CALIFORNIA'S POLICY EUREKA ECONOMICS, AND POLITICS

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INTRODUCTION

Forget About the Weather: In California, Everybody Talks About Livability—But Nobody Does Anything About It

By Bill Whalen

A funny thing about California: in the 1950s, it was a nice place to visit, but you didn't necessarily want to live there.

Remember when the cast of *I Love Lucy* came West, to mix and mingle with the Hollywood set? Lucy and Ricky and Fred and Ethel had their fill of sunshine and celebrities, only to return to their cozy apartments on Manhattan's Upper East Side (technically, the address had the Ricardos and Mertzes living in the East River).

In the 1960s and 1970s, California became a place to lay down sitcom roots. Steve Douglas, the patriarch of *My Three Sons*, was an aeronautical engineer who'd relocated to Southern California. And you might recall *The Brady Bunch* living *en masse* in a split-level house (a rather uninspiring home for a fictional architect) that in reality is a five-bedroom, three-bath spread in North Hollywood.

There's still a California presence on television today—for example, the three broods in ABC's *Modern Family* are scattered around Los Angeles. Another hip sitcom, *Blackish*, features an African American family living in the San Fernando Valley (the real-life home for the fictional Johnsons is in Sherman Oaks). But for families not residing in Television Land, California doesn't come equipped with a laugh track.

And that begins with one central problem: livability.

In March, Southern California's median home price jumped 8.4% to a new record of $519,000 for new and resale houses and condos. The old record for the six-county region was set back in December: $509,500.

The situation is no easier up north. San Jose has what is arguably the nation's most competitive housing market—the largest price growth in America in fact, increasing 32.3% year-over-year to $1,263,500. Perhaps you saw the story about the condemned home in neighboring Fremont. Despite holes in the roof and mildew in the pipes, the three-bed/two-bath listing sold for $1.23 million. That was $230,000 over the asking price.

What do the winning bidders have in mind? Tearing down the current place, replace it with a bigger "greener" version, and putting the transformed property back on the market.

As one might imagine, the high cost of housing in California comes with a very human price, one being the urge to flee. Per migration estimates compiled by realtor.com, sixteen of California's most popular—i.e., most expensive—counties are losing residents. Over the past decade, some one million Californians have relocated to the likes of Arizona, Nevada, Oregon, Texas, and Washington.

Meanwhile, back in the Golden State, there's the question of housing supply keeping up with demand. According to the same realtor.com report, over the past decade an average of 24.7 new housing permits were filed for every 100 new California residents. That's barely

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half the national average of 43.1 permits. And it translates to a shortage of some three million homes over the next decade.

Then again, if you're fortunate enough to find a home, good luck factoring it into your budget.

At present, California homeowners spend two dimes and one penny of every dollar of income on housing costs—the second worst rate in the nation. Renters have it even worse: nearly one-third (32.8%) of their income, which is good for 48th in the nation.

In the California of 2018, to paraphrase Mark Twain, housing has supplanted weather as the one item that everybody complains about but no one seems capable of addressing. That includes the State Legislature (more on that in a moment).

In this issue of *Eureka*, we're addressing four aspects of California and the "livability" question—how a burgeoning population will cope with the need for added living space and the prospect of ever-increasing taxes that take a toll on housing budgets.

Our contributors include:

- Alice Hill, a Hoover Institution research fellow specializing in disaster preparedness, and Bill Kakenmaster, a Hoover research assistant, analyze an increasing risk to the California existence: climate change and growing development in the wildland-urban interface (WUI).
- Bruce Thornton, a Hoover Institution research fellow and Fresno County native, writes about a California Central Valley that's politically invisible and at the moral and policy tastes of the Golden State's dot.com north and Hollywood south.
- Tom Church, a Hoover Institution research fellow, examines taxation in the Golden State—what can be done in the way of tax policy to make California easier to negotiate.
- Andrew Poat, a former California gubernatorial aide and policy expert, explains why a recent housing "fix" in the State Legislature went down to—and offers some common-sense fixes.
- We hope you enjoy this latest installment of *Eureka*—and that it gets you thinking about where California stands and whether America's nation-state is moving in the right direction.

Bill Whalen is a Hoover Institution research fellow, primarily studying California's political trends. From 1995 to 1999, Bill served as chief speechwriter and director of public affairs for former California governor Pete Wilson.

FEATURED COMMENTARY

"A New Normal": California's Increasing Wildfire Risk and What to Do About It

By Alice Hill & William Kakenmaster

As soon as it hit in October 2017, officials knew the Tubbs Fire was serious. "It's real bad," said Cal Fire Battalion Chief Marshall Tuberville. "This is an example of nature in control."

Nature had "taken control" via the hot and dry Diablo winds, known in southern California as the Santa Ana winds, which reached upwards of seventy miles per hour during the fire's spread. The winds carried the fire from Calistoga southwest into Sonoma County, just north of the city of Santa Rosa for a total distance of twelve miles.

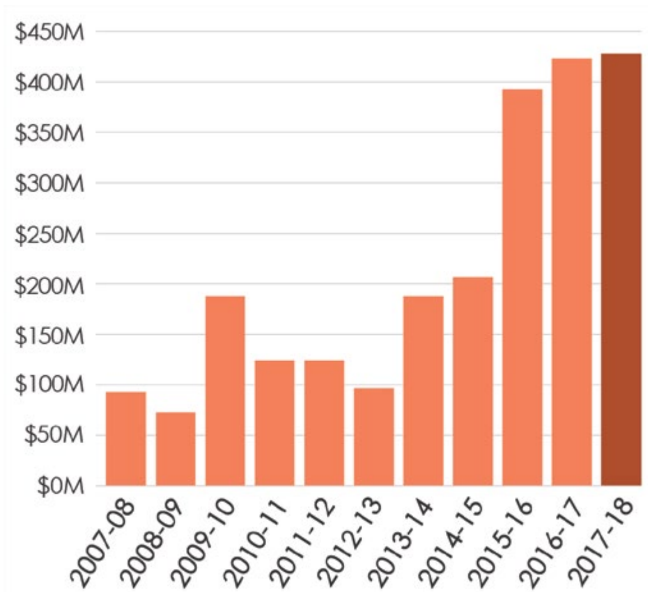
Later that year, those same winds, the "strongest and longest" of the season, fanned the flames of the Thomas Fire for ten straight days. Thomas forced over 100,000 Californians to evacuate and prompted the "largest mobilization of fire crews to fight any wildfire in California history"—over 8,500 firefighters. Riding the coattails of the worst fire season ever in California, the Thomas and Tubbs Fires ultimately scorched 6,706 buildings, rampaged across 318,700 acres, claimed twenty-three lives, and became the biggest and most destructive fires in state history, respectively.

