



Executive Summary

The State of the Region 2007 focuses on the performance of Southern California since 2000, particularly in 2006. As documented in the previous State of the Region Reports, the SCAG region lost significant ground during the 1990s relative to other large metropolitan regions in the nation with respect to basic socioeconomic well-being such as employment, income, education and housing affordability. This is primarily due to the economic and demographic transformations occurring throughout 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. However, during the same decade, the region was able to achieve significant progress in improving air quality and reducing violent crimes.

Between 2000 and 2005, the SCAG region did not lose additional ground in its basic socioeconomic well-being relative to other large metropolitan regions. This is partly because the 2001 national recession, which centered on the high tech industries, impacted other large metropolitan regions such as the San Francisco Bay Area more severely than the SCAG region. In addition, during this five-year period, housing and its related sectors such as construction, finance and real estate industries were stronger engines for growth in the region than in the rest of the nation. For example, the number of residential building permits issued in the region increased from 56,000 units in 2000 to 91,000 units in 2005, a jump of more than 60 percent compared to only a 35 percent increase for the nation, and the median home price in the region more than doubled in contrast to less than a 40 percent increase nationally.

During 2006, housing and its related sectors slowed down significantly in the region and the nation. For example, the number of residential permits dropped by 14 percent in the region while its median

home price appreciation slowed to only 8 percent in 2006. In addition, gasoline prices surged to its peak level of \$2.80 per gallon in 2006, becoming another factor to constrain growth. Despite these limiting factors, Southern California made progress in numerous areas in 2006 including a record low unemployment rate, and increases in real per capita income and median household income. This was partly due to the continuing rise in international trade, the recovery of the Los Angeles County economy and stabilization of the manufacturing sector. The region also made progress in increasing the share of alternative modes for commuting and reducing violent crimes. However, all these achievements were tempered by the stagnation of real average wage per job, record high housing cost burdens for owners and renters, continuing rise in high school dropout rate, and the severe health impacts from air pollution confirmed by recent studies.

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

- 1. Population growth in the region has been slowing due to increased domestic outmigration. However, since 2000, population in the region has increased by almost 2 million. The region also continued the demographic transformation in its ethnic composition, longer settlement of the immigrant population, disproportionately higher but declining share of the nation's immigrant population (legal or unauthorized), 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 2 million to reach 18.5 million in 2006. After achieving its largest annual increase in 2001 of approximately 350,000, population



growth in the SCAG region slowed to 213,000 in 2006. A major factor behind the slowing growth was the increased 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 between the region and the rest of the nation particularly with respect to housing, and the overall economic recovery in the rest of the nation. As to the sources of population growth between 2000 and 2006, over half (55 percent) was due to natural increase, 44 percent was from net foreign immigration and only 1 percent from net domestic migration.

There are five important demographic dynamics at work in Southern California. They include the continuing change in the ethnic composition, longer settlement of the immigrant population, disproportionately higher but declining share of the nation's immigrants population (legal or unauthorized), growing share of immigrants' second generation, and the aging of the overall population. All five dynamics continued through 2006. They are inter-related 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 2006, about a 4-percentage point increase from 2000 and a dramatic increase from only 10 percent in 1960. About 8 percent of the region's residents were unauthorized immigrants. The growing share of the immigrants' second-generation contributed to a slower pace of aging process 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 2006, following the Dallas region (33.2).

2. Despite a weakening housing sector, the region continued its job expansion in 2006 with the lowest unemployment rate since 1980. Job growth slowed in the Inland Empire and Orange County but accelerated in Los Angeles County. Gains in both real per capita income and real median household income in 2006 were tempered by the stagnation in real average payroll per job. Since 2000, the region has achieved little in real per capita income and real average payroll per job while real median household income in 2006 was still below its 2000 level.

In 2006, the region's job market continued to show a broad-based expansion over the previous year. After gaining about 131,000 jobs (or 1.9 percent) in 2005, total wage and salary jobs in the region increased by more than 156,000 (2.2 percent) during 2006. The increase in 2006 was the highest since 2000 in terms of number of jobs and growth rate. Accelerated growth in professional and business services, logistics and hospitality sectors and stabilization of the manufacturing sector particularly in Los Angeles County more than offset the weakness in housing-related

sectors that slowed the growth in the Inland Empire and Orange County. In 2006, the region achieved a slightly higher rate of job growth (2.2 percent) than the rest of the state (1.5 percent) and the nation (1.8 percent).

