



EXECUTIVE SUMMARY

The State of the Region 2006 focuses on the performance of Southern California since 2000, particularly in 2005. As documented in the previous State of the Region Reports, the SCAG region lost significant ground during the 1990s relative to the other large metropolitan regions particularly in the areas of employment, income and educational attainment. For example, among the 17 largest metropolitan regions in the nation, Southern California's per capita income ranking dropped from 7th highest in 1990 to 16th in 2000. This was primarily due to the economic and demographic transformations occurring in the region. They included the 1991-1994 recession, the most severe one since the Great Depression accompanied by record levels of residents leaving Southern California as well as influx of immigrants. Nevertheless, during the same decade, the region was able to achieve significant progress in improving air quality and reducing violent crimes.

Since the 2001 national recession, the SCAG region did not achieve any meaningful growth in employment and per capita in-

come until 2004, nevertheless, it performed somewhat better than the rest of the nation between 2001 and 2004. The 2001 recession, which centered on the high tech industries, impacted other large metropolitan regions more severely than the SCAG region. Since 2005, the rest of the nation has achieved full recovery and entered into an expansion stage following the SCAG region.

Also since 2001, the dynamics in the housing and energy markets generated broad impacts on the performance of the region. Between 2001 and 2005, median home prices across the region generally doubled, while gasoline prices increased by almost 60 percent, from \$1.60 to \$2.50 per gallon. While housing price surges provided stimulus to economic growth, energy price increases, particularly since 2004, have begun to constrain growth as evidenced by, for example, the slowing growth in taxable sales.

During 2005, the region experienced mixed performance in most issue areas addressed in the report including, for example,

employment, income, and air quality. For example, with respect to job market performance, benefits from the job base expansion and unemployment rate reductions were offset by declining job quality measured in average payroll per job. In addition, slight improvements in per capita income were tempered by the slight decline in the median household income. In 2005, steep increases in energy prices and the resulting higher cost of living limited economic growth, but also helped to stabilize the impacts of growth (e.g. traffic congestion and air pollution).

Highlights of the findings are summarized below, and discussed in depth in the main report.

1. Population growth in the region has been slowing since reaching its largest annual increase in 2001. Nevertheless, the increase of 222,000 residents in 2005 in the region still accounted for about 8 and 50 percent of the growth in the nation and the state respectively. The region also continued the demographic transformation in its ethnic composition, longer settlement of the foreign-born population, growing population share of immigrants' second-generation descendants, and the aging of the overall population.

Since 2000, population in the region has increased by almost 1.5 million or about 300,000 per year, matching the region's highest average annual increase during the 1980s. After reaching its largest annual increase in 2001 of approximately 350,000, population growth in the SCAG region slowed to 222,000 in 2005. A major factor behind the slowing growth was the recent turnaround from net domestic in-migration to net domestic outmigration, i.e. there were more people moving out of Southern California to the rest



of the nation than vice versa. This could be due to the widening gap of the cost of living, particularly with respect to housing, between the region and the rest of the nation, and the overall economic recovery in the rest of the nation. Between 2001 and 2005, overall cost of living as measured by the consumer prices index increased by almost 14 percent in the region compared to the national average of 10 percent.

By the end of 2005, the total population in the region reached over 18.2 million and would continue to rank fourth among all states following California, Texas and New York, and ahead of Florida. In 2005, the Inland Empire (Riverside and San Bernardino counties) captured almost half (48 percent)

of the total population growth in the region. As to the sources of population growth between 2000 and 2005, over half (53 percent) was due to natural increase, 42 percent was from net foreign immigration and 5 percent from net domestic migration.

There are four important demographic dynamics at work in Southern California. They include the continuing change in the ethnic composition, longer settlement of the foreign-born population, a growing share of second-generation immigrants and the aging of the overall population. All four dynamics continued through 2005. They are interrelated and together have significant implications for the future performance potential of Southern California. As to the transformation in ethnic composition, the share of the Hispanic population reached 44 percent in 2005, about a 4 percent increase from 2000 and a dramatic increase from only 10 percent in 1960. Immigrants' second-generation descendants are much younger than the rest of the population, with more than half being children under 18 years of age. The growing share of second-generation immigrants contributed to a slower pace of aging in Southern California than in the rest of the nation. Among the nine largest metropolitan regions in the nation, the SCAG region continued to be the second youngest in terms of median age (33.5) in 2005, following the Dallas region (33.2) with Boston the oldest (38.1).