Unfortunately, 2017 will not likely hold the record of California's worst fire season for long. In future decades, wildfires will increasingly place Californians' homes, livelihoods, and lives at risk. Many factors contribute to wildfires, but two in particular greatly contribute to increasing risk: climate change and growing development in the wildland-urban interface (WUI).

The effects of climate change are already at work aggravating fire conditions in the Golden State. Last year's punishing fires coincided with a deadly combination of extremes: drought, rain, and heat. California suffered an historic drought beginning in 2012 that, two years later, scientists found to be more severe than any other in the past 1,200 years.

After California finally declared an end to the state of emergency caused by the drought, heavy winter rains spurred rapid vegetation growth. A summer heatwave then tore through Southern California, which dried out that new vegetation and turned it into kindling for the coming fire season. Surveying the devastation wrought by the 2017 epic fire season that stretched long beyond its usual wrap-up at the end of October, California Gov. Jerry Brown called extreme fire conditions "the new normal" under climate change.

CAL FIRE'S EMERGENCY FUND BUDGET



Source: Daily News, *https://www.dailynews.com/2017/12/07/rising-costs-of-fighting-wildfires-is-overwhelming-the-states-firefighting-budget*

FACTS ON THE ISSUE ☑

The Third National Climate Assessment, a consensus document produced by the federal government and mandated by Congress, predicted in 2014 that the US Southwest, including California, will experience an increase in wildfire risk due to a number of factors. According to the report, "[I]ncreased heat, drought, and insect outbreaks, all linked to climate change," pose a "huge challenge for regional management of . . . wildfire" in the American Southwest. From 1916 to 2003, climate change outweighed other factors in determining the total acreage burned, and scientific models predict up to a 74% increase in burned area in California by the end of the century under the most extreme climate change scenario.

While no single wildfire can be attributed solely to climate change, new extremes precipitated by the earth's changing climate can lead to more frequent and aggressive fires. Indeed, as compared to 1986, wildfires in the western United States have begun occurring nearly four times more often, burning more than six times the land area, and lasting almost five times as long. Of the twenty most destructive California wildfires since 1932, when the state began keeping records, eleven have occurred in the past ten years—and four of those took place just in 2017.

Wildland-Urban-Interface

But it's not just climate change that increases the risk of wildfire destruction—it's where and how people decide to live. The space "where houses and wildland vegetation meet," also known as the wildland-urban interface (WUI), is among the highest at-risk areas in California when it comes to wildfire.

In 2010, California had more people and homes located in the WUI than any other state in the continental United States—close to 4.5 million homes and 11 million people. The "fastest-growing land use type" in the continental United States, the WUI swelled by almost a thousand square miles in California alone between 1990 and 2000. Nationwide, 60%of all new home construction between 1990 and 2016 took place in the WUI. Across the country, the federal government owns or leases over 6,200 buildings located in the WUI, which President Obama sought to protect in 2016 by issuing a WUI building standard for federal facilities.

Increased wildfire risk fueled by development in the WUI and climate change endangers Californians' lives and livelihoods. Forestry scientists in 2009 ran 6,000 simulations of fire models to test the effect of normal and extreme weather conditions on wildfire risk in the WUI. "As expected," the researchers wrote, "extreme weather conditions yielded higher burn probabilities."

But wildfire risk doesn't just escalate theoretically as weather conditions become more extreme in a changing climate—the actual losses are mounting. According to the National Institute of Standards and Technology (NIST) at the US Commerce Department, "Fires within communities surrounded by natural areas [the WUI] are the most dangerous and costliest fires in North America." The cumulative cost of billion-dollar wildfires in the United States (wildfires causing more than $1 billion in damages) has risen from $6 billion in 1991 (the first year one was recorded) to $18 billion in 2017. California Insurance Commissioner Dave Jones reported that as of January 2018 insurers had received $11.7 billion in claims from the 2017 fire season, making it "one of the most damaging natural catastrophes in California history."

Wildfire Risk

California has been at the forefront of taking action to protect itself against wildfire risk. The preamble to its government code regarding fire hazard zones makes clear that wildfires pose a serious threat to the preservation of the public peace, health, and safety. Because "embers, or firebrands, travel far beyond the area impacted by the [wildfire] front . . . [they] pose a risk of ignition to a structure or fuel on a site for a longer time." Cal Fire, the state agency responsible for fire protection, creates maps that reflect fire risk across the state, designating areas as moderate, high, or very-high-risk.

Unsurprisingly, California state code requires property owners in fire hazard zones to take additional steps to protect against fire risk. They further require home sellers to disclose fire risk to buyers if they ever decide to sell their home. And of course, unless local communities enforce the code, the protections may be ephemeral. As Julie Rochman, former president and CEO of the Insurance Institute for Business and Home Safety, has said, "Good building codes have little value if they are not well-enforced."