It should be noted that the region achieved its lowest unemployment rate (4.6 percent) in 2006 since 1980. However, based on preliminary data, average payroll per job in the region at \$46,414 in 2006 changed little from 2005 after adjusting for inflation, and continued to rank last among the nine largest metropolitan regions in the nation. Between 2000 and 2006, average wage per job was somewhat stagnant at the national, state and regional levels. In 2006, the real average wage per job in the region was only slightly above its 2000 level.

In 2006, partly due to the improvement of the job market, real personal income per capita in the region increased by 1.3 percent to reach \$36,614, while it also increased for the nation (1.9 percent to reach \$36,276) as well as the state (1.5 percent to reach \$38,956). However, real per capita income only increased by 1.5 percent between 2000 and 2006. Among the 17 largest metropolitan regions in the nation, the SCAG region ranked 16th in per capita income in 2005, dropping from the 4th highest in 1970 and 7th highest in 1990.

The real median household income in the region at \$55,678 in 2006 represented a 2.6 percent increase from 2005. Nevertheless, it was still 4 percent below its 1999 level. Between 1999 and 2006, real median household income also declined at the state and national levels. In 2006, 13.6 percent of residents in the region lived in poverty, a slight decrease from 2005 (14 percent) but a notable improvement from 1999 (15.6 percent). However, in

2006, there were still over 19 percent of children under 18 living in poverty.

3. Building permit decline in 2006 was concentrated in single-family housing while permits for multi-family units actually increased. Since 2000, the region has achieved steady increases in homeownership rates. However, with record high housing prices and continuing rent increases in 2006, the region experienced record high housing cost burdens for both owners and renters.

From 2005 to 2006, the total number of building permits issued dropped by 14 percent from 91,000 to 78,200 units, a decline for the second consecutive year. Total valuation of permits also decreased by \$2.5 billion (22 percent) reaching almost \$18 billion. Notably, the decline was only for the single-family units while permits for multi-family units actually achieved a 15 percent (or 3,700 units) increase. Within the region, the decline in building permits was concentrated in the Inland Empire. Among the total permits issued in 2006, about 36 percent were for multi-family housing, an increase from 27 percent in 2005. In both Los Angeles and Orange counties, more than 60 percent of the building permits issued was for multi-family units.

Since 2000, homeownership in the region has been increasing steadily to reach almost 57 percent, an increase of 2 percentage points. Homeownership in Riverside County reached 69.2 percent in 2006, the highest in the region, followed by Ventura County with 68.7 percent. Los Angeles County, though its homeownership increased from 47.9 percent in 2000 to over 49 percent in 2006, continued to be the lowest in the region. Among the nine largest metropolitan regions in the nation, the SCAG region

continued to have the second lowest homeownership rate, just above the New York region (56 percent).

With record high housing prices and continuing rent increases, housing cost burdens continued to rise across the region and reached record highs in 2006 for both owner and renter households. The housing affordability gap between the region and the nation has also been widening. While 60 percent of the first-time homebuyers in the nation can afford an entry-level home in 2006, less than 30 percent of the region's first-time homebuyers could achieve the same. In addition, over 53 percent of owner and renter households had monthly housing costs at or greater than 30 percent of household incomes in 2006, up by 13 and 10 percentage points respectively since 2000. Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the highest level of housing cost burden for owner and renter households.



- 4. In 2006, for the second consecutive year, the region experienced a decrease in drive-alone share and an increase in alternative modes share of commuting, both reversing the recent trends. These trend reversals were partly due to steep increases in gasoline prices. The region also achieved the highest transit boardings since 2000. From 2004 to 2006, total vehicle miles traveled (VMT) generally stabilized and VMT per household declined for two consecutive years.**

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.