2. The region achieved the lowest unemployment rate (5 percent) since 1988 with the job market continuing to expand, adding almost 120,000 jobs (1.7 percent) in 2005. However, real per capita income growth was estimated to be reduced by at least a half from 2004 to 1 percent or less, partly due to the sharp increases in energy prices and declining real average



payroll per job. Real median household income declined slightly, while poverty rates remained higher than the rest of the state and the nation.

The regional job market continued to show a broad-based expansion. After gaining about 100,000 jobs (or 1.5 percent) in 2004, total wage and salary jobs in the region increased by almost 120,000 (1.7 percent) during 2005 and fared a little better than the national average (1.5 percent). The increase in 2005 was the highest since 2000 in terms of the growth rate and number of jobs, and every county in the region achieved job increases.

The top three job generators in 2005 included professional and business services, construction and retail trade sectors. The Inland Empire (Riverside and San Bernardino counties) continued to be the leading job generator, accounting for 48 percent of the job increases in the region.

In 2005, the region achieved its lowest unemployment rate (5 percent) since 1988, and a slightly lower unemployment rate than the national average, the first time since 1990. However, based on preliminary data, average payroll per job in the region was \$44,390, a decline of 1.6 percent from 2004 after adjusting for inflation. This was the first decline after two consecutive years of improvements. Constrained by the higher cost of living partly due to the steep increases in energy and housing prices, real per capita income in the region in 2005 was estimated to increase up to 1 percent or half of the growth rate in 2004, to reach \$34,990. Among the 17 largest metropolitan regions in the nation, the SCAG region continued to rank last in per capita income in 2004 and is estimated to remain there in 2005. Over the past three decades, the SCAG region's per capita income ranking dropped from 4th highest in 1970 to 7th in 1990 to 16th in 2000.

Real median household income in the region declined slightly by 0.5 percent from 2004 to reach \$52,069 in 2005, following a 2.6 percent gain during the previous period. Between 2000 and 2005, real median household income increased by only 2 percent. In 2005, about 14 percent of residents lived in poverty, a slight decrease from 2004 (14.3 percent) though continuing to be higher than the national average (12.6 percent). Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the

highest poverty rate for all people. In addition, about 20 percent of children under 18 were below the poverty line in 2005, changing little from 2000.



3. In 2005, the region had the second highest number of residential building permits issued since 1989, though slightly lower than the 2004 level. The decrease in building permits was concentrated in multi-family housing. Since 2000, homeownership rates have increased by

about 2 percentage points. However, with record high housing prices and significant rent increases in 2005, the region experienced record low housing affordability.

Total number of building permits issued in 2005 reached 91,000 units, declining slightly from the 93,200 units in the previous year, yet it was still the second highest since 1989. Notably, the decline was only within the multi-family sector in which the number of permits decreased by 22 percent (or 6,800 units) in one year and its share of total permits declined to 27 percent. Permits for single-family units achieved a modest 7 percent (or 4,600 units) increase. The Inland Empire counties accounted for about 58 percent of the total permits issued in 2005. Total valuation of permits in 2005 also increased by \$3.8 billion to reach over \$20 billion.

Since 2000, homeownership in the region increased by about 2 percentage points to reach over 56 percent, though continuing to be significantly below the national average of 67 percent. Homeownership in Riverside County reached over 70 percent in 2005, the highest in the region and followed by Ventura County with 69 percent. Los Angeles County, though its homeownership increased from 46.9 percent in 2000 to over 49 percent in 2005, continued to have the lowest homeownership in the region. Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the second lowest homeownership, just above the New York region (53 percent).

With record high housing prices and significant rent increases, housing affordability continued to decline across the region and reached a record low in 2005. Between 2001 and 2005, median home prices generally doubled partly

because of lower mortgage interest rates and continuing population growth. In the three coastal counties (Los Angeles, Orange and Ventura), the share of households able to afford a median-priced home dropped below 15 percent in 2005, the lowest since 1989. Over the last few years, the sharpest decline of affordability occurred in the traditionally more affordable Inland Empire where the share of households able to afford a median-priced home dropped 30 percent, from 48 percent in 2001 to only 18 percent in 2005. While about half of the nation's households could afford a median-priced home in 2005, less than 15 percent of the region's households could achieve the same.