The state still has lots of work to do to protect against wildfire. One place in need of immediate attention is the state's mapping effort. Cal Fire's maps, last updated in 2007, account for factors such as vegetation, fire history, and topography, but they don't yet take into account future risk based on extreme weather conditions and climate change.

These shortcomings leave local communities vulnerable to underestimating their wildfire risk—communities like Coffey Park in Santa Rosa. Coffey Park, comprised more of asphalt than scrub oak, largely considered itself safe from wildfires before 2017. In fact, when Santa Rosa adopted a "modified version" of Cal Fire's 2007 fire maps, Coffey Park was excluded from the very-high-risk category. The neighborhood was therefore exempt from stricter state code requirements meant to keep it safe from conflagration. But the Tubbs Fire devoured Coffey Park overnight on October 10th, 2017, as well as the nearby enclave of Fountaingrove, which has now burned to the ground twice in just over fifty years. Some local officials wonder if they should rebuild Fountaingrove at all.

WUI fires differ from traditional wildfires and pose enormous challenges for firefighters. Researchers are beginning to learn more about what makes them so difficult to fight. In 2012, the Waldo Canyon Fire torched 344 homes in the Mountain Shadows Community of Colorado Springs, Colorado, turning 95% of them to ash in just six short hours.

NIST studied the Waldo Canyon Fire for two years and documented their findings in a report that could inform California's efforts to enhance resilience in the WUI. First, the report observed that WUI fires can create "cascading ignitions" wreaking havoc on buildings spaced too close together. Scientific research has confirmed that, over the past thirty years, housing density has consistently been one of the "most influential human factors" on wildfire ignition in Southern California.

Second, WUI fires "mainly spread through wind-blown embers rather than direct flame propagation." Third, homes built out of combustible materials "represent significant hazards" to themselves and others, even when first responders are at "peak deployment." Burbank Fire Captain Peter Hendrickson has said that wood shake roofs are "basically like having a pile of firewood on top of your house."

Fourth, aggressive pre-fire mitigation makes a world of difference in reducing communities' wildfire risk. Cost-benefit analyses have shown that, on average, every $1 spent on mitigating the risk of WUI fires up front saves between $3 and $4 in damages. In some neighborhoods affected by the Waldo Canyon Fire, that cost-benefit ratio was as high as 1:257.

California's Choice

Fires that take place in the WUI, different as they are from traditional wildfires, can play a role in increasing firefighting costs. Last year's fires set a state record for firefighting costs, which have steadily taken up a larger and larger chunk of spending over the years.

Since 2007, the amount Cal Fire has set aside for emergency spending has risen from $92 million to over $400 million—and firefighting expenses have gone over budget in nine of the past ten years. The think tank Headwater Economics has estimated that 14% of the available WUI area in eleven Western US states is currently developed, and if just half of the remaining WUI area were developed, "annual firefighting costs could escalate to $4.3 billion per year." While the main goal of fire management is protecting people's lives and safety, a 2007 audit of US Forest Service expenditures found that a majority of firefighting costs go directly towards "protecting private property in the WUI."

In light of the accelerating risk and cost of fires in the WUI, California has a choice. The state can get serious about reducing wildfire risk—or not. Policy recommendations to reduce California's risk include: updating the state's map of fire hazard zones on a regular, frequent basis and incorporating the effects of future climate change on fire risk when designating fire hazard zones; regularly monitoring compliance and increasing enforcement of building codes with special attention to fire prevention measures in very-high-risk fire hazard severity zones; developing firefighter response time thresholds based on WUI-specific exposures and vulnerabilities; increasing outreach to homeowners regarding their risks and incorporating scientifically informed knowledge of wildfires into public awareness information regarding the risk of fires in the WUI; exploring the creation of incentive mechanisms to increase fire prevention measures in older homes such as replacement of wood shake roofs and wooden soffits; exploring the creation of incentive mechanisms to reduce further development in at-risk areas; increasing WUI firefighting training; improving early warning systems to inform residents of fires; and establishing clear evacuation routes and designing communities to ensure multiple ingress and egress routes.

Wildfire has always been a part of the California landscape. When Spanish conquistadores first glimpsed the coast of modern-day Los Angeles on October 8th, 1542, they likely expected some clear sign of prosperity. Perhaps the mythical glimmer of the Seven Cities of Gold or the fabled Strait of Anián that could carry ships through to Asia.

Instead, the Spanish encountered a pall of smoke that billowed up from raging wildfires on land and hung like a shroud over the blackened sky. They named the place where they laid anchor the "Bay of Smoke." Hundreds of years later, on the exact same day, October 8th, the Tubbs Fire ignited and began its tear across California's wine country.

Devastating fires are nothing new in California state history, and from everything we know, they will remain a constant force. However, a future filled with more and more destructive wildfires, each outdoing the last, is not inevitable. The state can make choices now that will help keep it safer in the future.

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William Kakenmaster is a Hoover Institution research assistant. A graduate of American University, he was editor in chief of the school's research journal, *Clocks and Clouds*, and founder and executive editor of its undergraduate policy magazine, the *World Mind*.

CalNotes

Speaking of climate change, after a vote by the California Energy Commission, California is now the first state to make solar panels mandatory on most newly built homes—the latest effort to ensure that at least half of California's electricity comes from noncarbon-producing sources by 2030. At present, roughly one in five Golden State single-family homes is constructed with solar capacity built in. The new mandate applies to all dwellings up to three stories in height that obtain building permits starting in the next decade. Exceptions could be made for homes shaded by trees or buildings, or homes with roofs too small to accommodate solar panels. Meanwhile, debate continues over the Crimson solar project east of Joshua Tree National Park, near the Arizona border. If completed, it would constitute 350 megawatts of solar power—triple the size of Tesla's 100-megawatt Powerpack "battery" at a wind farm north of Adelaide in South Australia (a second battery Down Under is in the works). But there's a snag to the California dreaming: as the land sits near the Colorado River Indian Tribes Reservation, state and federal officials will have to strike a balance between energy independence and native culture.