An average gasoline price at \$2.80 in 2006 was the highest since 1970. High gasoline prices since 2004 have impacted the commuters' mode choices and total vehicle miles traveled. From 2004 to 2006, there was a notable decrease in the region's share of drive-alone commuting from 76.7 percent to 74.1 percent, reversing the trend of steady increases between 2000 and 2004. During the same period, the share of alternative modes for commuting increased from 23.3 percent to 25.9 percent, reversing the previous trend of a steady decline.

In addition, between 2004 and 2006, total VMT generally stabilized despite the continuing growth in population and employment. It should be noted that historically, the rate of VMT growth was noticeably higher than that of population growth. VMT per

household in the region actually declined for two consecutive years between 2004 and 2006. Finally, average commute time in 2006 also declined slightly throughout the region from 2005.

Total transit boardings in the region in FY 2006 (from July 2005 to June 2006) increased by 6 percent to a record high of 737 million since 1990. Transit trips per capita at 40 were also the highest since 1990. This was primarily due to the continuing growth of the Los Angeles Metro transit system ridership facilitated by the surge in gasoline prices.

5. The region continued to have the highest concentration of PM_{2.5} and ozone in the nation and improvements have shown signs of leveling off. Recent studies confirmed the severe health impacts from PM_{2.5} including an estimated 5,400 premature deaths per year. About 80 percent of emissions reduction needed are under the federal or state jurisdictions. The region continued to meet the federal standards for carbon monoxide.

Despite the significant improvements during the past two decades, the region still has some of the worst air quality. Specifically, the South Coast Air Basin has the highest concentration of ozone and PM_{2.5} in the nation. In addition, improvements to ozone and PM_{2.5} have shown signs of leveling off over the past few years.

In 2006, the annual average PM_{2.5} concentration in the South Coast Air Basin was 20.6 ug/m³, a slight decrease from that in 2005 (21 ug/m³) but continuing to significantly exceed the federal standard of 15 ug/m³. The South Coast Air Basin also exceeded the (new) federal 24-hour standard for PM_{2.5} on 11 percent of sampling days in 2006, and its maximum 24-hour PM_{2.5}

concentration in the South Coast Air Basin at 54 ug/m³ also well exceeded the new federal standard of 35 ug/m³.

PM_{2.5} is responsible for most of the serious health effects known from exposure to ambient air pollutants. The South Coast has almost a 52 percent share of the nation in population-weighted exposures to PM_{2.5} above the national annual average standard. Accordingly, residents in the South Coast suffer extraordinary health impacts annually including an estimated 5,400 premature deaths, 140,000 children with asthma and respiratory symptoms and close to one million lost work days. About 80 percent of the emission sources for PM_{2.5} are within the state or federal jurisdictions and not within local control. To have any reasonable expectation of meeting the 2014 PM_{2.5} deadline, the pace of improvement for PM_{2.5} must accelerate under the federal and state jurisdictions.

Between 2005 and 2006, the number of days exceeding the federal 24-hour standard (150 ug/m³) for PM₁₀ increased slightly from 0 to 2.8 days in the Mojave Desert Air Basin, and from 8.5 days to 12.5 days in the Salton Sea Air Basin. The South Coast Air Basin did not experience any exceedance of the federal 24-hour standard between 2004 and 2006.

Ozone pollution worsened slightly in the South Coast Air Basin and Ventura County in 2006 but improved in the Mojave Desert and Salton Sea air basins. In the most populous South Coast Air Basin, the number of days exceeding the federal 8-hour ozone standard increased slightly from 84 days in 2005 to 86 days in 2006. However, since 1998 ozone improvements have shown signs of leveling off. However, during the same period, both the Mojave Desert and the Salton Sea air basins experienced some reductions in the number of days exceeding the federal 8-hour standard, from 55 to 50 days and 43 to 32 days respectively.

6. The burning of fossil fuels contributes significantly to regional air pollution and global warming and 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 shares of fossil fuels of total energy consumption in the state and the region have remained relatively constant around 86 percent. California obtains nearly two-thirds of its energy from outside its borders, including 63 percent of petroleum, 85 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 2006. 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 PM_{2.5} and 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 emissions (CO₂), the most significant greenhouse gas that affects global climate change and specifically global warming. Currently, the Earth is warming faster than any time in the previous 1,000 years, and eleven of the last 12 years (1995-2006) with the exception of 1995 ranked among the 12 warmest years on record since 1850.