Over 48 percent of owner households and 53 percent of rental households had monthly costs at or greater than 30 percent of household incomes in 2005, up by 9 and 5 percentage points respectively since 2000. Among the nine largest metropolitan regions in the nation, the SCAG region had the highest percentage of rental households and the second highest percentage of owner households with housing cost at or greater than 30 percent of household income.

4. In 2005, the region experienced a decrease in drive-alone share and an increase in carpool share of commuting, both reversing recent trends. These trend reversals were partly due to the steep increases in gasoline prices. Nevertheless, carpool share in 2005 was still well below the 2000 level. Total transit boardings also registered the first increase in two years, more than recovering the previous losses from labor strikes. Congestion and average travel time to work appeared to stabilize in 2005 particularly in Los Angeles/Orange counties, while it continued to increase in the Inland Empire.

For the past few decades, Southern California has been consistently experiencing very high levels of congestion. The SCAG region (particularly Los Angeles and Orange counties) regularly ranks as the most congested metropolitan region in the nation. Contributing factors include large population and physical extent of the region, significant population growth, high automobile dependence, low levels of transit usage, and a maturing regional highway system with limited options for expansion.

In 2005, gasoline price reaching \$2.50 was the highest during the last three decades and began to have some impacts on commuters' mode choices and total vehicle miles traveled. From 2004 to 2005, the share of drive-alone commuting decreased from 76.7 percent to 74.7 percent, reversing the trend of a steady increase since 2000. During the same period, there was an increase in the region's carpool share of commuting from 11.4 percent to 12.6 percent, reversing the trend of a steady decline since 2000. It should be noted that the carpooling share in 2005, though increased from 2004, was still well below the 2000 level of 14.3 percent. These trend reversals also occurred across the nation, partly due to steep increases in gasoline prices. In addition, total vehicle miles traveled (VMT) in the region declined very slightly (less than 1 percent), the first time since 2000.

The slight shift away from drive-alone commuting along with the stabilization of the total VMT in 2005 contributed to the stabilization of the overall congestion level, particularly in Los Angeles/Orange counties. However, freeway congestion continued to increase in the Inland Empire because of the significantly faster pace of growth in population and employment than in the

coastal counties. This is also generally consistent with the slight decrease in the average travel time to work between 2004 and 2005 in Los Angeles and Orange counties and continuing increase in the Inland Empire.

In 2005, motor vehicle crashes in the region resulted in 1,824 fatalities (about 5 deaths per day), almost the same as that in the past two years. In 2005, the region's highway accident fatality rate at 1.18 persons per 100 million vehicle miles, though reduced by 30 percent below the 1991 level, was still significantly higher than the national average for urban areas (0.94 persons per 100 million vehicle miles traveled).

Total transit boardings in the region in FY 2005 (from July 2004 to June 2005) increased by 16 percent, from 617 million to a record high of 672 million. This was primarily due to the recovery of the MTA transit system from the labor strikes during the previous two fiscal years. It was also facilitated by the surge in gasoline prices that resulted in some shift from private auto to transit use.

5. Air quality in the region achieved some improvements in 2005 in PM₁₀ and PM_{2.5}, though continuing to exceed the federal standards. Ozone pollution showed mixed results including an increase of the number of days for health advisories in the South Coast Air Basin. The region also continued to meet the federal standards for carbon monoxide.

In 2005, ozone pollution improved slightly in the South Coast Air Basin and Ventura County but worsened somewhat in the Mojave Desert and Salton Sea air basins. In the most populous South Coast Air Basin, the number of days exceeding the federal eight-hour ozone standard decreased slightly



from 88 days in 2004 to 84 days in 2005, continuing the long-term trend of improvement. However, the number of days for health advisories in the South Coast Air Basin increased from 4 to 11 days between 2004 and 2005. Within the region, the Central San Bernardino Mountain area surpassed the federal eight-hour ozone standard for a total of 69 days in 2005 followed by the Santa Clarita Valley (47 days) and Banning Airport area in Riverside County (39 days).

