

**SOUTHERN CALIFORNIA MEGALOPOLIS REGION: GROWTH TRENDS, CHALLENGES, AND  
SCAG INITIATIVES FOR A SUSTAINABLE, PROSPEROUS, AND EQUITABLE FUTURE**

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**By**

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# **SOUTHERN CALIFORNIA MEGALOPOLIS REGION: GROWTH TRENDS, CHALLENGES, AND SCAG INITIATIVES FOR A SUSTAINABLE, PROSPEROUS, AND EQUITABLE FUTURE**

## **Abstract**

The Southern California Association of Governments (SCAG) region has grown big, fast. With over 17 million people, more than 7 million jobs and almost 6 million households, the SCAG Region is the second largest Consolidated Metropolitan Area (CMSA) in the U.S. According to SCAG projections, if the historical growth pattern continues, the region will start to surpass the population of the New York CMSA and become the largest metro region in the U.S. by 2021.

During the last three decades, the major forces that have shaped the subsequent long term outcomes in the SCAG region's development patterns, regional competitiveness, and ability to invest in the infrastructure, transportation, and housing are:

- (1) Job housing imbalance and geographic disparities in income and wage,
- (2) Imbalances between growth in population and employment,
- (3) Globalization, structural change of the economy and international trade
- (4) Immigration and growth in Hispanic population,
- (5) Imbalance between growth in transportation demand and transportation funding revenues, and
- (6) Imbalance of local government fiscal arrangement causing fiscalization of land use

Major urban issues posing consistent challenges to SCAG regional planning efforts include: socioeconomic competitiveness, mobility/ congestion, goods and freight movement, air quality and other quality of life concerns, housing availability and affordability; human resource, and social and economic disparity—poverty, income distribution, and environmental justice.

SCAG's initiatives toward these urban issues are different from predominant or traditional practices and policy responses, which treat urban issues separately and individually. In contrast, SCAG believes that most urban challenges listed above have to be addressed together in order to reach a sustainable, prosperous and equitable future. The key SCAG initiatives are:

- ❖ Enabling private sector to finance regional initiatives. This calls for large scale infrastructure investment in transportation/freight projects (\$90 billion) and building an additional 400,000 housing units between 2010 and 2030 (\$36 billion). The completion of these projects is projected to create over a million good quality jobs, which are accessible to the region's large, less-educated workforce.

- ❖ Riding on the globalization and trade wave, building upon regional strength in the logistics industry to create additional economic growth and good-paying jobs.
- ❖ Encouraging and implementing moderate land use strategies to maximize the efficient use of existing infrastructure, preserve open space, resolve traffic congestion and improve air quality.
- ❖ Building up regional competitiveness by investing in human resources and communities-in-need.

Finally, this paper concludes that local buy-in, regional governance, and conflict resolution are keys toward successful implementation of proposed SCAG initiatives. The region has to develop effective governance and conflict resolution systems with emphasis on “mitigation” and “compensation,” so that key regional infrastructure projects can move forward. Thus, policy impasses, such as those affecting the 710 extension and regional airport development, can be resolved.

SCAG has to work very hard to communicate its initiatives to the region. As stated in the SCAG mission:

*“To enhance the quality of life of all southern Californians by working in partnership with all level of government, the business sector, and community at large to meet regional challenges and to resolve regional differences.”*

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# **SOUTHERN CALIFORNIA MEGALOPOLIS REGION: GROWTH TRENDS, CHALLENGES, AND SCAG INITIATIVES FOR A SUSTAINABLE, PROSPEROUS, AND EQUITABLE FUTURE**

## **I. Introduction**

Few regions/areas have ever grown larger faster than has the Southern California megalopolis region. The region, referred to herein as the Southern California Association of Governments (SCAG) region, contains Los Angeles, Orange, Imperial, San Bernardino, Riverside and Ventura Counties.

At the turn of the last century, the region was primarily agrarian, with a population just over a quarter million, and it accounted for merely three tenths of one percent of total U.S. population. The extension of railroad lines into the area, and the growth of the motion picture, petroleum, aircraft/defense, diversified manufacturing industries, and international trade, contributed to the region's reputation as the land of opportunity, and to its prosperity.

By 1920 the region had over 1 million residents; by 1970 the population had grown to over 10 million. One hundred years later, at the dawn of the new millennium, population in the SCAG region grew over 66 fold, to more than 16.5 million, or 5.9% of total U.S. population (Figure 1). The SCAG region, with population estimated at 17,629,400<sup>1</sup> (or 6.06% of total U.S. population), is an enormous megalopolis, is still growing and showing no signs of slowing down anytime soon.

The region's population is projected to add another 6 million people and grow to almost 23 million by 2030. The region, already the leading international marketplace for goods, services, fashions, cultures and new ideas, is a dynamic and diverse consolidated metropolitan area in motion. All together, more ships, planes, trucks, trains, automobiles and people move in, out, around, and through the area than any other place in the U.S.

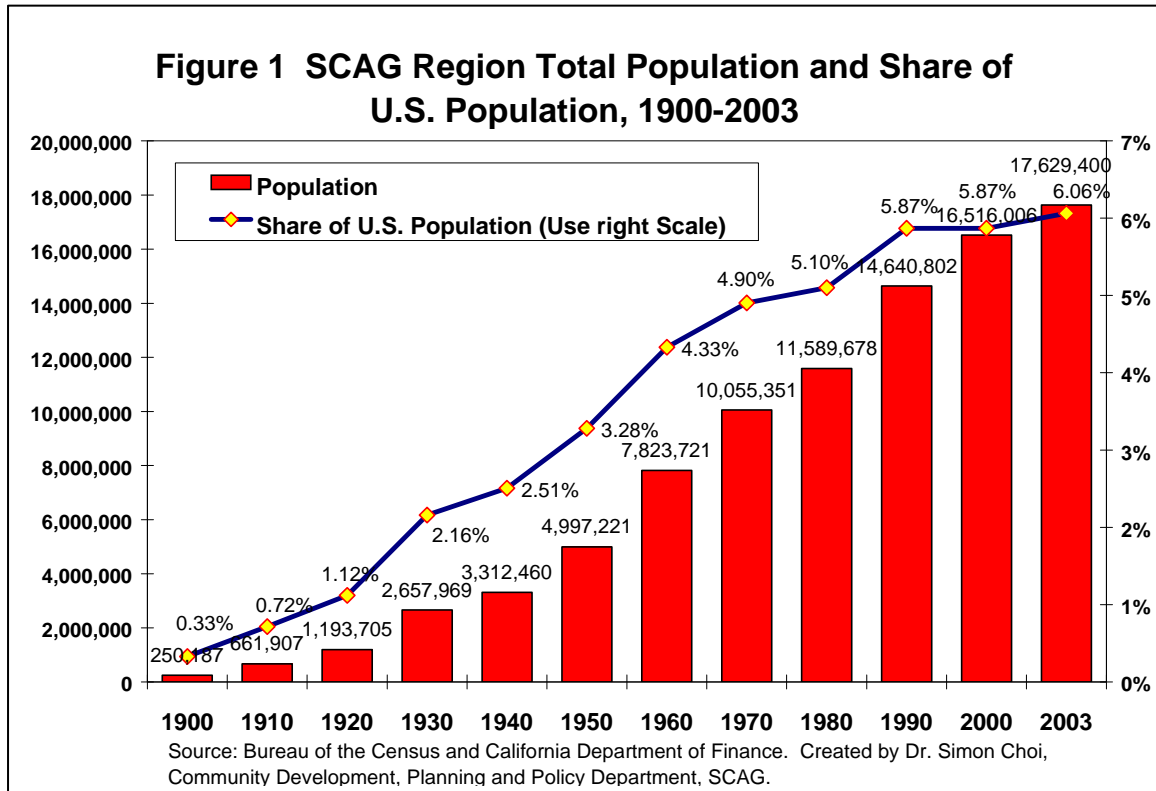
In addition to its large population size and rapid growth along with a dominant role in moving goods, services and people, one other attribute that makes the SCAG region unique and immediately distinguishable from any other metro area is its *diversity*. Diversity measurements in the SCAG region include population by ethnicity and nativity, business by size and by minority and gender ownership. The second section of this paper will present and introduce the region along lines of these major distinct regional characteristics described above.

Following similar development patterns as experienced in almost all other U.S. metro areas, previous growth in the SCAG Region were accommodated primarily through suburbanization—orchards, ranches, and natural lands have been plowed under and replaced with row upon row of suburban tract homes,

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<sup>1</sup> July 2003 Population figure estimated by California Department of Finance.

shopping centers, and office parks. This has been the general growth pattern for the region for over last 100 years. While there was not obvious difference in growth patterns physically for the last 30 years as compared with last 50, 75, or 100 years, the underlying demographics, socioeconomic trends, and regional infrastructure financial arrangements together shape the regional growth and make the region as we know today.



During the last three decades, the major forces that have shaped the subsequent long term outcomes in the SCAG region's development patterns, regional competitiveness, and ability to invest in the infrastructure, transportation and housing are:

- (1) Job housing imbalance and geographic disparities in income and wages,
- (2) Imbalances between growth in population and employment,
- (3) Globalization, structural change of the economy and international trade
- (4) Immigration and growth in Hispanic population,
- (5) Imbalance between growth in transportation demand and transportation funding revenues, and
- (6) Imbalance of local government fiscal arrangement causing fiscalization of land use

Thus the third section of this paper will take a close look at these forces that have dictated regional growth patterns specifically during the last 30 years.

The fourth section of this paper will examine major regional and urban issues, problems and challenges resulting from demographics and those imbalances between jobs, housing and population, and between demand and ability to finance investment and augment the supply. These challenges include:

- ❖ Regional socioeconomic competitiveness
- ❖ Mobility/goods movement/congestion
- ❖ Air quality and other quality of life concerns
- ❖ Solid waste treatment
- ❖ Urban runoff and pollution
- ❖ Water supply and water quality
- ❖ Energy dependency, supply and reliability
- ❖ Housing availability and affordability
- ❖ Human resources
- ❖ Social and economic disparity—poverty, income distribution, and environmental justice

Current SCAG planning efforts, innovative approaches, and initiatives designed to address these regional and urban issues will be presented and discussed in section five. SCAG's initiatives toward urban issues are different from predominant or traditional practices and policy responses, which treat urban ills separately and individually. In contrast, SCAG believes that all urban issues listed above can be addressed and a sustainable, prosperous and equitable future can be achieved through encouraging and implementing moderate land use strategies, enabling private sector investment in infrastructure, and building up regional competitiveness by investing in human resources and communities-in-need.

Finally, this paper will conclude with a short discussion about the regional governance—the key for implementing proposed SCAG initiatives and realizing the regional vision.