Life in the Central Valley—i.e., the Invisible California

By Bruce Thornton

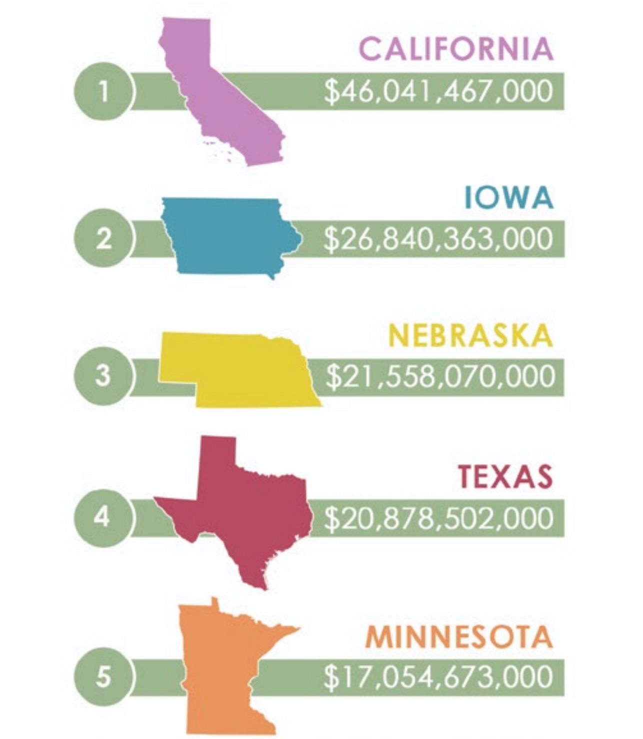
In 1973, as I was going through customs in New York, the customs agent rifling my bag looked at my passport and said, with a Bronx sneer, "Bruce Thornton, huh. Must be one of them Hollywood names."

Hearing that astonishing statement, I realized for the first time that California is as much an idea as a place. There were few regions in America more distant from Hollywood than the rural, mostly poor, multiethnic San Joaquin Valley where my family lived and ranched. Yet to this New Yorker, the Valley was invisible.

Coastal Californians are sometimes just as blind to the world on the other side of the Coast Range, even though its farms, orchards, vineyards, dairies, and ranches comprise more than half the state's $46 billion agriculture industry, which grows over 400 commodities, including over a third of the country's vegetables and two-thirds of its fruits and nuts.

Granted, Silicon Valley is an economic colossus compared to the ag industry, but agriculture's importance can't be measured just in dollars and cents. Tech, movies, and every

TOP 5 AGRICULTURAL STATES IN CASH CROP RECEIPTS 2016



Source: California Department of Food & Agriculture, https://www.cdfa.ca.gov/Statistics/PDFs/2016-17AgReport.pdf

FACTS ON THE ISSUE ☑

other industry tends to forget that their lives and businesses, indeed civilization itself, all rest on the shoulders of those who produce the food. You can live without your iPhone or your Mac or the latest Marvel Studios blockbuster. But you can't live without the food grown by the one out of a 100 people who work to feed the other 99.

A Politically Invisible Valley

Living in the most conservative counties in the deepest-blue state, Valley residents constantly see their concerns, beliefs, and needs seldom taken into account at the state or federal level. Registered Democrats in California outnumber registered Republicans by over 19%, and the State Legislature seats about twice as many Democrats as Republicans (California's one of only eight states nationwide with a trifecta of a Democratic and two Democratic controlled legislative bodies).

California's Congressional delegation is even more unbalanced: in the House of Representatives, currently there are fourteen Republicans compared to thirty-nine House Democrats (at least half of those GOP districts are in danger of turning blue this fall); half the Republicans represent Central Valley districts, none bordering the Pacific Ocean. The last elected Republican US Senator left office in 1991. The last Republican governor was the politically light-pink action-movie star Arnold Schwarzenegger, whose second term ended in 2011.

This progressive dominance of the state has led to policies and priorities that has damaged its agricultural economy and seriously degraded the quality of life in the Valley.

Despite a long drought that has diminished the runoff of snow from the Sierra Nevada, projects for dams and reservoirs are on hold, seriously impacting the ag industry that relies on the snowmelt for most of its water. Worse yet, since 2008, a period including the height of the drought, 1.4 trillion gallons of water have been dumped into the Pacific Ocean to protect the endangered Delta Smelt, a two-inch bait-fish. Thousands of agricultural jobs have been lost and farmland left uncultivated, all to satisfy the sensibilities of affluent urban environmentalists. And even after a few years of abundant rain, Valley farmers this year are receiving just 20% of their South-of-the-Delta water allocation.

Or take California's high-speed rail project, currently moribund and $10 billion over budget just for construction of the easiest section, through the flat center of the Valley. Meanwhile, State Highway 99, which bisects the Valley from north to south for 500 miles, is pot-holed, inefficient, and crammed with 18-wheel semis. It is the bloodiest highway in the country, in dire need of widening and repair. Yet to gratify our Democratic governor's high-tech green obsession, billions of dollars are being squandered to create an unnecessary link between the Bay Area and Los Angeles. That's $10 billion that could have been spent building more reservoirs instead of dumping water into the ocean because there's no place to store it.

The common thread of these two examples of mismanagement and waste is the romantic environmentalism of the well-heeled coastal left. They serially support government projects and regulations that impact the poor and the aged, who are left to bear their costs.

The same idealized nature-love has led to regulations and taxes on energy that have made California home of the third-worst energy poverty in the country. In sweltering San Joaquin Valley counties like Madera and Tulare, energy poverty rates are 15% compared to 3–4% in cool, deep-blue coastal enclaves. Impoverished Kings County averages over $500 a month in electric bills, while tony Marin Country, with an average income twice that of Kings County, averages $200. Again, it's the poor, aged, and working class who bear the brunt of these costs, especially in the Valley where temperatures regularly reach triple digits in the summer, unlike the coast, where the clement climate makes expensive air-conditioning unnecessary.