Between 2004 and 2005, the annual average concentration of PM_{10} pollution declined in the Salton Sea and South Coast air basins, though continuing to exceed the federal standards. Specifically, the annual average of PM_{10} dropped from 22 percent to 6 percent above the federal standard in the Salton Sea, while it dropped from 8 to 4 percent above the standard in the South Coast Air Basin. As to the federal 24-hour standard for PM_{10} , between 2004 and 2005, neither the South Coast nor Mojave Desert air basins experienced exceedance while the Salton Sea Air Basin experienced a decrease from 8 to 6 days of exceedance. California state standards for PM_{10} are significantly more stringent than federal standards due to greater consideration given to potential health impacts. In 2005, both the Salton Sea and South Coast continued to significantly exceed the state annual average standards.

With regard to $PM_{2.5}$, while the annual average concentration in the South Coast Air Basin declined from 22.1 ug/m^3 in 2004 to 21 ug/m^3 in 2005, it continued to exceed the federal standards of 15 ug/m^3 . Specifically, 12 of the 19 monitoring stations in the basin showed exceedance, ranging from coastal cities to inland valleys. In 2005, the South Coast Air Basin exceeded the

federal 24-hour standard for PM_{2.5} on 6 days sampled a slight decrease from 7 days sampled in 2004. In 2005, the region also continued to meet the federal standard for carbon monoxide (CO).

6. The region has continued to rely on fossil fuels and is increasingly dependent on imports. Reliance on fossil fuels contributes significantly to regional air pollution and global warming that poses a serious threat to the economic well-being, public health, and the environment of Southern California and beyond. Strong dependence on foreign imports greatly reduces the reliability and security of this vital resource.

Energy use in California and the region are predominantly fossil-fuel based (i.e. petroleum, natural gas and coal). Since 1990, the share of fossil fuels of total energy consumption in the state and the region has remained relatively constant around 85 percent. California obtains nearly two-thirds of its energy from outside its borders, including 63 percent of petroleum, 84 percent of natural gas and 22 percent of electricity. The share of foreign petroleum imports has been increasing rapidly, from below 10 percent in 1995 to over 40 percent in 2005. The transportation sector is the largest energy user at 39 percent, followed by the industrial sector at 24 percent.

The use of fossil fuels generated significant impacts on regional air quality including ozone pollution. For example, the burning of fossil fuels for mobile sources in the region is responsible for more than 85 percent of its total NO_x emissions, a precursor of ozone pollution. In addition, the combustion of fossil fuels to release their energy creates carbon dioxide (CO₂) emissions, the most significant greenhouse gas that affects global climate change and specifically global warming.



In 2000, California generated 473 million metric tons (CO₂ equivalent) emissions, and is projected to reach over 600 million metric tons by 2020. Among the climate change pollutants for California, 81 percent are CO₂ emissions from fossil fuel combustion. In terms of total CO₂ emissions, California is second only to Texas in the nation and is the 12th largest source of climate

change emissions in the world, exceeding most nations. The SCAG region, with close to half of the state's population and economic activities, is also a major contributor to the global warming problem.

7. Since 2000, the region has made noticeable progress in educational attainment among residents, consistent with the national trend. While Los Angeles County achieved noticeable reductions in high school dropout rates, San Bernardino County has experienced continuous increases in its dropout rates since 2000 reaching 20 percent in 2005, the highest in the region. There continues to be significant disparities in educational performance among different racial and ethnic groups.

In 2005, there were slight improvements in math scores for 7th graders in the region. However, the region continued to perform below the national median in reading and math test scores, except in Orange and Ventura counties. While Los Angeles County achieved noticeable reductions in high school dropout rates, San Bernardino County saw its dropout rates increase from 12 percent in 2000 to 20 percent in 2005, the highest in the region. African American and Hispanic high school students across the region, when compared with their White and Asian peers, had significantly higher dropout rates.

In 2005, every county in the region had less than 40 percent of high school graduates completing courses required for University of California (UC) or California State University (CSU) entrance, representing little change from 2000. When compared with other states, California has one of the lowest percentages of high school seniors enrolling in 4-year colleges.