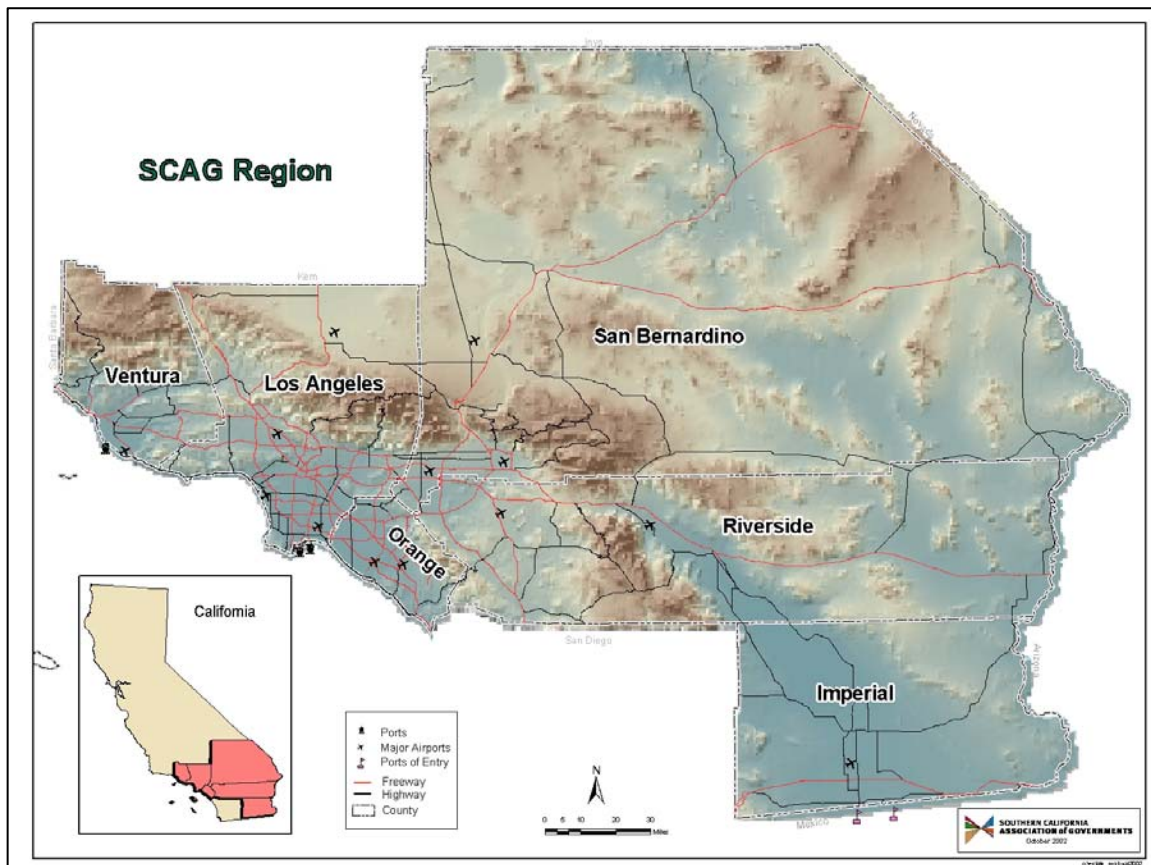
## **II. The Southern California Megalopolis Region—The SCAG Region**

The Southern California Association of Governments (SCAG) is both the Council of Governments and the designated Metropolitan Planning Organization (MPO) for Southern California. SCAG represents six counties, 187 cities, and 14 subregions. The population in the region is more than 17.7 million people as of January 2004—more populous than the entire state of Florida, the fourth largest state in the nation. The region represents 6% of the U.S. population, or, about 1 in every 17 persons in the United States. The SCAG region includes six Southern California counties: Imperial, Los Angeles, Orange, Riverside, San Bernardino, and Ventura, covering more than 38,000 square miles, of which about 6,000 square miles are urbanized (see Map 1).



The center and coastal areas of the region are job rich and brimming with people because housing is in short supply. Many seek affordable, starter homes by driving from valley to valley in an outward quest that spans our urban area and puts great pressure on our fragile desert and mountain environment and urbanizes our farmland. This affects our air quality and ecological balance. It also creates hot spots of traffic congestion and social change. Steady development over the years has pushed our average density levels in our widespread region above those found in any other metro area in the nation. This is challenging our assumptions about how we accommodate expected future growth, where it will occur and whether we can re-orient it to achieve a higher quality of life.

### MAP 1 SCAG Region



Southern California has grown into the nation's second largest consolidated metropolitan area. More than 17 million people call the Southland home and still more are coming. Over the next 30 years another 6 million people will be added to our large and diversifying region. Children of existing residents, mostly of Hispanic and Asian ethnicity, fuel our population growth. Immigrants are attracted here because of jobs and the hope for a better life. Nearly one in three persons living in the region is foreign born. At the same time a huge Baby Boomer population group exists in the region and will retire soon, setting the stage for an

unprecedented transfer of wealth and market buying power and demand preferences. This may shift historical development patterns as more diverse lifestyle needs emerge, as racial minorities and immigrants move to the suburbs, and as older majority households retire.

***The SCAG region at a glance: The top 10 list***

1. With an estimated gross regional product (GRP) of over \$650 billion (\$656.1 billion) in 2003, the SCAG Region's economy is the 10<sup>th</sup> largest in the world—considerably smaller than that of Spain but ahead of Mexico, South Korea, and India, respectively ranked the 11<sup>th</sup>, 12<sup>th</sup>, and 13<sup>th</sup> in the world.
2. The population growth dynamics has made southern California one of the most diverse regions in the nation. There is no racial or ethnic majority in the region or in California. The only other states with no racial majority are Hawaii and New Mexico. Whites make up a two-thirds majority in the nation as a whole. In Southern California, the rise and shift in population make-up was due to births along with an influx of new immigrants. A Hispanic population plurality of 41% emerged as a result of a sizable population increase in this ethnic group. The next largest population groups were a shrinking White population at 39%, Asians at 14%, and Blacks at 7%.
3. The SCAG region leads the nation as final destination for immigrants. About one in every six foreign-born residents in the U.S. lives in Southern California. Nationally, foreign-born residents reached historical high of about 31 million in 2000, which was about 11 percent of the U.S. population. As of 2000, 5.1 million, or 31 percent of all residents in the SCAG region are immigrants, the highest concentration of foreign-born population among all U.S. metro areas.
4. The Los Angeles consolidated metropolitan area, with 8.31 persons per acre, was the second densest metropolitan area in the U.S. The region's density was only behind top-ranked Honolulu (12.36 persons per urbanized acre), and ahead of the New York CMSA (7.99 persons per urbanized acre), which ranked in 3<sup>rd</sup> place (Fulton, et. al. 2001). Between 1982 and 1997, the SCAG region urbanized relatively less land (412,000 acres) but accommodated more than 3.7 million population growth—a marginal density of 9.12 persons per acre. The region was one of only 17 metro areas in the nation to increase overall density during the period.
5. Southern California—a region in constant motion and the capital of Pacific Rim countries—plays two dominant roles in international trade. First, it serves as a leading trade center exporting its own goods as well as importing goods for its use. Second, the region also serves as a global transshipment center for the domestic and global markets. In particular, the region serves as the single largest transshipment center between the most active exporting

region, East Asia, and the world's number one source of demand, the United States.

Total trade through the Los Angeles Customs Districts (LACD) more than doubled between 1990 and 2001, from just under \$133 billion to more than \$291 billion, accounting for over one-seventh of all U.S. international flows. Trade volume measured by value through LACD has increased more than 45 fold during last three decades. Factors that contribute to the region's dominance in international trade include the region's diversified export-manufacturing base, geographic location with respect to Mexico and Pacific Rim countries, its multi-cultural communities and its first-class international trade infrastructure. The LACD includes the Ports of Los Angeles, Long Beach and Hueneme, and Los Angeles International Airports.

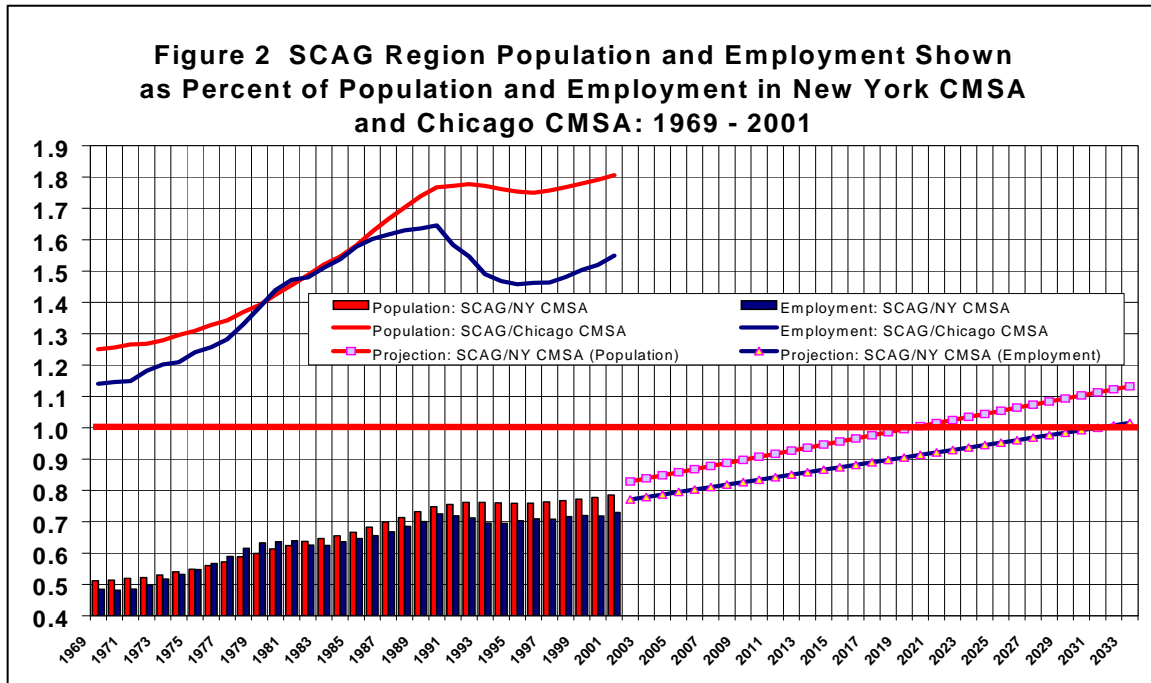
- Seaports: The region is served by three major deep water port facilities: the Port of Los Angeles and The Port of Long Beach in Los Angeles County, and the Port of Hueneme in Ventura County. Los Angeles and Long Beach Ports, largest in the nation, together account for a quarter of the nation's waterborne trade by value. They are also the third largest container complex in the world, ranked behind Hong Kong and Singapore but ahead of Rotterdam and the major port complex in South Korea.
  - Airports: There are 67 commercial and general aviation airports serving the region, making this system one the largest and most heavily utilized in the nation and in the world. Los Angeles International airport (LAX) is the fifth busiest airport in the world in terms of passengers and cargo. Atlanta Hartsfield International Airport and Chicago O'Hare International Airport rank first and second in passenger traffic. LAX is also fifth in the world in cargo handling, behind Memphis International Airport (headquarters of Federal Express), Hong Kong International, Anchorage, and Tokyo.
6. The SCAG region surpassed New York CMSA in 1996 and has become the largest manufacturing job center in the nation. By the end of 2002, the region's manufacturing base, measuring by number of jobs, was more than 10 percent larger than that in the New York CMSA, and over 52 percent larger than the Chicago-Gary-Kenosha, IL-IN-WI (CMSA), currently the distant third ranked manufacturing center in the nation, and one whose manufacturing base was bigger than SCAG's before the mid of 1970s.
  7. The Los Angeles area ranked first nationally in the percent of jobs tied to companies with fewer than one hundred employees and less than \$5 million in sales. The region also ranked first nationally in the number of minority and women owned business.
  8. Southern California is the world's top entertainment, fashion, and culture capital, led by the region's motion picture, apparel and fashion design industries. Nationally, one out of every five jobs related to motion picture and

TV productions are located in Southern California, while the region's apparel industry accounts for over 10 percent of apparel and textile jobs in the U.S.