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 16th 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 a major contributor to the global warming problem and should also be a major contributor to its solution.

7. Since 2000, the high school dropout rate has been increasing, reaching over 15 percent in 2006. The region had only 36 percent of its high school graduates in 2006 completing courses required for University of California (UC) or California State University (CSU) entrance, little improvement from 2000. There continues to be significant disparities in educational performance among different racial and ethnic groups. On the other hand, the region has made steady improvements in educational attainment among residents.

Between 2000 and 2006, dropout rates for high schools in the region increased from 12.1 percent to 15.3 percent. During this period, the dropout rate of San Bernardino County increased continuously from 12 percent to almost 21 percent, the highest in the region and significantly higher than the state average of nearly 15 percent. Except for Orange County, every county in the region experienced a much higher dropout rate in 2006 than in 2000.

As to college readiness, only 36 percent of high school graduates in 2006 completed courses required for University of California (UC) or California State University (CSU) entrance. When compared to 2000, only Orange and Imperial counties made some improvement. There continues to be significant disparities in



educational performance among different racial and ethnic groups with respect to, for example, high school dropout rates and college readiness.

There were noticeable improvements in educational attainment in the region between 2000 and 2006, consistent with national trends. The percentage of adults with at least a high school degree increased from 74 to 77 percent while it increased from 25 to 27 percent for adults with at least a bachelor's degree. Nevertheless, among the nine largest metropolitan regions, the SCAG region remained second to last with at least a bachelor's degree (27 percent). Between 2000 and 2006, the coastal counties within the region achieved greater improvements in educational attainment for at least a bachelor's degree than the inland counties.

- 8. Violent crime rates have continued to decline to its lowest level in three decades. Juvenile felony arrest rate increased for the third consecutive year in contrast to the trend of continuous decline between 1990 and 2003. Hate crime activities in 2006 were also at their lowest level since 2000.**

In 2006, the violent crime rate in the region decreased slightly by 1.7 percent to its lowest level in three decades. The violent crime rate in the region in 2006 was less than 40 percent of its peak level in 1992. Within the region, Imperial County achieved the most significant reduction of 18 percent in the violent crime rate. Violent crime rate in the region was only 10 percent higher than the national average in 2006, a remarkable improvement from a 40 percent gap in 2000. Ventura and Orange counties had about half of the national rate, and only Los Angeles County experienced a significantly higher rate than the national average.

From 2005 to 2006, the juvenile felony arrest rate in the region increased by almost 5 percent. This was the third consecutive year of increase in contrast to the trend of continuous decline between 1990 and 2003. Nevertheless, the juvenile felony arrest rate in the region in 2006 was only about 43 percent of the 1990 level.

Between 2005 and 2006, property crime rates in the region declined by 5 percent. Specifically, San Bernardino and Orange counties achieved notable reductions of 7 percent respectively. The number of hate crime events and victims in the region decreased by 9 percent and 5 percent respectively, reaching their lowest levels since 2000.

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 2006 for selected issue areas as shown below. It should be noted that grades in the Report Card represented the regional average while an individual county may perform above or below the average. In addition, not all the issues covered in this report were graded.

The Benchmarks Task Force will consider 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	2002	2003	2004	2005	2006
Employment	B-	B	B	B	B
Income	C-	C-	C	C	C
Housing	D+	D	D	D	D
Mobility	D-	D-	F	F	D-
Air Quality	C	C-	C	C	D
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/publications*

The Path Forward

Since 2000, the region has achieved mixed performance results on the primary performance indicators. On the one hand, unlike during the 1990s, the SCAG region overall has not lost additional ground since 2000 in the basic socioeconomic well-being (e.g., employment, income, and education) relative to other large metropolitan regions in the nation. On the other hand, it has achieved little absolute improvements in several areas (e.g., per capita income and average wage per job) and fared worse in some areas (e.g., high school dropout rates and housing affordability). At the end of 2006, the SCAG region continued to perform significantly below the average of the nine largest metropolitan regions with respect to the basic socioeconomic well-being of its residents. Furthermore, improvements to air quality have shown signs of leveling off and strategies to reach attainment are increasingly more difficult to develop and implement. Climate change emissions from burning fossil fuels in the region have also continued to rise. However, the region has made notable progress in a few areas including reducing violent crime

rates, increasing homeownership and achieving the lowest unemployment rates for the past three decades.

