

# Expanding Opportunity

## An Agenda for All Californians

It's a timeworn California cliché: an earthquake splits the state from the rest of the country—freeing us from the hidebound thinking of Old America.

Well, reboot that cliché. An earthquake has sundered California, but it is splitting the state from itself.

From a distance it seems the California economy couldn't do any better. Our gross domestic product (GDP) is in the top six among nations. We lead states in economic output per capita and statewide employment growth is the envy of the nation. We're creating wealth faster than any time since the Incan conquest.

But behind those marquee numbers lurks a complicated mix of prosperous and desperate. Considering the cost of living, our poverty rate is highest in the nation. According to the Public Policy Institute of California, more than one in five families lived in poverty in 2013 and 9% of families lived in deep poverty.

Nearly one of three Californians receives subsidized health care through Medi-Cal. More than 3.3 million schoolchildren receive subsidized school lunches—about half of total public school enrollment.

California has the highest percentage of people living in poverty. Even among huge wealth generation and employment gains, millions of California families cannot reach the California dream.

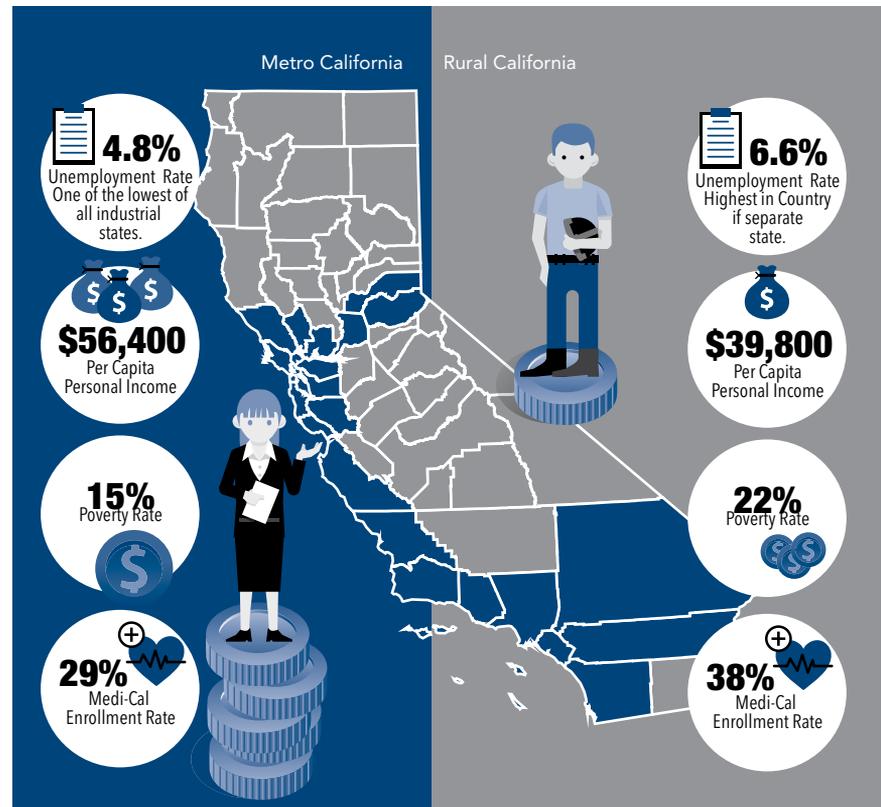
The new California earthquake has a clear geographical dimension. (See the infographic.) Grab the 36 counties in rural, mountain and Northern California, and the aggregate unemployment rate is 6.6%. If rural California were a separate state, its unemployment rate would be the highest in the country.

On the other hand, unemployment in the 22 coastal and metropolitan California counties is just 4.8%, one of the lowest of all industrial states.

Rural California also suffers more widespread poverty than its coastal and metro neighbors. The official poverty rate is higher, as is enrollment in Medi-Cal, the state's health care program for poor residents.

Poverty is not limited to rural and inland California. Much of the poverty in coastal California is a function of housing costs that distort expenses of wage earners. Zillow reports that renters in the Los Angeles metropolis pay 48% of their monthly income

### The New California Earthquake



for the median rent. Almost half of working-age adults in Los Angeles County double up with one another in housing units. According to analysis by the Milken Institute, median rentals of one-bedroom apartments exceed 30% of median income in the San Francisco Bay Area, Los Angeles and San Diego.

Even when employees can find affordable housing away from the metropolis, the long and slow commute adds yet another financial burden and social stress.

The surest path to economic success is a good education. But here again the California fault lines divide educational attainment.

According to the Milken Institute, a region's per capita economic output is closely tied to its educational attainment. And in what cannot be a surprise, the regions with the third- and eighth-ranked educational attainment nationally are in the San Francisco Bay Area, and notably have the first- and third-ranked GDP per capita.

Just 80 miles inland, five regions in the San Joaquin Valley are in the bottom 10 of educational attainment (among the 150 U.S. metropolitan areas), and also scrape the bottom in per capita GDP.