9. Unlike the metropolitan regions in the east (e.g. New York) and mid-west (e.g. Chicago), the SCAG region grew beyond its single center (downtown Los Angeles) in its earlier years of development. Currently, consisting of almost a dozen first-tier employment centers, it is even difficult to qualify the region as a typical polycentric region such as in the San Francisco Bay Area.
10. Fragmentation in governance. The region includes the largest county (Los Angeles County) in the nation. It also includes the nation's second largest city, City of Los Angeles. However, among the 187 cities in the region, 80 percent has a population of less than 50,000.

**How fast has the region grown?**

As stated in the opening comment of this paper, few regions/areas have ever grown larger faster than has the SCAG region. While continuing to be the second largest consolidated metropolitan statistical area in the U.S. during the last three decades, the SCAG region, has steadily increased its leads in population and employment over the third ranked Chicago CMSA, and narrowed population and job deficits compared to the New York CMSA. If population and employment growth trends in the SCAG region relative to those experienced in the New York CMSA during the last 30 years continue in the coming decades, the region is projected to overtake New York-No. New Jersey-Long Island, NY-NJ-CT-PA CMSA and become the largest CMSA in the U.S starting in 2021 (Figure 2).

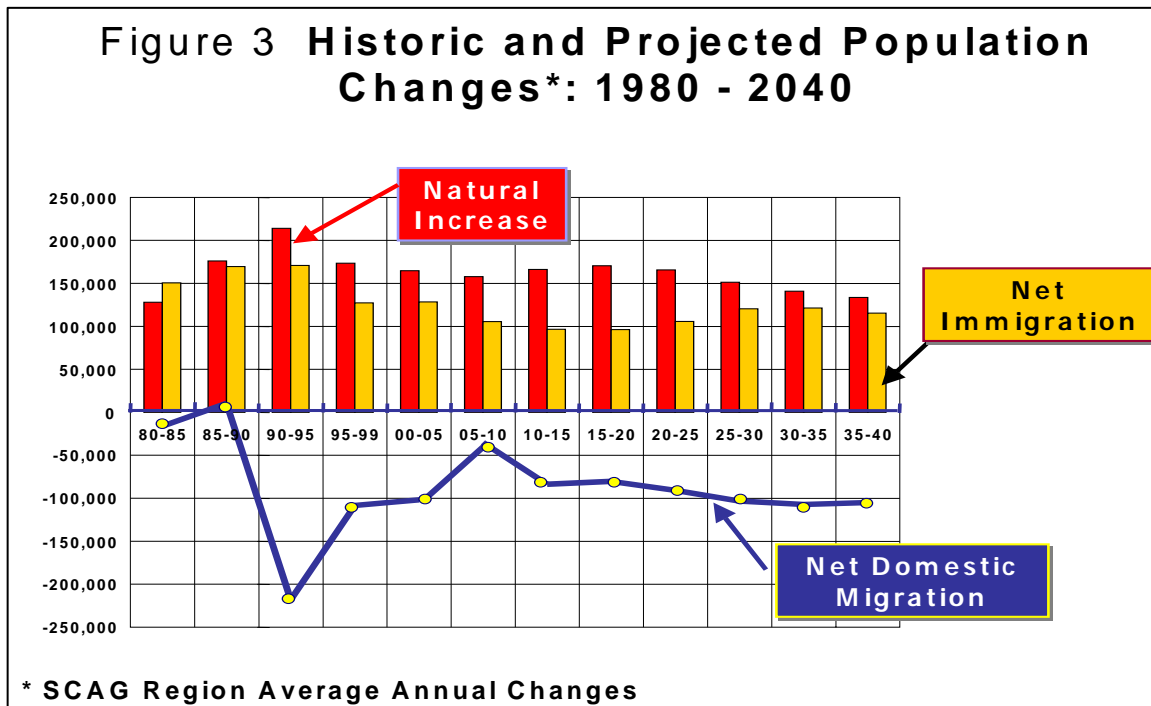


### III. Historical Perspectives on Growth

#### *How has the region grown in the last 30 years?*

The SCAG region's population growth has been and will continue to be fueled by natural increase (births minus deaths) and immigration, mostly from Mexico, Central America and Southeast Asia. The SCAG region's historical and projected population growth by components (sources) is presented in Figure 3. As illustrated, foreign immigration, second only to natural increase, has always been the key source of population growth in the SCAG region. Unlike net domestic migration, which is sensitive to regional economy and job market performance, the inflow of foreign immigration to the region has been stable, predictable, and not sensitive to regional business cycles.

Due to the severe recession in the early 1990s, a defining feature of population component changes during the last decade was the unprecedented large net domestic out-migration (Figure 3). During the 1980s, as shown in Figure 3, the region's net domestic out-migration was flat, losing just 28,000 people in the ten-year period. Prior to 1980, however, net domestic in-migration had always been an important component for population increase in the SCAG region<sup>2</sup>. Current SCAG projections show that net domestic migration will continue to be negative for foreseeable future in the region.



<sup>2</sup> Choi, Simon and Viviane Doche-Boulos, *Migration in the Southern California Region*, Southern California Association of Governments. 1995.

## **SCAG Settlement Pattern, 1970 – 2000**

The creation of geographic imbalances between employment and housing availability is largely a natural economic and sociological phenomenon with a tendency to be self-correcting over time. Before World War II, job formation in Southern California concentrated around a few major job centers such as downtown Los Angeles, due to the “agglomeration” economic advantages that accrue to companies being in close proximity to one another. Housing developed chiefly in suburban areas with relatively inexpensive land. Housing was connected to job centers by publicly funded highways. With increasing highway congestion over the last thirty years and the depletion of developable land for new industrial sites in urban core areas, jobs have tended to migrate to suburban locations to take advantage of lower land and labor costs and shorter commute times. For example, thirty years ago Orange County cities largely served as “bedroom” communities for Los Angeles companies, but Orange County now is a job-rich area, with many of its workers living in the Inland Empire.

Table 1 presents population and employment for SCAG region counties in 1970, 1980, 1990, and 2000. The growth in job and population by decades and employment/population ratios—a measure of potential commuting balance—for each county and the region are also included. The historical job/population ratios show that the coastal areas of the SCAG Region have been jobs-rich and Inland region’s job/population ratio only edged up marginally during the last three decades.

Housing-rich areas, particularly in the Inland Empire, have seen substantial job growth over the last three decades. While this fast job growth is forecasted to continue, which will result in improving job/population ratios for areas throughout the Inland Empire area, historical data (Table 1) suggest that the *pace* of improvement may be too slow and too moderate to have significant positive benefit to congestion relief. Nevertheless, the robust expansion of traditional “Old Economy” industries in housing-rich areas of the region during the last 10-15 years, particularly in Riverside and San Bernardino counties, helped to begin to correct the imbalances and move job and population distribution in the right direction.

### Recent development in Inland Empire region

Between 1990-2000, Riverside and San Bernardino had Southern California’s fastest growing economy, accounting for 40% of the 695,000 gain in overall Southern California employment (including San Diego County). This represented a 38% expansion of the local job market, compared to 9.6% for Southern California as a whole. During the 1990’s the Inland Empire’s job growth exceeded that of Santa Clara County, which contains Silicon Valley (275,000 vs. 155,000). Even during the period of recession from 1990 to 1994, the Inland

Empire added 25,000 jobs while Southern California was losing 600,000 jobs. The Inland region did this despite the closure or downsizing of three major military air bases and loss of several large defense contractors. In the expansion years of 1997-2000, when the state added jobs at a rate of 2.8% to 3.4%, the Inland Empire grew at a rate of 4.6% to 5.7% (Husing 2000). Clearly, much of the economic energy of Southern California moved inland into Riverside and San Bernardino counties in the 1990's.

<b>Table 1 SCAG Region Population, Job Growth and Job/Population Ratio by County 1970, 1980, 1990, and 2000</b>							
<b>Population</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>1970-80</b>	<b>1980-90</b>	<b>1990-00</b>
Imperial	75	92	109	142	23.5%	18.5%	30.6%
Los Angeles	7,032	7,478	8,863	9,519	6.3%	18.5%	7.4%
Orange	1,420	1,933	2,411	2,846	36.1%	24.7%	18.1%
Riverside	459	663	1,170	1,545	44.4%	76.5%	32.1%
San Bernardino	684	895	1,418	1,709	30.8%	58.4%	20.6%
Riv/SB MSA	1,143	1,558	2,588	3,255	36.3%	66.1%	25.8%
Ventura	376	529	669	753	40.5%	26.5%	12.6%
SCAG Region	10,047	11,590	14,640	16,516	15.4%	26.3%	12.8%
<b>Non-farm Wage &amp; Salary Employment</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>1970-80</b>	<b>1980-90</b>	<b>1990-00</b>
Imperial	19.05	25.28	29.8	38.6	32.7%	17.9%	29.5%
Los Angeles	2860	3610	4133	4084	26.2%	14.5%	-1.2%
Orange	421	836	1172	1391	98.9%	40.2%	18.6%
Riv/SB MSA	294	434	713	992	47.7%	64.2%	39.1%
Ventura	93	153	230	274	64.5%	50.5%	19.0%
SCAG Region	3,686	5,059	6,278	6,779	37.2%	24.1%	8.0%
<b>Job/Population Ratio</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>			
Imperial	0.256	0.275	0.273	0.271			
Los Angeles	0.407	0.483	0.466	0.429			
Orange	0.296	0.433	0.486	0.489			
Riv/SB MSA	0.257	0.278	0.275	0.305			
Ventura	0.247	0.289	0.344	0.364			
SCAG Region	0.367	0.436	0.429	0.410			

Most of this economic expansion was in blue-collar employment sectors. Of the 762 firms that either moved to the Inland Empire or expanded their operations there from 1994 to 2000, 56.6% were manufacturers and 33.1% were distributors. The Inland Empire thus is following the classic model of regional economic development--manufacturers and distributors are flocking to the area to take advantage of significantly lower land and labor costs than the average for the region, as well as lower housing costs and commute times for their employees. The availability of reasonably priced industrially zoned land, and superior intermodal rail, truck and air cargo facilities in the Inland Empire have been lures to manufacturers and distributors. In an era of exploding international trade, Southern California has become the leading international gateway for the country, and the Inland Empire is becoming the goods handling and distribution center for Southern California.

Development is showing the first signs of pushing deeper in the Inland Empire, moving east, south and north to less expensive, outlying areas. Both industrial and housing development are moving east along the I-10 corridor to Fontana, Rialto, Colton and San Bernardino and along the Route 60 corridor to Riverside and the Moreno Valley-Perris area. Development is also moving south along I-15 to Temecula, spurred by employment and population growth in Northern San Diego County.