Deteriorating Quality of Life

It's no wonder then that Fresno, in the heart of the Valley, is the second most impoverished city in the poorest region of a state that has the highest poverty levels in the country and one of the highest rates of income inequality. Over one-fifth of its residents live below the poverty line, and it has the worst child poverty in California.

The greatest impact on the Valley's deteriorating quality of life, however, has been the influx of illegal aliens. Some are attracted by plentiful agriculture and construction work, and others by California's generous welfare transfers—California is home to one in three of the country's welfare recipients—all facilitated by California's status as a "sanctuary state" that regularly releases felons rather than cooperate with Immigration and Customs Enforcement (ICE). As a result, one-quarter of the country's illegal alien population lives in California, many from underdeveloped regions of Mexico and Latin America that have different social and cultural mores and attitudes to the law and civic responsibility.

The consequences of these feckless policies are found throughout the state. But they are especially noticeable in rural California. There high levels of crime and daily disorder—from murders, assaults, and drug trafficking, to driving without insurance, DUIs, hit-and-runs, and ignoring building and sanitation codes—have degraded or, in some cases, destroyed the once-orderly farming towns that used to be populated by earlier immigrants, including many legal immigrants from Mexico, who over a few generations of sometimes rocky coexistence assimilated to American culture and society.

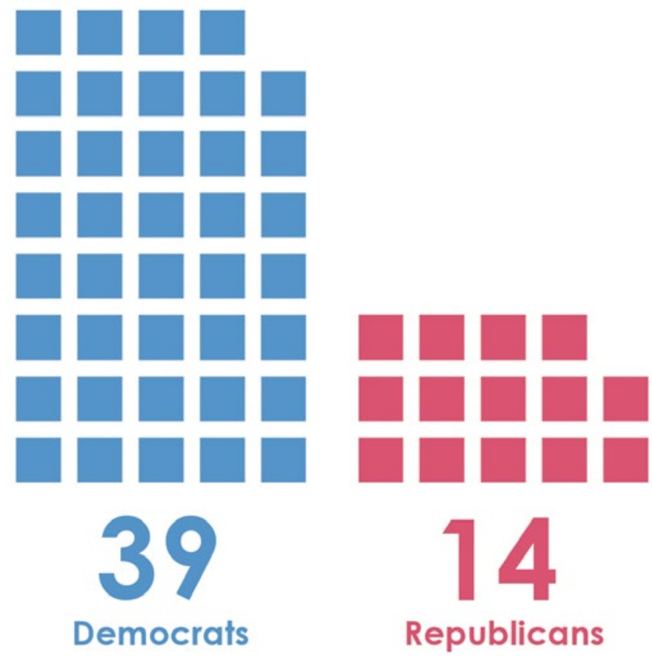
Marginalized Cultural Minorities

More broadly, the dominant cultures and mores of the dot.com north and the Hollywood south are inimical to those of the Valley. Whether it is gun-ownership, hunting, churchgoing, or military service, many people in the San Joaquin Valley of all races are quickly becoming cultural minorities marginalized by the increasingly radical positions on issues such as abortion, guns, and religion.

Despite the liberal assumption that all Hispanics favor progressive policies, many Latino immigrants and their children find more in common with Valley farmers and natives with whom they live and work than they do with distant urban elites.

Indeed, as a vocal conservative professor in the local university (Fresno State), I have survived mainly because my

CALIFORNIA HOUSE OF REPRESENTATIVES



students, now more than half Latino and Mexican immigrants or children of immigrants, are traditional and practical in a way that makes them impatient with the patronizing victim-politics of more affluent professors. They have more experience with physical labor, they are more religious, and, like me, they are often the first in their families to graduate from college. As I did with the rural Mexican Americans I grew up with, I usually have more in common with my students than I do with many of my colleagues.

And this is the great irony of the invisibility of the "other" California: the blue-coast policies that suit the prejudices and sensibilities of the affluent have damaged the prospects of the "others of color" they claim they want to help. Overrepresented on the poverty and welfare rolls, many migrants both legal and illegal have seen water policies that destroy agricultural jobs, building restrictions that drive up the cost of housing, energy policies that increase their cost of living, "sanctuary city" policies that put back on the streets thugs and criminals who prey mainly on their ethnic fellows, and economic policies that favor the redistribution rather than the creation of wealth and jobs.

Meanwhile, the coastal liberals who tout a cosmetic diversity live in a de facto apartheid world, surrounded by those of similar income, taste, and politics. Many look down on the people whom they view as racists and xenophobes at worst, and intellectually challenged rubes at best. This disdain has been evident in the way the media regularly sneer that House Intelligence Committee Chair Devin Nunes is a "former dairy-farmer" from Tulare County, an origin that makes "the match between his backstory and his prominence" seem "wholly incongruous," per Roll Call's David Hawkings.

Finally, those of us who grew up and live in the rural Valley did so among a genuine diversity, one that reflected the more complex identities beyond the crude categories of "white" or "black" or "Hispanic."

Italians, Basques, Portuguese, Armenians, Swedes, Mexicans, Filipinos, Southern blacks, Chinese, Japanese, Volga Germans, Scotch-Irish Dust Bowl migrants—all migrated to the Valley to work the fields and better their lives. Their children and grandchildren went to the same schools, danced together and drank together, helped round up each other's animals when they got loose, were best friends or deadly enemies, dated and intermarried, got drafted into the Army or joined the Marines—all of them Americans who managed to honor their diverse heritages and faiths, but still be a community. Their most important distinctions were not so much between races and ethnicities, though those of course often collided, but between the respectable people—those who obeyed the law, went to church, and raised their kids right—and those we all called "no damned good." Skin-color or accents couldn't sort one from the other.