Between 2000 and 2005, there were more noticeable improvements in educational attainment in the region consistent with the national trend. During this period, the percentage of adults with at least a high school degree increased from 74 to 77 percent while the percentage of adults with at least a bachelor's degree increased from 25 to 27 percent. Nevertheless, among the nine largest metropolitan regions, the SCAG region remained in last place



in the percentage of adults (77 percent) with at least a high school diploma or at least a Bachelor's degree (27 percent). San Francisco Bay Area had the highest percentage (41 percent) of adults with at least a bachelor's degree.

8. Violent crime rates have continued to decline since 1992. However, the juvenile felony arrest rate and the number of hate crime incidences rose slightly in 2005 in contrast to the recent trend of continuous decline.

In 2005, the violent crime rate in the region declined by about 11 percent from 2004, larger than the 5 percent reduction at the state level. The violent crime rate in 2005 was less than 40 percent of the peak 1992 level. The reduction was most significant in Los Angeles County (-14 percent). Ventura and Orange counties consistently had the lowest rates in violent crimes in the region.

From 2004 to 2005, the juvenile felony arrest rate in the region increased by about 3 percent following the 2 percent increase in the previous period, in contrast to the trend of continuous decline between 1990 and 2003. At the state level, the juvenile felony arrest rate in 2005 increased slightly by 1 percent from the previous year. Since 2000, Los Angeles, Riverside and San Bernardino counties have had higher rates in juvenile felony arrest than the other three counties. Between 2004 and 2005, the number of hate crime events and victims in the region increased slightly by 4 percent and 2 percent respectively, contrary to the declining trend between 2001 and 2004.

Report Card Summary

Based on the performance indicator information as contained in this Executive Summary and discussed in further detail in the remainder of the report, SCAG's Benchmarks Task Force developed the Report Card for 2005 for selected issue areas as shown below. *It should be noted that the grades in the State of the Region Report Card represent the regional average while an individual county's performance may vary from the regional average.*

Overall, the grades for 2005 remained the same as for 2004 for all seven selected issues areas. However, as reflected in the Executive Summary, the region experienced a mixed performance in most of the issue areas during 2005. Currently, not all the issues covered in this report were graded. The Benchmarks Task Force is in the process of evaluating the potential inclusion of additional issue categories into the Report Card.

The State of the Region Report Card Summary

Grade A: excellent B: moderately well C: average D: potential failure F: failing

SECTOR	2001	2002	2003	2004	2005
Employment	B	B-	B	B	B
Income	C	C-	C-	C	C
Housing	D+	D+	D	D	D
Mobility	D	D-	D-	F	F
Air Quality	B-	C	C-	C	C
Education	D	D	D	D	D
Safety	B	B	B	B	B

**A complete copy of the State of the Region Report Card can be accessed at www.scag.ca.gov*

The Path Forward

Since 2000, the SCAG region has not lost additional ground relative to the other largest metropolitan regions in the nation in terms of the basic socioeconomic well-being. Nevertheless, the standing of the SCAG region in 2005 among the nine largest metropolitan regions remained essentially the same as in 2000 with respect to the basic socioeconomic well-being. Specifically, the region continued to rank last in average payroll per job, per capita income, housing affordability and educational attainment (for at least a high school completion or bachelor's degree). In addition, the projected population growth of another 5 million in the region in the next 25 years is expected to continue straining its infrastructure and adding more pressure to the natural environment. These socioeconomic and growth challenges are interrelated and demand a comprehensive strategy involving collaborative efforts across public, private and non-profit sectors. The comprehensive strategy to meet these challenges needs to address the physical, economic, environmental and human capital dimensions. They also require intraregional as well as inter-regional collaboration.

For the past few years, SCAG, in collaboration with local governments and stakeholders, has been developing and facilitating the implementation of various elements of a comprehensive strategy. For example, the Compass Blueprint (2% Strategy) is aimed at focusing future development and redevelopment in strategic transit corridors and urban centers and hence reducing the region's dependence on the automobile and associated fossil fuels.¹ The Regional Strategy for Goods Movement is aimed at, among other objectives, enhancing economic competitiveness, fostering upward mobility and improving air

quality.² The Southwest Alliance initiative is pursuing interregional collaboration with neighboring regions including Mexico to develop an economic development plan for the larger region. Finally, a Regional Comprehensive Plan, currently under development, will serve to guide implementation activities on the full range of resource, infrastructure and urban development issues.