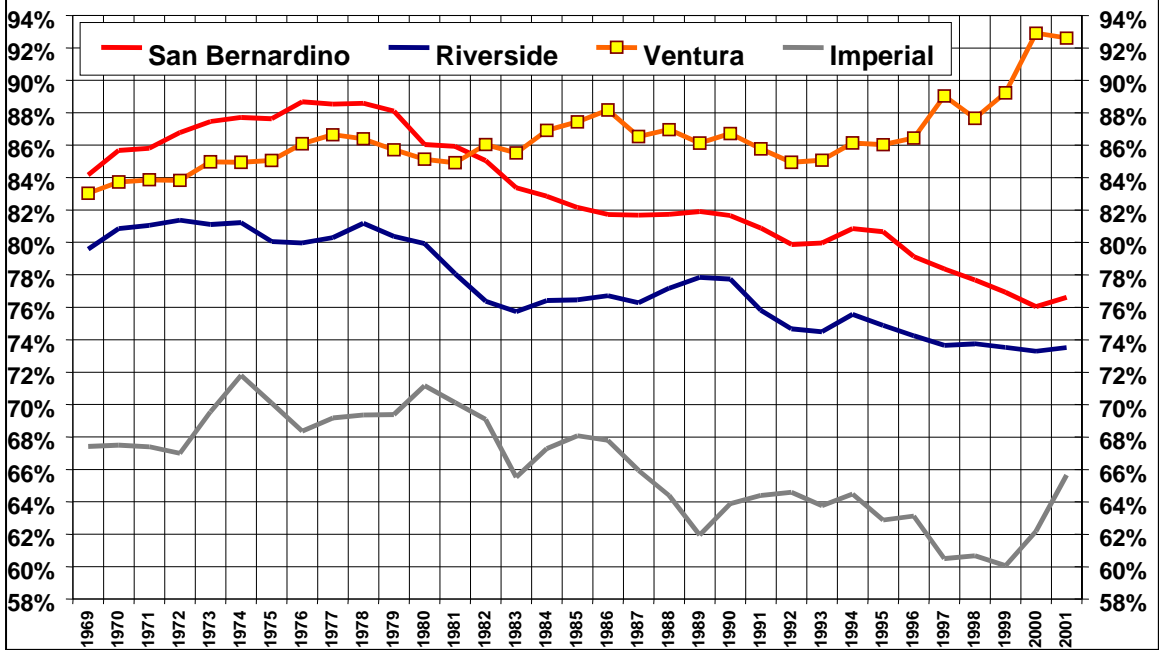
Current trends bode well for increasing jobs/housing balance in the Inland Empire. From 1990 to 1999, a total of 202,600 local Inland Empire residents gained new employment, while local firms and agencies created 197,500 new wage and salary jobs. About 25,000 of the 202,600 people who gained employment were entrepreneurs. They do not account for any of the wage or salaried jobs. Therefore, the number of new people who went to work in the Inland Empire over the last decade exceeded the number of newly employed Inland Empire residents. Given current rates of population and employment growth, over the next ten years the growth of new workers and new jobs will likely balance (Husing 1999). As results of these developments, historically a housing rich subregion of the SCAG region, the Inland Empire has reached a phase of developmental maturation that is beginning to achieve a much more balanced pattern of growth.

However, one trend that has negative implications for achieving the benefits of jobs/housing balance is the increasing *wage disparity* between the Inland Empire and the rest of the region. As shown in Figures 4 and 5, over the last thirty years the per capita personal income of the Inland Empire has dropped significantly compared to the regional average. This disparity can undermine the benefits of achieving a *numerical* balance between jobs and housing in the Inland Empire. For example, it could be considered a logical lifestyle choice of many commuters to commute long distances to high-paying jobs in Los Angeles and Orange counties from their homes in the Inland Empire, where they can afford to buy relatively inexpensive houses on large lots. Local governments and developers are inclined to provide that kind of housing if there is a market for it, because of the fiscal and financial benefits. However, as housing prices rise in the Inland Empire, many local employees become priced out of the local housing market.

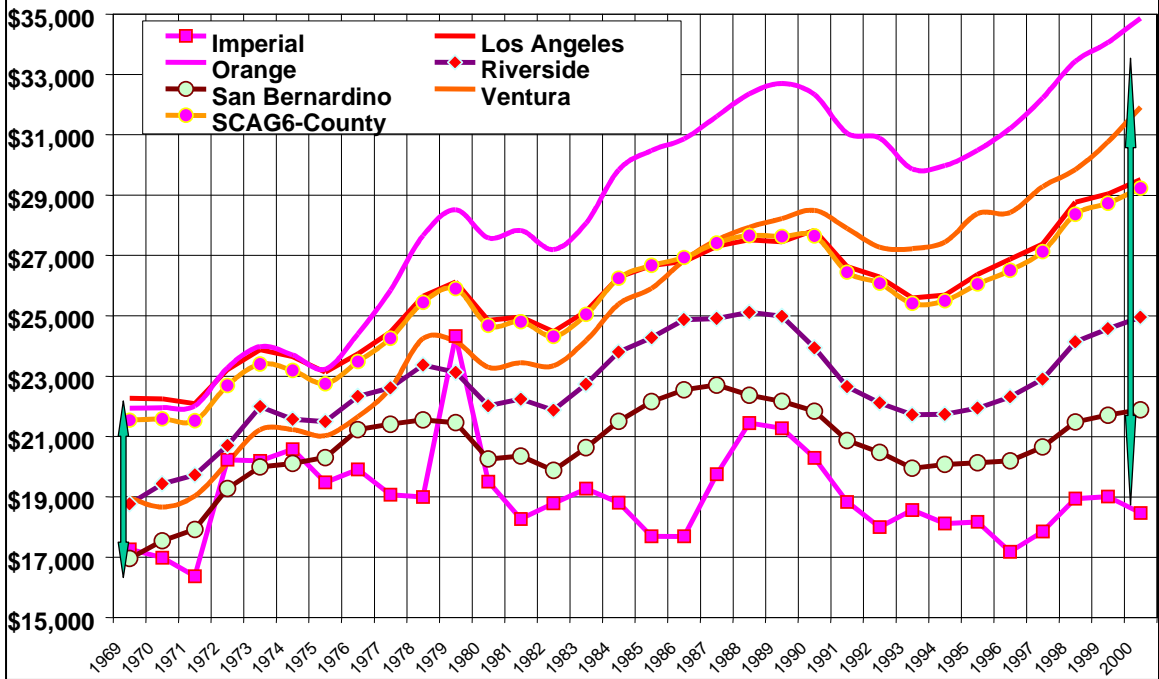
This phenomenon is evidenced in Temecula in Riverside County, where new homes (average 2003 price: \$310,000) are being bought primarily by commuters to North San Diego County, where housing is more expensive. Many workers employed in Temecula (average wage: \$31,000) cannot afford the housing that is available, and must commute in from outlying areas where they can find housing that they can afford (SCAG 2001).



**Figure 4 Payroll Per Job As Percent of Average Payroll Per Job in Core Coastal (Los Angeles-Orange) Area**



**Figure 5 Per Capital Personal Income for SCAG Region Counties (in 2000 Constant Dollar)**



### ***A Modern History of SCAG Region Economic Performance: Imbalance between Population and employment Growth***

In this section, an updated picture on the SCAG region's economic performance and competitiveness will be presented based on the "Local Area Personal Income" data series from the Bureau of Economic Analysis (BEA). The summary of the BEA historic data and analyses related to the SCAG region's economic performance and competitiveness are shown in the following five charts (Figure 6 through Figure 10).

Figure 6 presents two rankings for the SCAG region among all 17 U.S. Consolidated Metropolitan Statistical Areas (CMSA) since 1969. The bars show the SCAG region's ranking in terms of per capita income, while the line represents its ranking in average wages per job. In this graph, higher numbers (bar or line) on the left scale denote poorer performance, or a worse ranking.

Figure 6 shows that the SCAG region's per capita personal income ranking among the 17 CMSAs in the nation was between the third and fourth highest during the 1969-1987 period. After 1987, the ranking of the region's per capita income among major U.S. CMSAs has shown significant deterioration, dropping to 16<sup>th</sup> place (second to last) in four of the last six years. This indicates that the region's economic performance and competitiveness has declined steadily, relative to other CMSAs.

The other measurement, the ranking of the SCAG region's average wages per job among the same 17 CMSAs showed a similar pattern to that of per capita income. Generally speaking, the region suffered in the long run by losing the comparative advantage of high-quality jobs and industries between the early 1970s and late 1980s. This unfavorable trend was further exacerbated by the severe recession in the early 1990s, although it stabilized in 1998. As a result, the SCAG region ranks in 11<sup>th</sup> place among the 17 U.S. CMSAs.

Historical data indicates that wage and salary income generated through employment accounts for about 75 to 80 percent of total personal income. This suggests that other factors may play a contributing role to performance (ranking) of the region's per capita income in addition to average payrolls. The underlying population and demographic characteristics are the only other contributing factors that will be explored next in this section.