Looking ahead, the region is expected to increase another 5 million residents in the next 25 years with a majority from natural increases, along with an estimated tripling of international trade. During the same period, it will experience important demographic and labor force transformations as baby boomers retire and will largely be replaced by immigrants and their children. A predominant challenge of the region is how to regain its economic competitiveness (e.g., per capita income and average wage per job) and improve the quality of life for current and future generations while accommodating the tremendous growth in population and trade in a period of major demographic and labor force transformations.

In 2006, the first baby boomers reached 60 and the entire baby boomer generation will pass their retirement age within the next 25 years. Currently, immigrants and their children account for about 54 percent of the region's population, and among the total child population in the region, more than 45 percent belong to the immigrants' second generation. Accordingly, immigrants and particularly their children will have major impacts on the future performance outcomes of the region. The current trend of longer settlement of the immigrant population in the region facilitates a positive prospect for the socioeconomic competitiveness of our region since immigrants' socioeconomic status generally improves as they have settled longer. However, this prospect should not be taken for granted since supportive policies are necessary to, for example, reduce the high school dropout rates and improve the educational performance of the immigrants' second generation.

The severe health impacts from air quality and the urgent need to address global climate change have become key drivers for planning. To

achieve federal standards to protect the health of the residents, the region will need to, among others, transform the existing freight movement system to a clean technology based system. In addition, AB 32 (California Global Warming Solutions Act), enacted in 2006, required innovative actions to reduce the greenhouse gas emissions to the 1990 level by 2020. Both the goals related to air quality and climate change require substantial reduction of VMT associated with fossil fuels. The climate change legislation is historic in aiming at reversing long-standing trends such as VMT growth. The region has also been facing persistent challenges (e.g., socio-economic disparities among different ethnic/racial groups) that require bold actions.

To reverse long-standing undesirable trends or address persistent challenges will require integrated system planning, innovations on many fronts, and collaborative partnerships of public, private and non-profit sectors. Economic competitiveness, livability, environmental sustainability, and social equity are interrelated among each other particularly at the regional level. Accordingly, an integrated system planning strategy at the regional level is essential to improve the overall performance. Innovation is required because many of the past practices will no longer be sufficient. There are needs for innovation in planning process, technology deployment, financing mechanisms, and institutional design for implementation. There is also a great need for collaboration among public, private and non-profit sectors for policy development and implementation.

Based on the understanding discussed above, SCAG has been working collaboratively to develop and implement several initiatives to significantly improve the competitiveness and quality of life in the region. They include, among others, a regional growth vision, a regional goods movement strategy, and Southwest Alliance. The Compass Blueprint (2% Strategy) is aimed at focusing future development and redevelopment

in strategic transit corridors and urban centers in order to reduce congestion, produce more affordable housing, decrease the region's dependence on automobiles and associated fossil fuels, and preserve open space. The Regional Strategy for Goods Movement is aimed at, among other objectives, enhancing economic competitiveness, fostering upward mobility and improving air quality. The Southwest Alliance initiative is pursuing interregional collaboration with neighboring regions including Mexico to develop an economic development plan for the larger region including infrastructure development. Those initiatives have gained momentum partly through extensive partnership. In addition, passage of the historic state infrastructure bond initiatives in November 2006 has also brought notable new resources for change.

Finally, over the past three years, SCAG has been working with many stakeholders to develop a new Regional Comprehensive Plan (RCP). The vision of the RCP is to foster a Southern California region that addresses future needs while recognizing the interrelationship between economic prosperity, natural resources sustainability, and quality of life. Through measured performance and tangible outcomes, the RCP serves as both an action plan for implementation of short-term strategies and a call to action for strategic, long-term initiatives for sustaining a livable region. In short, the RCP will strive to furnish an integrated system planning strategy to substantially improve the region's livability, mobility, competitiveness and sustainability.