What most of us learned from living in real diversity in the Valley is that being an American means taking people one at a time.

That world still exists, but it is slowly fading away—in part because of the policies and politics of those to our west, who can see nothing on the other side of the Coast Range.

Bruce S. Thornton is a Hoover Institution research fellow and a professor of classics and humanities at California State University, Fresno. He is also author of nine books on various topics and numerous essays and reviews on Greek culture and civilization and their influence on Western civilization.

CalNotes

Any conversation about the economic future of the Central Valley entails the fate of California's High Speed Rail Authority, now facing a pivotal 2018. The current plan calls for 119 miles of bullet-trail line from Bakersfield to Madera—the middle of a system that ultimately will connect California's metropoles north and south. That segment is behind schedule and over budget (from $7.8 billion to $10.6 billion). The overall cost has yo-yoed from an original estimated $42.6 billion nearly a decade ago, to $98.1 billion earlier this decade, back down to $68.4 billion after some tinkering on the San Francisco end of the project, then back up to $77 billion two years ago (with an outside chance of surpassing 12 figures by the time the entire system is built). There's also the matter of jurisprudence. To date, about a half-dozen lawsuits have been filed challenging environmental impact reports for the Central Valley. One obstacle to building plans: the good folks who provide your moo juice. There are sixteen dairies between Fresno and Bakersfield that lie in the train's path. Got high-speed rail, or got milk?

Did the Trump Tax Cut Leave Middle-Class Californians Better or Worse Off?

By Thomas Church

Nearly half a year after the federal Tax Cuts and Jobs Act of 2017 was signed into law, California residents are still trying to figure out what it means for them.

Many Americans were warned that it would only benefit wealthy Americans and that Californians were in for tax increases because of new limits on state and local tax (SALT) deductions. That would mean middle-class Californians are in for a double whammy when they calculate their taxes early next year.

But how true is that?

First, let's be clear about what the tax law changed.

It traded lower marginal income tax rates for fewer deductions, nearly doubled the standard deduction used to lower taxable incomes, and cut corporate tax rates to internationally competitive rates—all at an average cost of around $150 billion a year in lost federal tax revenue.

For the average American, it was a tax cut. But the big question is if the new, lower rates are enough to offset the deductions individuals can no longer take in high-tax blue states like California.

The new standard deduction is certainly going to make filing taxes simpler for many Americans. About 30% of Americans used to itemize deductions on their taxes, but that will drop to less than 10% with the new standard deductions, which have almost doubled to $12,000 and $24,000 for single and married filers.

California residents may still end up squeezed though because they are no longer allowed to deduct more than $10,000 of state and local taxes. New property owners are likely in for more of a squeeze than renters as they'll hit the cap faster when adding together income and property taxes.

A renter in Utah, for example, would have to make over $200,000 in order to hit the $10,000 SALT limit with income taxes alone. In California, that same individual hits the limit at $140,000 of income. Single individuals need an additional $2,000 in deductible expenses (mortgage interest, charitable giving, or others) in order to justify itemizing and lowering their tax bill; married filers need an additional $14,000 to begin itemizing.

How about middle-class Californians in general?

To figure out how they're faring under the tax cut, it would help to first define what middle class means. And that's half the problem. A recent Brookings Institution study looked at a dozen different ways "middle class" has been measured, and noted that it can even extend past income to a person's credentials or culture.

Self-definitions are even more varied. A recent survey of residents in Palo Alto, the Silicon Valley city adjacent to Stanford University, showed a median income of $137,000, disqualifying half of residents from the middle class in half of the definitions reviewed in the Brookings Institution study. (Notably, only four of 250 surveyed listed themselves as upper class; 62% self-described as middle- or upper-middle class.)

No matter what measure you choose, it's clear that the middle class is relatively large. Using the middle sixty percentiles of household income definition puts 23 million of California's nearly 40 million people in the middle class.[1]

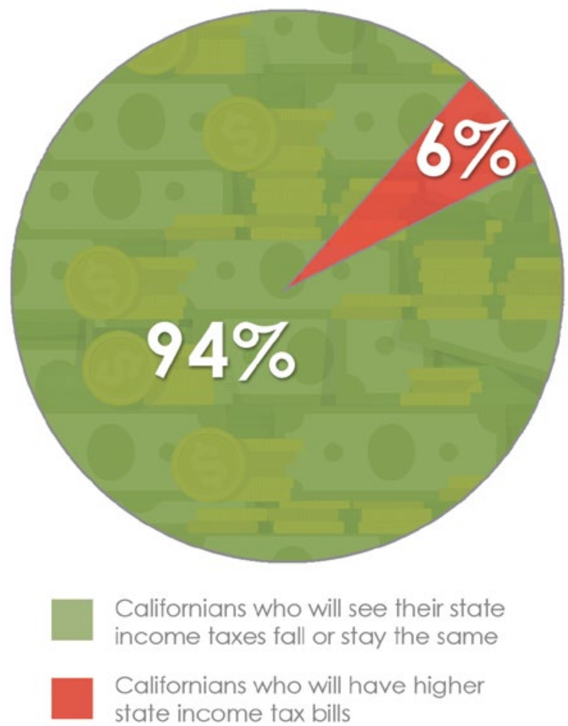
And ultimately, distributional analysis at the federal level by the Tax Policy Center found that every income group is, on average, getting a tax break—for at least the first few years. Even a majority of those affected by the SALT caps will see lower taxes.

While California residents won't get as favorable of treatment as low-tax states, the average taxpayer here should have a slightly smaller bill. At least, that's what California's Franchise Tax Board found when it made a recent estimate of how the 2017 tax bill would affect taxpayers in our state.