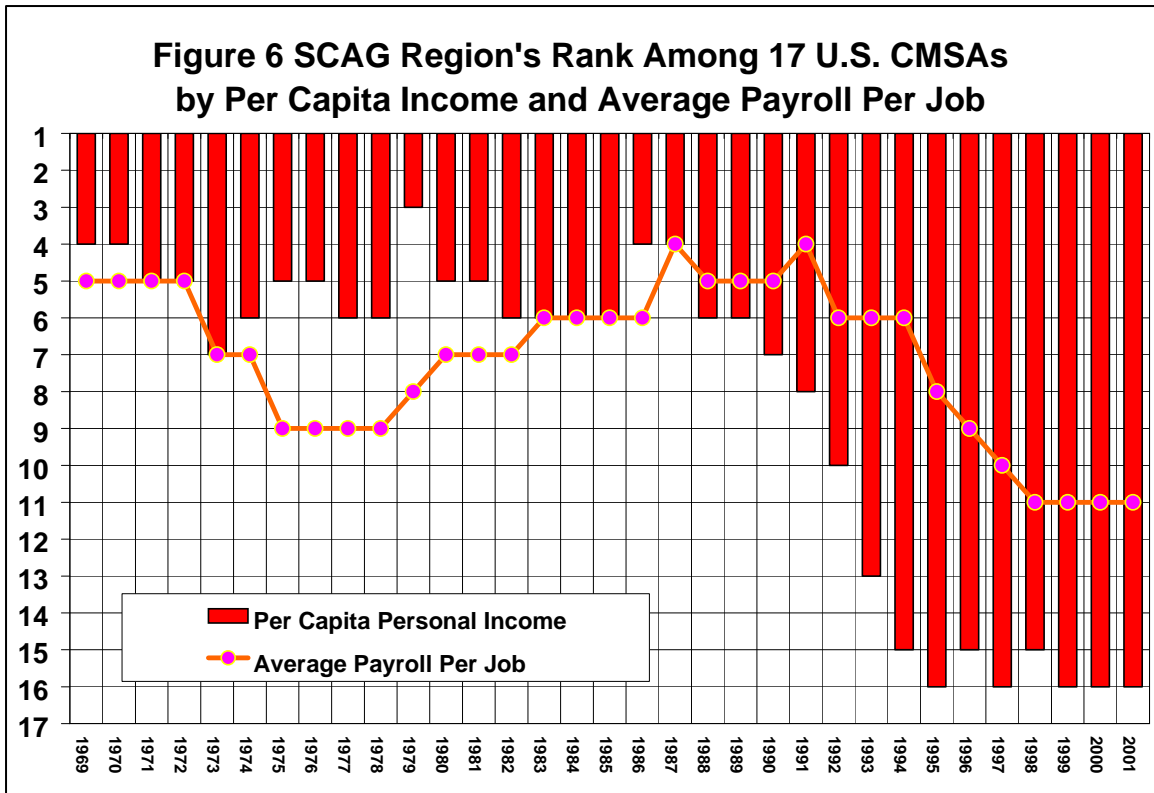
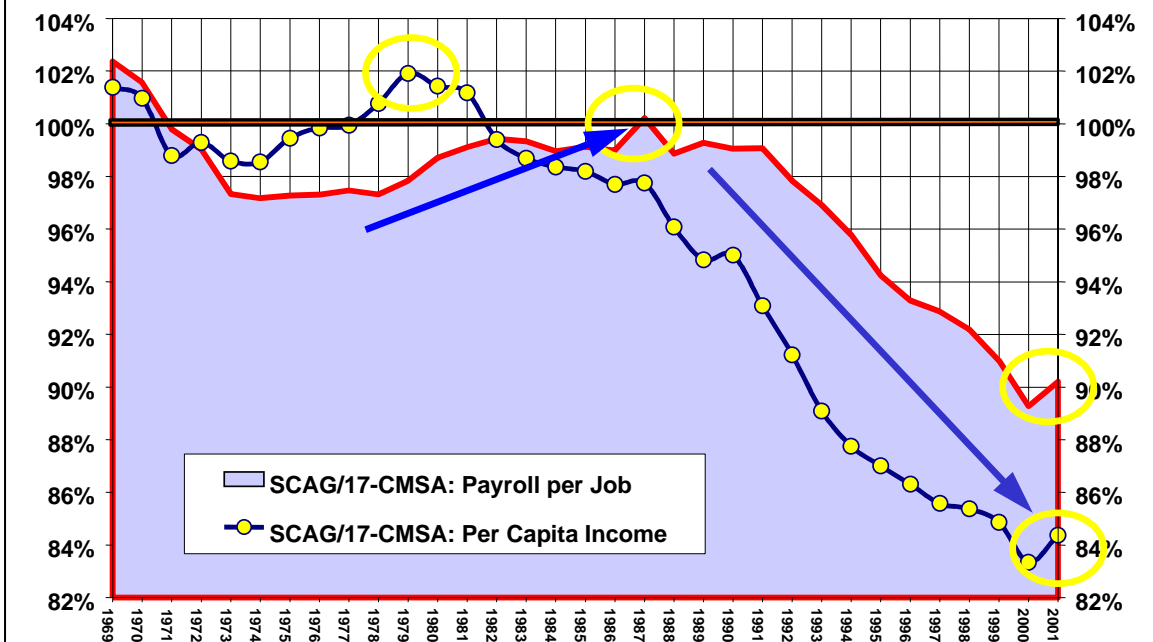


Figure 7 presents two relative ratios, showing the comparison of averages for all 17 U.S. CMSAs: (1) the SCAG region's per capita personal income and (2) average payroll per job shown as a percent (divided by) of those averages of all CMSAs. It is commonly thought that the SCAG region only started to lose competitiveness in per capita income in 1990s due to the recession between 1990 and 1993. Actually, the SCAG region per capita income relative to the average of all 17 CMSAs peaked in 1979, and declined steadily in the next two decades, except for two brief pauses in 1986-87 and in 1989-90.

Although the region has started to lose its competitiveness and shown a declining performance in per capita income relative to other U.S. metropolitan areas in 1979, the region was actually beginning at this time to create high-quality, high-paying jobs and to raise its share of metro area employment (Figure 7). As indicated, the quality of SCAG region jobs as measured by average wages relative to other CMSAs, showed a significant decline in earlier years from 1969 to 1974, and remained almost unchanged for the next several years, until 1978. The next 9 years, between 1978 and 1987, marked the only period in modern SCAG region job market history that high-quality and high-paid jobs were created relative to all CMSAs.

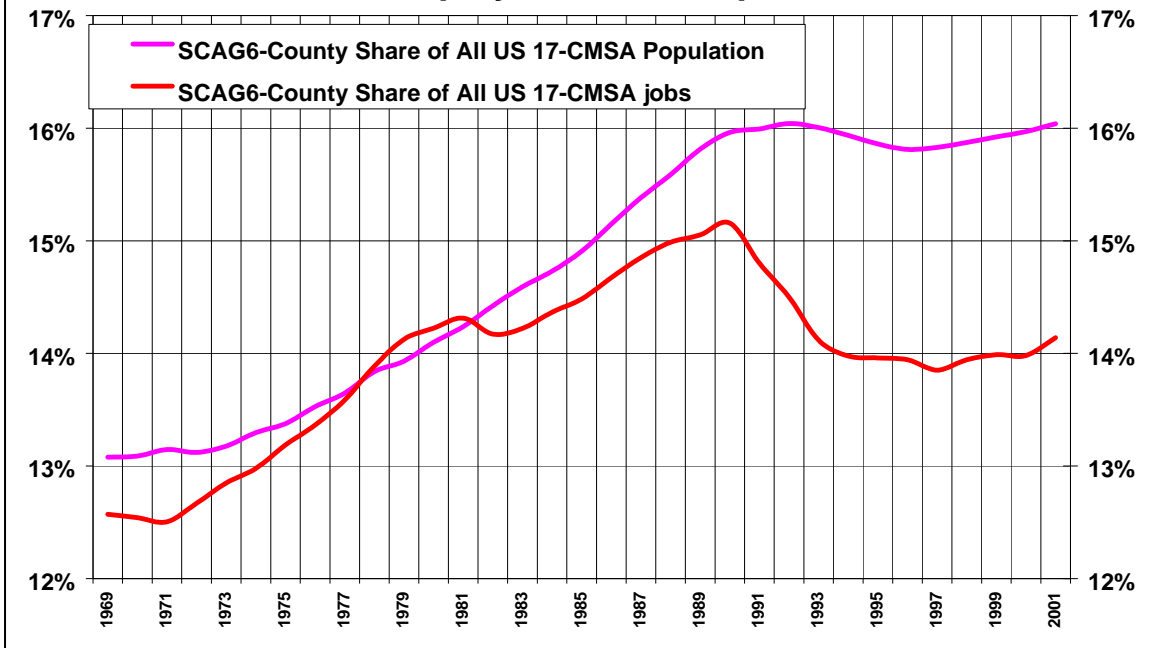
**Figure 7 SCAG Region Per Capita Personal Income and Average Payroll Per Job as a Percent of All U.S. CMSAs**



The SCAG region average payroll per job climbed from 97% in 1978 to at par with the metropolitan area average in 1987. The region's per capita income dropped from its peak of 102% of the metro area average, to just under 98% of average per capita income for all metro areas during the same period. Why is the share of U.S. total jobs and the share of high-paid jobs increasing, but the same region's per capita income performance relative to that of the U.S. is declining? The underlying population and demographic characteristics need to be investigated in order to determine why these trends are going in opposite directions.

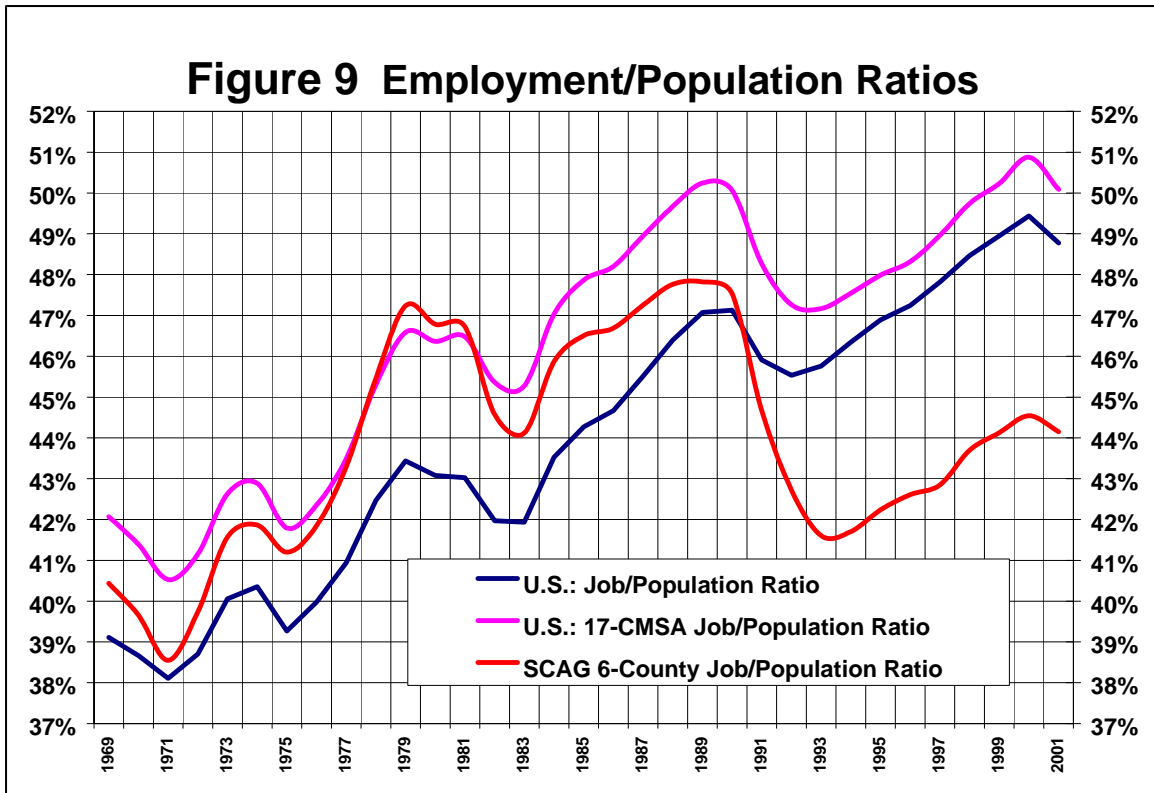
Figures 8 through 10 show the SCAG region's total employment and population trends since 1969. The region's share of all CMSAs' total population and employment are shown in Figure 8. Combining employment and population together, Figure 9 presents a derived composite indicator of employment/population ratios since 1969 for the SCAG region, the 17 CMSAs, and the U.S. as a whole. The final figure, Figure 10, presents the SCAG region's employment/population ratio as a percent of the employment/population ratio for the 17 CMSAs as a whole.

**Figure 8 SCAG Region Share of U.S. 17-CMSA Total Employment and Population**



The last two recessions (in 1981-1982 and 1990-1993) impacted the SCAG region's job market more severely than that of any other CMSA. As a result, the region's share of total U.S. CMSA employment declined during those two recessions. In addition, the ratio of the employment share from the 1990-1993 recession compared to job share declines during early 1980s was 8 to 1. However, a more troublesome trend indicated in Figure 3 is that, although the region has added more than one million (1,016,000) jobs since 1994, the SCAG region has not shown that it will add jobs *faster* than other regions. As a result, it is not clear if its share of overall CMSA employment (the red line in Figure 8) will start to move up again. The region's share of all CMSA employment declined to about 14% at the end of last recession and has remained at this level.

