader reserve fund will give lawmakers additional flexibility during the next economic downturn. However, these reserves will not eliminate the need for budget cuts even in a moderate recession. It will be important to identify the best strategies for supporting these programs when state revenues shrink.

**Continuing to expand 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. The governor is charting a path toward universal preschool for three- and four-year-olds, but important questions about adequate facilities, worker pay, and the overall price tag have not yet been addressed.

**Improving housing affordability.** California’s housing crisis was several decades in the making and cannot be resolved overnight. Continued efforts at the state and local levels are needed to address the shortage of affordable housing as well as homelessness.
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 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 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 lack 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 threat of climate change.

Climate pressures are making it harder to simultaneously store water for droughts, manage flood risk, and protect freshwater ecosystems. But leaders across the state are addressing the challenges of a more volatile climate, and the Newsom administration is developing a water resilience portfolio to adapt all aspects of water management to the “new normal.”

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. Then 2017 brought 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 droughts.** During 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 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 makes groundwater less reliable and causes sinking lands (which damage infrastructure) and reduced river flows.
(which harm wildlife). The Sustainable Groundwater Management Act (2014) 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. In the San Joaquin Valley—the state’s largest farming region, with the biggest groundwater imbalance—local trading can cut these adjustment costs nearly in half.

- **Drought increases hardships for poor rural communities.**
  Some rural communities rely on contaminated water sources, and some also experience shortages during droughts. More action is needed to connect these communities to larger systems or develop on-site solutions.

- **Drought also threatens freshwater ecosystems and headwater forests.**
  Low river flows, shrinking wetlands, and high temperatures during the latest drought imperiled fish and waterbirds. Hot, dry conditions killed many trees in headwater forests, where wildfires are becoming more extreme.

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

One in five Californians lives in an area 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 in flood protection are needed, along with more efforts to limit development in high-risk areas.

- **California’s aging dams are under stress.**
  Two-thirds of California’s dams are more than 50 years old, and all were designed for previous climate conditions. The 2017 Oroville Dam crisis—which required the evacuation of nearly 200,000 residents and more than $1 billion in repairs—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 extremely high-risk areas—those that are susceptible to a “100-year flood.” A 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 25 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.**
  Earthquakes and sea level rise threaten levees that protect water quality and Delta farms. Managing water to help endangered fishes disrupts exports, which draw water through channels to pumps in the southern Delta.

- **Tackling the Delta’s problems will require strategic investments.**
  The state has been considering a proposal to build tunnels underneath the Delta to move water from the Sacramento River to water users that rely on Delta exports. This controversial proposal—which has been scaled back from two tunnels to one by the Newsom administration—could improve the reliability and quality of exports and add flexibility to environmental water management. Investments in flows and habitat are essential to improving conditions for native fishes, and more work is needed to protect Delta residents from floods.

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

Urban water and wastewater agencies are covering costs reasonably well. There has been progress at the state level on safe drinking water, but other “orphan” areas—such as protecting residents from floods, managing polluted stormwater, and improving ecosystem health—face funding gaps.

- **California needs to use bonds strategically.**
  Californians pay for most of the $30-plus billion spent on water management each year through their water and wastewater bills and local taxes. But the sector also relies 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. Bonds should focus on areas for which other funding is not readily available.
• 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

The latest drought highlighted major challenges in improving ecosystem health and responding to climate pressures.

• A change in course is needed to arrest the decline in native fishes.
  Native fish populations 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. The state must decide whether to invest in new Delta conveyance—now a major bottleneck to moving water where it’s needed. Though this project is costly and controversial, not making an investment will also be costly. California also needs a viable long-term plan for strengthening Delta levees.

Safe drinking water. The Safe and Affordable Drinking Water Fund is an important step toward ensuring safe water in poor communities. The State Water Board now needs a comprehensive plan to prioritize support for communities that regularly lack safe drinking water and identify at-risk areas that may also need help.

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.
Ecosystem stewardship. Watershed-level planning that informs water supply and flood management decisions can help make ecosystems more drought resilient. Priorities include water acquisition, habitat restoration, and prioritizing conservation areas for greatest impact—including protecting strongholds that can support species during droughts.

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

Funding. New state and local fees and taxes are needed to provide ongoing funding for fiscal orphans. Minor changes to state water-pricing and -funding laws could align them more closely with modern water management.