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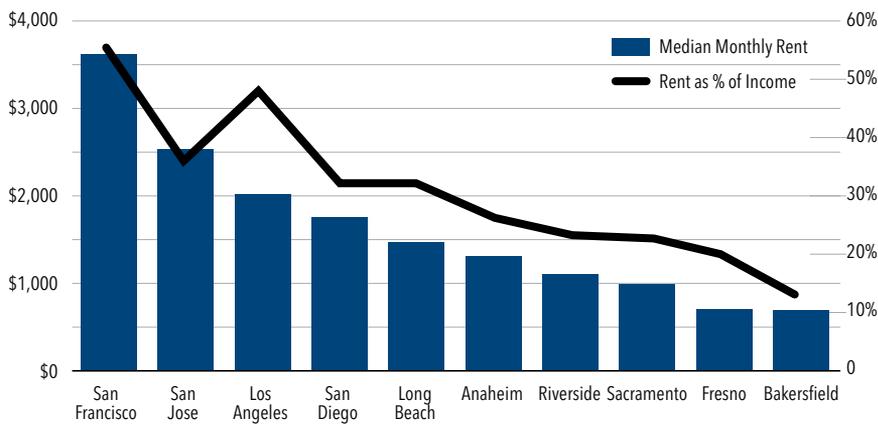
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### 1-Bedroom Apartment Rents



For Californians 25 years of age and over who do not possess four-year college degrees, 469,800 residents left the state mainly because they could no longer afford to live here. On the other hand, California was a net importer of 52,700 residents with a bachelor’s degree or higher.

California’s research universities are magnets for top students and global companies that hire them. It is no coincidence that the regions of California with the lowest unemployment and highest economic success are those that are home to our research universities.

Certainly, not everyone can achieve a four-year higher education degree, but we should expand opportunities and enhance workforce training to higher-skilled, well-paid careers that don’t require a four-year degree.

Still, economic success breeds its own problems, even in Metro California. A high cost of living is driven in large part by housing shortages and long commutes, which in turn can be addressed only through an increased housing supply and more infrastructure investment.

Increasing opportunity and offering everyone a slice of the pie is within reach of the state leaders. Lawmakers should start with these five goals:

### Expanding Opportunity

#### 1. Invest in Transportation and Water Infrastructure.

A robust transportation system is necessary in every state, but water infrastructure is especially important in California. The Governor’s proposal to build a Delta conveyance system is critical to satisfying our long-term urban and agricultural water needs.

California’s gas tax, the primary source of revenue for our transportation infrastructure, hasn’t been increased in more than 20 years. Add to that a significantly more fuel-efficient auto fleet (including cars that use no gasoline) and the result is a \$59 billion shortfall in deferred road maintenance. Faced with a choice of raising taxes, creating debt or using tax surpluses, the Legislature has been frozen and unable to find a solution.

Lawmakers must heed the Governor’s call to ramp up highway and transit funds and modernize fee-for-service road financing, such as putting a highway user fee on electric vehicles that currently do not provide any financial contribution to our transportation system.

#### 2. Increase Housing Supply.

The only solution to the high cost and severe shortage of housing is to increase supply. California’s environmental and land use laws undermine this imperative to build more housing. Policymakers now favor housing developed in dense, urban areas near transit corridors, but have

not in turn reduced the permitting, zoning and litigation burdens that accompany most new development. The California Environmental Quality Act (CEQA) adds years of delay and new costs to new housing and its accompanying infrastructure. Lawmakers should take every opportunity to expand our housing footprint or housing costs will continue to stifle economic growth for future generations.

#### 3. Make Energy More Affordable.

Higher energy prices will continue to add to California’s cost of living and detract from our competitiveness unless climate change laws incorporate more cost-effective, market-based approaches to reduce greenhouse gas emissions. In order to show the rest of the United States that climate change regulations can be both effective and affordable, we must adopt a cap-and-trade mechanism to replace command-and-control regulations. Moreover, a regionalized electric utility marketplace can partly mitigate the higher costs of renewable power.

#### 4. Update Labor Laws and Reduce Litigation.

California’s employment laws, wage orders and regulations have not kept pace with the evolution of the workplace, technology-based services, workers’ needs or changes in our labor force. Labor rules developed for the industrial age have become a hindrance in the digital age. These archaic regulations hinder new workplace models that utilize independent contractors, discourage flexible, family-friendly work design, and put store fronts at a disadvantage vis-à-vis digital presences. These laws put employers at risk for labor law violations, penalties and legal costs, no matter that employees might benefit.

Where there are legitimate disputes, we must protect the ability of employers and employees to resolve those disputes expeditiously and inexpensively by maintaining existing arbitration avenues.

#### 5. Invest in Education and a Skilled Workforce.

Besides the weather, California’s greatest competitive advantage is our skilled workforce. But unlike the weather, inattention to nurturing this workforce will squander that advantage.

The Legislature should continue improving state support for California's universities and colleges to moderate tuition increases and restore our qualitative advantage. Policymakers should continue investment in high school work-based learning initiatives, which allow students to apply their classroom learning in a professional setting to gain real-world experience and relevance.

California is a wealthy state with great natural and intellectual resources. It is within the power of state leaders to foster growth and increase opportunity—not merely to defend what some have already achieved.



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