On the population side, the SCAG region has grown population faster than other CMSAs, and has increased its share of the total population of major U.S. CMSAs. This trend of increasing population share in the SCAG region paused briefly between 1992 and 1995. This was due to significant domestic out-migration from the recession. Recently, the region's share of all CMSA population has increased again, nearing its previous high of over 16% registered in 1992.

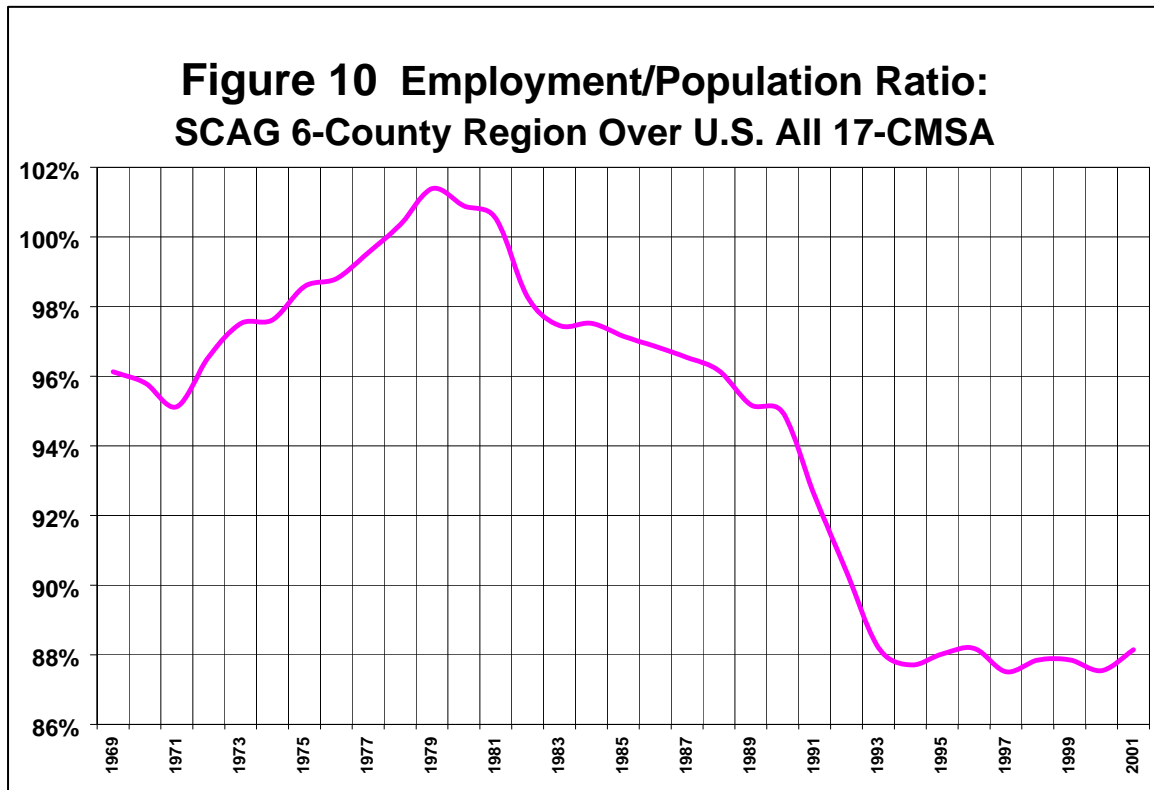


An employment/population ratio provides a measurement of production per capita, which is similar to the concept of the labor force participation rate—i.e., if the wage rates are fixed, the higher the ratio, the higher the income per capita. When the ratio moves up, it indicates that employment growth is faster than population growth, and vice versa. Since employment levels, but not population, are usually lower during recession, the employment/population ratio suffers significantly. In the long run, however, this ratio reflects productivity and labor force growth and ideally should always move up, because it is one of the two basic ways to collectively raise per capita income and economic growth.

As shown in Figure 9, the only time in the last 30 years that the SCAG region had an employment/population ratio higher than or equal to the U.S. or all CMSAs as a whole was in the brief period between 1978 and 1981. The employment/population ratio for the region peaked (close to 48%) in 1989, and dropped more than six percentage points, to just over 41.5% in 1993. The ratio in the SCAG region has continued to move up since 1993, reaching 45% in 2000. Unfortunately, however, the job/population ratio gap between the region and all CMSAs as a whole has yet to exhibit any meaningful trends indicating that this gap will narrow soon.

This relationship is also shown in Figure 10. Figure 10 presents the region's employment/population ratio as a percent of the same ratio for all CMSAs as a whole. The region's employment/population advantage over other metro areas

gained ground through 1979. After 1979, the region lost its relative competitiveness as indicated by the apparent downward movement of the line. This ratio has been around 88% during the last eight years, without any clear upward or downward trends.



It should be noted, by comparing Figure 9 with Figure 6, that when the SCAG region's employment/population ratio reached its peak relative to other CMSAs in 1979, the region's per capita income relative to other CMSAs also peaked. As a result, it is no surprise that it was also in 1979 that the SCAG region ranked the third highest place in per capita income—its best showing ever in the last 30 years—among the 17 CMSAs. Moreover, the region's employment/population ratio relative to other CMSAs seems to show an almost perfect correlation to the region's per capita income relative to other places. This strongly suggests that the region's demographic characteristics, rather than the underlying economy (particularly high quality and high-paying jobs) has the greatest impact on the ranking of per capita income, and therefore on regional economic performance.

Following is summary list which puts all the above indicators together in order to identify factors affecting the SCAG region's economic performance during the last 30 years (in terms of its ranking in per capita income) compared to other U.S. consolidated metropolitan statistical areas.

- Up to 1979: Per capita income ranking peaked in 1979
  - ❖ Average wages per job relative to other major metro areas declined
  - ❖ But Job/Population ratio relative to other metro areas rose and peaked in 1979
  
- 1979 to 1987: Per Capita income ranking started losing ground
  - ❖ Job/Population ratio relative to other major metro areas declined
  - ❖ While average wages per job relative to other major metro areas increased and peaked in 1987
  
- 1987 to 1994: Per capita income ranking deteriorating quickly
  - ❖ Job/Population ratio declined sharply
  - ❖ Average wages per job relative to other major metro areas also declined sharply
  
- 1994 to 2000: Over one million jobs were created in the SCAG region
  - ❖ Job/Population ratio has stabilized
  - ❖ Average wages relative to other metro regions have continued to lose ground
  
- 2001
  - ❖ Both average wages and job/Pop ratio edged up relative to other major metro areas, but no impact on rankings

The last recession ended almost nine years ago. Since then the region has added over one million jobs (1,000,160 jobs). However, the SCAG region has yet to show any signs that it is ready to regain the strength it had prior to the recession. During the last nine years, the region has created increasingly lower-quality jobs with relatively less pay compared with average job payrolls created in other major metro areas. Thus, although the region has managed to maintain its share of total CMSA employment and keep its job/population ratio relative to other places stable, the region actually lost ground in rankings of per capita income and average wages. Moreover, the declines in the region's competitiveness during recent years, particularly after the last recession, were more troublesome. The further erosion in relative competitiveness during this period was a result solely caused by "quality" of economic growth and low-pay jobs. The question is whether the type of labor force growth in the SCAG region is driving the types of jobs that are being created. If this is what has happened in the SCAG region's job market, the best way to address the region's competitiveness would be to focus on investment in human capital and development of the workforce.

### ***Globalization, Trade, Structural Change of the Economy and Off-shoring***

The shares of manufacturing jobs in the Southern California and the U.S. economy have been on the decline for several decades. The phenomenon likens



to the declining trend of agricultural employment in the last century, as it became more productive and as the economy has become more services-oriented. From 1910 to 1990, agricultural employment in the U.S. fell to just 2.5% of total employment from 32%. Productivity increases are responsible for a large part of these changes and increased globalization has also led to greater imports. Large foreign investment by U.S. companies in search of lower costs and markets also means migration of jobs to low cost countries.

However, initially limited to manufacturing and assembly, the sophistication of the operations performed overseas has risen steadily. During the 1990s, the emergence of the internet and the worldwide expansion in telecommunications capacity have greatly reduced the real-time cost of communicating data over long distances and eliminated the barriers that once determined where information-related services could be performed. Functions that are repetitive or process-based such as telemarketing and data entry are increasingly likely to be performed overseas. Even more complex activities, such as product development, financial analysis, software design, computer programming support and integration, and a range of other services and white-collar functions are also increasingly being performed abroad

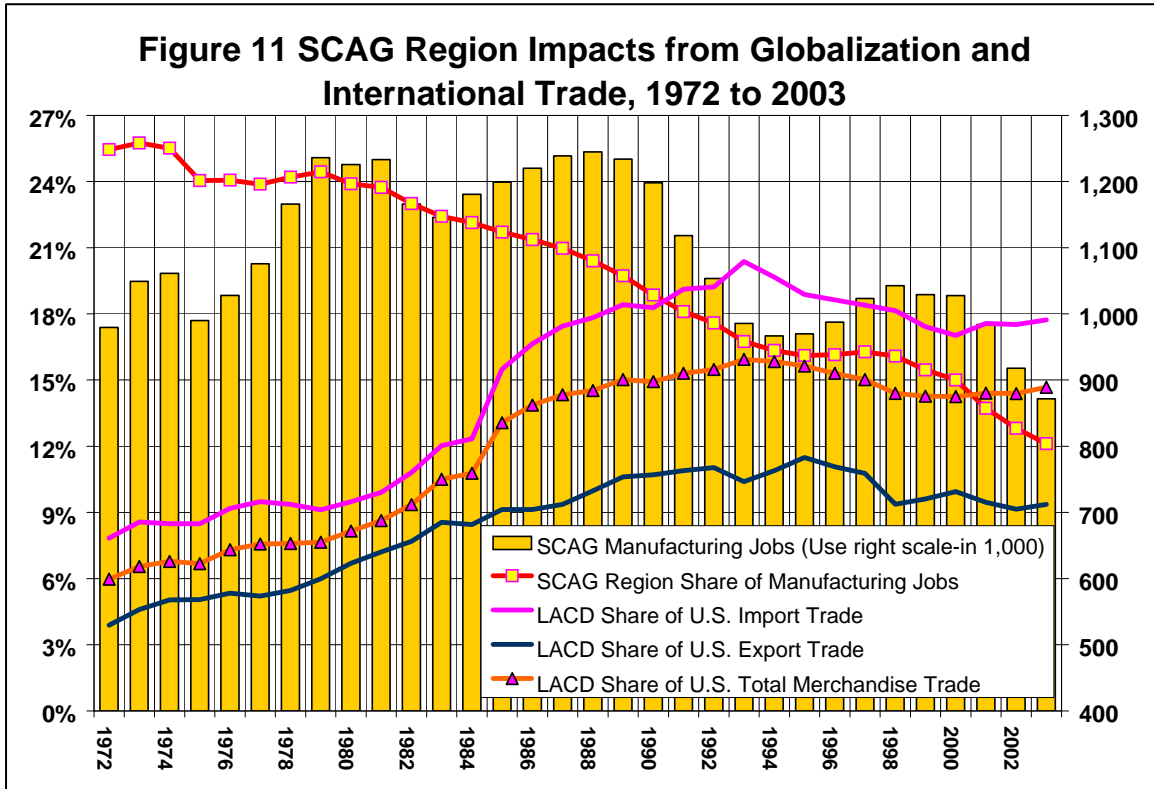
For example, engineering and design once performed almost exclusively in the United States and in other developed economies, is also being done overseas by multinationals or by local companies contracted to them. While such migration is still small in numbers, and is likely to remain so in the near future, it is certainly a worrisome long-term development trend for U.S. and Southern California white-collar workers. We are now entering an era of global competition of workforce—educational attainment and quality of labor force are in direct, head-to-head competition among all top regions worldwide.