Some findings include the following:

- Many more people will simplify their tax returns and take the higher standard deduction instead of itemizing their returns. While 5.9 million Californians itemized in 2015, only about 1.6 million are expected to in 2018.[2]
- About 2.6 million of California's over 16 million taxpayers[3] who previously deducted over $10,000 in state and local taxes will now face the cap. Of those 2.6 million, 370,000 earned less than $100,000. In fact, there were more taxpayers whose itemizations were greater than $10,000 earning under $100,000 than there were taxpayers who earned more than $500,000.[4]
- In addition to the millions of taxpayers with less than $10,000 in SALT deductions, lower taxes are in store for about 1.5 million of those 2.6 million with a lot of deductions.

MIDDLE CLASS EARNINGS



Source: Mercury News, *https://www.mercurynews.com/2018/02/23/me-rich-heres-what-palo-altans-think-about-themselves*

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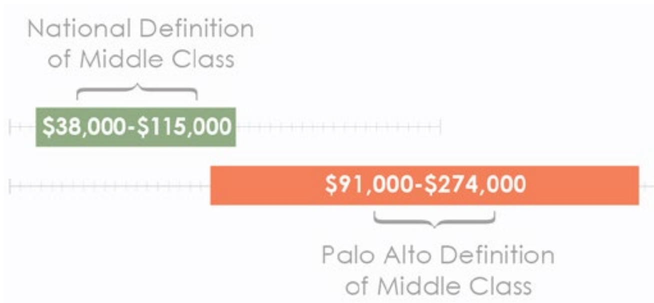
FEDERAL TAX CUTS



Source: State of California Franchise Tax Board, https://www.ftb.ca.gov/law/legis/Federal-Tax-Changes/CAPreliminaryReport3Provisions-Revise.pdf

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- Only about 1 million taxpayers total will have a higher tax bill, and they're disproportionately wealthy. Those million will pay about $12 billion in higher taxes. Nine percent of that tax increase will fall on taxpayers who earn under $100,000, and that's mostly because they have a lot of deductions.[5] A full three-quarters of those with higher taxes will come from earners who make over $1 million.

That point probably bears repeating: while their federal income taxes might fall, there are 43,000 millionaires in California who will pay an average of $200,000 in higher income taxes to the state.[6] That's why several other high-tax blue states have passed attempts at restoring deductions above the $10,000 cap by allowing unlimited "charitable deductions" to the state.

The SALT deductions will squeeze some high-income taxpayers in California, but the vast majority of taxpayers will experience the tax concept of broadening the base and lowering the rates to a positive effect on their take home pay—that is, until it comes time to pay back the federal government's mounting debt.

1 Current Population Survey, United States Census Bureau, March 2017 (author's calculations). Accessed May 14, 2018. https://thedataweb.rm.census.gov/ftp/cps_ftp.html

2 "Preliminary Report on Specific Provisions of the Federal Tax Cuts and Jobs Act", State of California Franchise Tax Board, Table 1 and Table 4. Accessed May 14, 2018. https://www.ftb.ca.gov/law/legis/Federal-Tax-Changes/CAPreliminaryReport3Provisions-Revise.pdf

3 "2016 Annual Report—Statistical Appendix Tables, Table B-1" State of California Franchise Tax Board. Accessed May 14, 2018. https://www.ftb.ca.gov/AboutFTB/Tax_Statistics/Reports/2016/Annual-Report.shtml, https://www.ftb.ca.gov/AboutFTB/Tax_Statistics/Reports/2016/B-1.pdf

4 "Preliminary Report on Specific Provisions of the Federal Tax Cuts and Jobs Act," Table 3.

5 "Preliminary Report on Specific Provisions of the Federal Tax Cuts and Jobs Act," Table 5.

6 "Preliminary Report on Specific Provisions of the Federal Tax Cuts and Jobs Act," Table 5.

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CalNotes

How do Californians feel about higher taxes? We'll have a better idea come Election Day, when voters will decide whether to repeal the state's Senate Bill 1. Enacted last year, it added 12 cents per gallon for gasoline in the Golden State and 20 cents for diesel (the first such hike in a dozen years), as well as increasing vehicle license fees. The repeal offers Californians this choice: paying less at the pump, or a smoother ride. The fuel-tax increase raises about $5.2 billion annually for road—sadly, just a down payment for a nation-state with an estimated $130 billion backlog in road, highway, and bridge maintenance. The campaign against the gas tax could also be a preview to another big tax brawl coming California's way: revisiting the state's fabled Proposition 13 and its property-tax limits approved forty years ago. One possibility: a ballot initiative in 2020 that would end the Prop 13 protections for commercial and industrial businesses with fifty-plus employees with the proceeds going to public schools. Which is exactly how the last two successful tax increases—2012's Prop 30 and 2016's Prop 55 succeeded: marketed in large-turnout presidential years as a tonic for what ails California's schools.

How the Next Governor Can Be the Housing Czar California Needs

By Andrew Poat

The 2017 California Legislative session and 2018 Governor's campaign are both sending hopeful signs that housing supply is on the minds of policy makers and voters, and not a minute too soon.

A fresh McKinsey & Company study estimates the Golden State needs 3.5 million new homes by 2025—approximately one for every four of California's existing 12.5 million homes.

Supporting the state in meeting this ambitious goal is California's strong economy, now fifth-largest in the world, and the convenient fact that housing preferences of younger folks is shifting to the multifamily, village design our environmental policies and fast diminishing urban land supply can support.

What California needs now is a "Housing Czar" to bring these factors into alignment with five areas of reform in the complicated statewide, public/private, multifunctional processes we call the housing market.

Here are six steps for that czar to consider.

First, let's agree to work with the facts and—not pithy, but irrelevant factoids and fantasies like comparing California home prices and rents with places like Texas and Arizona.

Doing so may make eye-catching headlines and housing reports, but it poorly supports sound housing policy. Most important, they dangerously ignore the wage structure California's workforce earns—and implies large numbers of people are willing to accept a life in lower wage/lower housing price regions.