This is exactly what a free market economy should do—through price, exchange, and trade mechanisms, destruct and create jobs—maximize the efficiency of resource utilization and enhance economic welfare for all participants. However, resentment to free trade could rise if public policy fails to address the short-term “losers.” Recent examples include NAFTA opponents - including labor, environmental, consumer and religious groups - arguing that NAFTA would launch a race-to-the-bottom in wages, destroy hundreds of thousands of good U.S. jobs, undermine democratic control of domestic policy-making and threaten health, environmental and food safety standards.

Employment and wage statistics during last 10 years for Southern California show that pay from newly created jobs are not compatible to wages and benefits foregone from lost factory jobs, which in turn was blamed at least partially for causing disappearance of the middle class, increase in income inequality, and poverty. On the other side of the equation, those winners – places to which U.S. jobs have gone - have enjoyed tremendous economic growth, and as a result,

emerging middle classes, further foreign investment, sustained improvement in the labor force, infrastructure, and productivity.

Globalization, trade, improvements in inventory control, and just-in-time delivery, etc., have increasingly made the transportation and logistics industry more important over time. Figure 11 tries to illustrate the combining impacts on SCAG region from structure change of the economy and intensification of globalization and international trade during the last 30 years.



While the number of manufacturing jobs in the region climbed back to its peak level again in 1988, from the sharp 1981-82 recession, the share of manufacturing jobs has declined precipitously, almost uninterrupted, to just over 12% in 2003. This represents more than 50% retraction from the 25.4% recorded in 1972. The region's manufacturing sector job share suffered 5 percentage-points loss between 1972 and 1988, even as its employment level jumped more than a quarter million in the same period due to defense build up.

The end of the cold war together with many other factors brought the region its most severe recession, between 1990 and 1993, since the Great Depression in the late 1920s. The added factory jobs during the defense build-up period were completely wiped out; the SCAG region lost over a quarter million high-paying defense jobs between 1988 and 1994. Further manufacturing job losses since 1998 can be attributable to off shoring, but also continue to reflect the larger

trend lasting for decades related to structural change of the economy, globalization, and international trade.

The negatives of the manufacturing sector and its employment, to some extent, were off-set by tremendous growth in international trade through the Los Angeles Customs Districts (LACD), which includes the Ports of Los Angeles, Long Beach, and the Los Angeles International Airport (LAX). The SCAG region's dominance in serving the whole nation in facilitating international trade is evidenced from growth in LACD's share of U.S. imports, exports and total trade. As indicated in Figure 11, all these shares were almost tripled in the last three decades<sup>3</sup>. At the same time, however, the Southern California region is facing a crisis in freight transportation due to growth in population, employment, and increases in international and domestic trade volumes. By value, Southern California accommodates nearly 30% of the nation's waterborne trade, and 15% of the nation's total international trade. This activity greatly benefits the nation as a whole, while Southern California incurs a disproportionate share of the burden. Contributions to national prosperity should be compensated with national resources.

### ***Immigration: Foreign-born and Hispanic Population***

One of the most unique characteristics of the SCAG region's population is its diversity, which has evolved in recent decades and is shaped primarily by *immigration*. The SCAG region is much more ethnically diverse than either the United States or California. The diversification of the SCAG region's population has been further accelerated by the higher birth rates among immigrants compared to the native born. As a result of the differentials in birth rates by ethnicity, over 95 percent of population growth in the SCAG region in the last quarter century (1975-2000) was due to the population growth of Hispanics and Asian/Pacific Islanders. The Non-Hispanic White's population, on the other hand, experienced a minor loss during the last 25 years. The final factor that complicates population diversification in the SCAG region is the net domestic migrants, who predominately tend to be Non-Hispanic Whites.

Table 2 presents a snapshot of the region's population by nativity from the 2000 Census. As a result of the large inflow of immigrants, almost one out of every three Southern Californians (31%) was born in a foreign country in 2000, compared with 27 percent in 1990, 19 percent in 1980, or just less than 11 percent in 1970. Of the foreign born population in the SCAG region, over 91 percent were from just three regions—62.4% from Latin America, 28.7% from Asia, and Europe, with 5.9%, was the distance third. Compared with the U.S.,

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<sup>3</sup> It should be noted in the figure that the moderate declines in LACD's shares of U.S. trade since 1993-95 period were primarily due to the adoption and implementation of NAFTA. Significant growth in international trade was moved through land by trucks between Canada-U.S.-Mexico, which were reflected in total U.S. trade, but not captured by vessel and airplane modes. The LACD remains in leading position and maintains its share of U.S. total trade through vessel and airplane at about 12%.

for example, the SCAG region shows a tremendous concentration of foreign-born population. As indicated by the 2000 Census, while the SCAG 6-county region accounted for only 5.9 percent of total U.S. population, the region's share of U.S. foreign-born population was 16.4 percent. The region's shares of U.S. foreign population from Asian and Latin America were even higher—17.8 percent of foreign-born population from Asian countries could be found in the SCAG region, while almost one in five (19.8%) Latin American immigrants called Southern California home in 2000 (Table 2).

The new wave of immigration to the SCAG region can be traced back to the 1970s. During early 1980s, SCAG staff had witnessed this significant demographic change—the rapid growth of immigrant populations, particularly from Latin American and Asian nations between 1975 and 1980—and made following observations:

- ❖ Half a million foreign immigrants came to the region between 1975 and 1980 which represented about 55% of the region's net growth during that period.
- ❖ Approximately 1 out of every 8 immigrants that came to the U.S. during this period located here in the SCAG region. This is two and a half times the SCAG region's proportionate share of the nation's total population; and
- ❖ This is almost two and a half times the average level of immigration experienced in the SCAG region during the 1950's and 1960's.

**Table 2 SCAG Region Population by Nativity, and Share of California and U.S., 2000 Census**

	U.S.	California	Imperial	Los Angeles	Orange	Riverside	San Bernardino	Ventura	SCAG Region		
Total Population	281,421,906	33,871,648	142,361	9,519,338	2,846,289	1,545,387	1,709,434	753,197	16,516,006		
Native Born Population	250,314,017	25,007,393	96,578	6,069,894	1,996,390	1,251,675	1,390,787	597,284	11,402,608		
Foreign Born Population	31,107,889	8,864,255	45,783	3,449,444	849,899	293,712	318,647	155,913	5,113,398		
Europe	4,915,557	696,578	364	194,503	56,240	21,969	17,536	13,554	304,166		
Asia	8,226,254	2,918,642	1,764	1,022,289	311,466	40,467	61,071	30,607	1,467,664		
Africa	881,300	113,255	51	43,024	10,387	2,444	4,475	1,477	61,858		
Oceania	168,046	67,131	12	12,560	4,496	1,235	2,022	970	21,295		
Latin America	16,086,974	4,926,803	43,436	2,143,049	450,252	218,599	228,510	105,260	3,189,106		
Northern America	829,442	141,779	156	34,003	17,052	8,998	5,033	4,038	69,280		
	U.S.	California	Imperial	Los Angeles	Orange	Riverside	San Bernardino	Ventura	SCAG Region	SCAG Region Share of U.S.	SCAG Region Share of California
Total Population	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	5.9%	48.8%
Native Born Population	88.9%	73.8%	67.8%	63.8%	70.1%	81.0%	81.4%	79.3%	69.0%	4.6%	45.6%
Foreign Born Population	11.1%	26.2%	32.2%	36.2%	29.9%	19.0%	18.6%	20.7%	31.0%	16.4%	57.7%
Europe	15.8%	7.9%	0.8%	5.6%	6.6%	7.5%	5.5%	8.7%	5.9%	6.2%	43.7%
Asia	26.4%	32.9%	3.9%	29.6%	36.6%	18.8%	19.2%	19.6%	28.7%	17.8%	50.3%
Africa	2.8%	1.3%	0.1%	1.2%	1.2%	0.8%	1.4%	0.9%	1.2%	7.0%	54.6%
Oceania	0.5%	0.8%	0.0%	0.4%	0.5%	0.4%	0.6%	0.6%	0.4%	12.7%	31.7%
Latin America	51.7%	55.6%	94.9%	62.1%	53.0%	74.4%	71.7%	67.5%	62.4%	19.8%	64.7%
Northern America	2.7%	1.6%	0.3%	1.0%	2.0%	3.1%	1.6%	2.6%	1.4%	8.4%	48.9%

Later, SCAG staff, based on assumption that observed trends witnessed between 1975 and 1980—high immigration scenario—would continue, projected the likely impacts on ethnic composition in 2000. The projection results contained in the report, “Southern California: A Region in Transition, Volume one: Scenarios of Future Immigration and Ethnicity, December 1984” showed that:

- ❖ By the year 2000, Non-Hispanic Whites would no longer comprise the majority of the region's population, and their share of the region's total would drop from 61% in 1980 to 42% in the year 2000.
- ❖ The size of the Hispanic population (41% of total) would be roughly equal to the size of the Non-Hispanic White population.
- ❖ The number of foreign-born residents would increase from 18% in 1980 to approximately 30% in the year 2000.

The above projections concerning the region's ethnic composition and foreign-born population are amazingly accurate compared with the actual figures in 2000. The only surprise to SCAG planners who did these projections back in 1984 is that the so-called high immigration scenario still underestimated the actual growth in immigration and its ethnic impacts. In 2000, the Hispanic population accounted for 41% of SCAG region's population, while the non-Hispanic White population had further dropped to just 39% of total. The foreign-born population reached 31% of region's total residents, one percentage point higher than the projection.

Immigrants, or foreign-born residents, overall, tend to have notably different demographic and socioeconomic characteristics, than native-born residents. Because of the significant and increasing share of foreign-born residents in the SCAG region, immigrants have increasingly influenced the overall demographic and socioeconomic characteristics of the region<sup>4</sup>. In addition, immigrants generally also demonstrate residential choices and commuting behaviors that are distinct from general public<sup>5</sup>. Following are discussions regarding how regional competitiveness, poverty level and concentration of poverty, regional equity, income distribution and equality, development patterns, housing and transportation investment could have been significantly shaped by immigrants, who have accounted for almost all population growth during the last 30 years.

### Population/Demographics and Socioeconomic Competitiveness

There is no doubt that many of the newly-arrived immigrants, who often scramble from one low-wage job to another, inevitably have placed a burden on welfare, health care, and other community services. Yet it is also no dispute that many immigrants become much better off and their hard work eventually led to prosperity as they settled in and adapted over 10 to 20 years<sup>6</sup>. Nevertheless, the long term progress and improvement in their socioeconomic status may be too slow and too moderate to raise the averages from those fresh inflows of foreign-born fellows.