Indeed, some people are willing to relocate elsewhere. Most Californians, however, have jobs tied to the nation-state's $2.6 trillion economy, work hard to do so, and have zero interest in trading in California's quality of life for that of other states.

Instead of U-Haul rental patterns, the "factoids" to watch are threefold:

- What population will natural growth plus our economy drive?
- How many homes will that population require?
- How many housing units are we actually producing?

The aforementioned McKinsey & Company report provided answers worthy of sound policy: demand for 3.5 million new units by 2025—or 440,000 new units per year. California's actual annual production for the last decade? The *Los Angeles Times* reports 80,000 units. That imbalance of 360,000 units per year (82% of market demand) is one of several reasons why metro-California housing is so expensive.

Second: let's ratify reality.

Only the private-sector house-building industry can produce 3.5 million units of housing. All of the housing bonds ever passed in California history wouldn't put a dent in that number. Therefore, the answer must be policies that attract private investment.

Third, to coalesce that investment, a "housing czar" could leverage redevelopment agency policies that shorten land use approval processes central to home production.

McKinsey estimates such reforms could reduce the cost of housing by more than $12 billion through 2025 and accelerate project approval times by four months on average.

Such examples of acceleration are to:

- identify and adopt environmental documents for "housing hot spots";
- coordinate and facilitate marketplace proposals in the hot spots; and
- champion funding of public safety, school, transportation, health care, and other necessary infrastructure.

The good news: if California is building in already urbanized areas, the question should be building on existing assets—not funding entirely new infrastructure.

The bad news: this is sometimes more expensive than starting from scratch—and/or requires greater creativity in meeting our need.

The fourth action item: The housing czar could catalyze support in the California Legislature for housing market reform.

Again, there's good news to report: some elected officials are knowledgeable of our housing supply issue.

But unfortunately there's also bad news: many elected officials still see multifamily housing as politically dicey.

As evidence, we have Senate Bill 827 (authored by State Sen. Scott Wiener of San Francisco), characterized by the the *San Francisco Chronicle* as "proposing suspension of several local restrictions on housing developments located near transit stations and bus stops along high-traffic routes" . . . that "should have been noncontroversial."

Had it become law, SB 827 would have stimulated construction of mid-rise developments and increased the state's housing stock. The sad part: it never got beyond the Senate Housing and Transportation Committee, which voted 6–4 to block the measure.

The fifth action item: Better data to make more sound policy.

California's state and local policy makers need better assessments, and well-crafted reform proposals, of the painfully long-term home building supply chain.

Policy makers, the housing industry, and the public would all be better served by refocusing housing reports to be a bi-annual update on the housing supply chain in each of California's six metropolitan regions: housing units needed at all market/price levels relative to units planned, permitted,

CALIFORNIA HOUSING DEMAND

Source: LA Times, *http://www.latimes.com/business/hiltzik/la-fi-hiltzik-housing-crisis-20180330-story.html*

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or in construction, with exploration of critical construction, financing, infrastructure, and other related issues.

Perhaps most important, if that ratio of units in construction to units needed is "less than one," state and local policy makers would have the option to intervene with policies and projects to bring long-term production into balance.

Some solutions might be location specific—others might be appropriate for regional or statewide adoption.

A final policy admonition: Let's understand what state housing bonds do and don't do.

To be clear, California needs housing bonds. And voters should approve them when needed—for example, the $4 billion bond on the November ballot to enable low-income housing development and subsidize home loans for California veterans.

Housing bonds cannot, by their limited funding, address 12.5 million units of housing demand for the larger population. All the housing bonds ever passed in California history couldn't make a dent in the market demand we now have.

The California housing market is in the midst of significant changes, driven by land-scarcity, generational updates in housing/community design preferences, and new standards for environmental stewardship. To extend California's high quality of life, we must both protect and evolve California's famed quality of life.

These six policies can help our next governor become the housing Czar we need to do so. Let's hope he or she chooses to do so.

Andrew Poat served as vice president of the San Diego Regional Economic Development Corporation, chief deputy director of the California Department of Transportation, plus appointments as Cabinet Secretary for former California gov. Pete Wilson and deputy director of the US Office of Consumer Affairs.

CalNotes

Befitting a state rich and poor: while some Californians struggle to find affordable housing, others look to show a little flair. One example: a firm in Bay Area suburban Novato (it's north of the Golden Gate Bridge) that specializes in sheds styled after the famed California developer and designer Joseph Eichler. If you're not familiar with Eichler, you can find his work scattered around the Golden State—some 11,000 homes he built beginning in the 1940s (Eichler passed away in 1974). Trademark Eichler features: airy spaces, glass walls, radiant-heat floors—all promoting a very California indoor-outdoor lifestyle. Half-a-century ago, Eichler homes built in Santa Clara Valley (Silicon Valley's nesting grounds) would have fetched about $40,000. Last fall, the Los Altos History Museum (the town where Steve Jobs and Steve Wozniak first worked out of a garage) ran an "Eichler Homes: Modernism for the Masses" exhibition. The median sale price of a single-family home in the museum's ZIP code: $3,525,000—almost ninety times the original asking price. Not a bad investment in the land of instant wealth.

EUREKA

ABOUT THE PUBLICATION

Eureka was created to serve as an occasional discussion of the policy, political, and economic issues confronting California. Like the Golden State motto from which this forum's title was borrowed, the goal here is one of discovery—identifying underlying problems and offering reasonable and common-sense reforms for America's great nation-state.

Ever since Archimedes supposedly first uttered the word, *eureka* has meant joy, satisfaction, and a sense of accomplishment. Drawing on the combined wisdom of Hoover's policy experts and leading California thinkers, we hope that you'll find enlightenment in these pages. Hoover research fellow Bill Whalen, who has nearly two decades of experience in California politics and public policy, serves as this forum's editor.

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