<sup>4</sup> *The State of the Region 2002*, Southern California Association of Governments (SCAG).

<sup>5</sup> The size of immigrants and their potential significant impacts on the region's growth, development patterns, housing demand, and transportation implications were also recognized and anticipated by SCAG staff back in 1984.

<sup>6</sup> Dowell Myers and John Pitkin, 2001. *Demographic Futures for California*. Population Dynamics Group, School of Policy, Planning, and Development. University of Southern California. Los Angeles, California.

As observed in a recent SCAG report, *State of the Region 2002*<sup>7</sup>, “When compared with domestic out-migrants, foreign-born residents on average are younger, have less education and lower household income, and live in larger households . . . . “. All of the above—larger households, less education, more affluence moving out, less affluence moving in—points to an inevitable regional collective direction: losing grounds in per capita income and its ranking relative to other places.

The most direct evidence linking demographics and its influence on income and distribution of income can be found from the research paper by economists of the San Francisco Federal Reserve Bank. To understand the extent to which changes in the composition of California’s population have caused income and its distribution to deviate from that in the rest of the U.S., Daly and Royer (2000) performed a simple re-weighting exercise that imposes the demographic structure of the rest of the U.S. on California in each year examined. The demographic re-weighting adjusts for age, sex, race, and education<sup>8</sup>.

They concluded that California’s population composition, in general had first a *positive* and then a *negative* effect on the relative income performance of California during the past 30 years. In 1969 and 1979, California’s demography served to raise income levels in the State above what families at equivalent percentiles outside of California were obtaining. Thus, when the California population is made to look like the rest of the U.S. population, the dollar difference in real adjusted family income is reduced. However, beginning in 1989 this pattern was reversed and demographic differences between California and the rest of U.S. began to restrain income growth and income levels in the State. In other words, had the age, sex, race, and education structure in California been the same as the rest of the U.S. in 1989, the positive dollar difference in family incomes between California and the rest of the U.S. would have been larger. The authors further estimated that changes in demographic characteristics (*age, gender, race, and education*) account for one-third to two-thirds of the differences in changes in real family adjusted income and income inequality in California and the rest of U.S. between 1969 and 1998.

In summary, demographics affect the performance and ranking of the SCAG region per capita income in a similar and parallel way to that of population size, employment/population ratio, jobs, and wages. In addition, they are all interrelated and working together in concert to affect the region’s socioeconomic competitiveness relative to other metro areas. However, the denominator of the

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<sup>7</sup> *The State of the Region 2002*, Southern California Association of Governments (SCAG). See statistics compiled from 1990 Census Public Use Micro Dataset (PUMS, 5% sample) by Simon Choi and Viviane Doche-Boulos in their 1995 SCAG Report, “*Migration in the Southern California Region.*”

<sup>8</sup> While this study was performed using state level data, given the size and diversity of the SCAG region economy, most demographic factors listed above have shown a much stronger presence in Southern California than in California as a whole.

per capita income equation, the population and demographic side of the story seem to outweigh the economy—jobs and wages—in determining the region's final performance and ranking of per capita income. These are probably the primary driving forces for the type of jobs that have been created recently, along with the continuing declines in the SCAG region's per capita income and regional rankings relative to other metro areas.

#### Immigrants raise income inequality and income distribution concerns

It is not enough that economic development strategy only talks about goals and performance of per capita income. The accompanying goal that gains in economic prosperity shared broadly by all residents may be more desirable from a policy perspective. As discussed, Southern California is probably the most diverse region of its size in the world. The region's population includes residents of very different cultural backgrounds, educational attainment levels, work experience, skills, and income. Our diversity is so great that regional prosperity cannot be achieved unless all major groups participate.

Unfortunately, leading income distribution studies indicate that immigration or the influx of younger workers and immigrants into California's labor force has been a leading contributor to the state's (region's) high level of income inequality (Daly, Reed, and Royer 2001). In addition, the rising earnings value of education and experience, which most immigrants also lack, has also widened the income gap in California (SCAG region). These two factors together account for 44 percent of the rising income inequality in California.

Moreover, using *family* income data from Current Population Survey (CPS) in selected economic expansion peak-to-peak years between 1969 and 1998 (namely 1969-79, 1979-89, and 1989-98), Economists found that California has strayed from its own historical pattern from 1989. Compared to previous periods of economic expansion, data through 1998 show that a larger number of Californians were in poverty and a smaller number were in the middle class than in 1989, the last business cycle peak (Daly and Royer 2000).

Finally, the income studies for *Southern California* (Ong, 2000) suggest a similar troublesome trend: income inequality increases primarily because of declines in earnings for individuals belonging to the upper-middle and lower-middle income quarters. It is found that there was a decrease in the percentage of workers belonging to the middle quartile group; both *race* and *gender* did play a significant role in causing inequality in income distribution.

#### Immigrants contribute to Increase in poverty and in concentration of poverty

A recent study, sponsored by the Brookings Institute, of poor neighborhoods in Southern California from 1970 to 2000 (Ong and 2003) found that the poverty rate in the Southern California region increased steadily over the past thirty

years. The regional poverty rate increased from about 10 percent in 1970 to nearly 16 percent in 2000, and well above the poverty rates in both the nation and California. The study further found that the growth in poverty population has translated into an increase in the number of neighborhoods with concentrated poverty in the region.

For example, the proportion of poor and very poor neighborhoods more than doubled, from 13 percent in 1970 to 30 percent in 2000. Likewise, the proportion of the poor population residing in these neighborhoods increased by a similar ratio from 29 percent in 1970 to over 57 percent in 2000. The report found evidence to suggest that large demographic shifts occurred throughout the region, largely as the result of immigration, have contributed to rising poverty levels in the region. Further, the study reported that the impacts of immigration also demographically transformed neighborhoods, particularly neighborhoods with concentrated poverty, and played a major role in neighborhood transitions into poverty in the 1980s.

Another recently published study by the Center on Urban and Metropolitan Policy also at the Brookings Institution (May 2003) reinforces the poverty findings of Ong's poor neighborhood report. The report, "*Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s,*" documents the decline in the number of high poverty neighborhoods as well as the population in those neighborhoods in the U.S. as a whole between 1990 and 2000. By contrast, the report found that the concentration of poverty in the SCAG region actually increased significantly during this period. For example:

- ❖ For the nation as a whole, the number of people living in high-poverty neighborhoods—neighborhoods in which the poverty rate is 40 percent or higher--declined by a dramatic 24 percent, or 2.5 million people, in the 1990s.
- ❖ However, for the SCAG region, where data is available for five major metropolitan areas, the number of people living in high-poverty neighborhoods more than doubled between 1990 and 2000, jumping by over 350,000.
- ❖ The number of high-poverty neighborhoods in the SCAG region (as measured by census tracts) also showed a dramatic increase. In 1990 there were 63 census tracts (290,284 people) in the five metro areas with high concentrations of poverty; by 2000, the number of such tracts had risen to 157 (644,191 people).
- ❖ Among the top 15 metro areas in the U.S. where poverty concentration showed the greatest increase between 1990 and 2010, Los Angeles County is at the top of the list, while the Riverside/San Bernardino MSA ranks third (following Fresno, CA).



## Inequality and discrimination of labor market

Most studies suggest that those underlying factors associated with immigrants such as educational attainment, knowledge, training, etc., which have contributed to increased inequality, will likely remain powerful forces in the foreseeable future as long as the number of foreign-born residents continues to increase. As mentioned earlier that diversification of the SCAG region's population has been accelerated further due to relatively higher birth rates among immigrants than that of native-born. Future population growth between now and 2025 in the SCAG region is projected to come almost exclusively from Hispanic origin (81.9%) and Asian/Pacific Islanders (19.1%). The Non-Hispanic White population, on the other hand, is projected to decline by 3.8 percent, while the African American population will increase marginally, by 2.5 percent. Thus, immigrants' (or, Hispanics', minorities') futures had been the region's future in the past, and how well immigrants and their children (Hispanics) do will determine the region's future.

While immigrants' initial socioeconomic status are a lesser concern here, their progress and improvement, after settling down and adapting for several years, in getting education, finding jobs, raising income, moving out of poverty, climbing up economic ladders, are great concerns to the public and policy makers. There are multiple-layers of the same concern about immigrant's well-being and ethnic-based outcomes in terms of job wages, employment, and unemployment performance. First, immigrants, after they have settled longer in the region, tend to have very "gradual" improvements in their socioeconomic well-being. However, even after 20 years of progress and improvements, immigrants still lag behind the native-born population in their socioeconomic well-being, in educational attainment, and in poverty rates.

A recent study by Pew Hispanic Center indicates that the percentage of adult Latino immigrants age 25 and above who have completed a high school education has doubled in the last three decades, an indication that the education gap between such immigrants and native-born Americans may be narrowed. In earning college degrees, however, the same study concedes that Latino immigrants have not yet been able to keep pace with the native-born. Unfortunately, wage statistics between 1979 and 2000 show that only those workers with college degrees and above have experienced improvement in real wages, while all other workers with less educational attainment than college have seen their wages decline significantly in real terms.

Furthermore, there is strong evidence from government statistics indicating unequal treatment and labor market outcomes along the race and gender classification. After controlling the differences in education, experience, etc., minorities and women have been consistently associated with statistics showing higher unemployment rates and less pay than male and non-Hispanic workers.

## Latinos and Compact Development

The SCAG region's population growth has been supportive of a more compact type of development. Both the Latino and Asian Immigrants, which accounted for almost all population growth in the last 30 years, reveal socioeconomic characteristics and life style that are consistent with compact or higher-density development (Myers, 2001). In fact, SCAG convened an extensive and through study in 1984 to assess various likely impacts from high levels of Latino and Asian immigrants observed between 1975 and early 1980s (SCAG 1984, Volume 3). Among the likely impacts analyzed in the study, the urban form and development pattern impacts due to immigrants were also provided.

Separately, the urban density changes study also suggested that metro regions with more foreign-born residents usually urbanize less land and, as a result, increase urban density (Fulton, et. al. 2001). The study compared the urban density changes of the SCAG region with those of the New York CMSA, and commented that Southern California is not growing "up"—in the sense of building New York-style high-rise—but it is becoming denser partly because of the region's immigrants and non-Anglo populations. Many SCAG region foreign-born, Hispanic, and Asian residents have modest incomes, larger household sizes, and tend to double up in existing areas, thereby increasing the population density even though the physical fabric does not change much (Fulton, et. al. 2001).

To conclude this section regarding the massive and significant socioeconomic, housing and development pattern impacts resulting from the SCAG region's disproportional concentration of foreign-born population and Hispanic and Asian residents, Table 3 provides key indicators of compact-city lifestyle in SCAG region compiled from 1980, 1990, and 2000 PUMS data<sup>9</sup>.

As indicated in Table 3, household sizes were considerably larger for Latinos than non-Latinos, implying that almost 40 percent fewer housing units are needed to house the same size Latino population compared with non-Latinos. The difference in household size also held for both lower and higher incomes, suggesting that the differential in household size is not a function of income or poverty. Rather, this is likely the result of culture or custom among Latinos to live in a larger family. Household sizes in the SCAG region have increased substantially for both Latinos and non-Latinos during the last 20 years, and the household size gaps between the two groups have widened—Latino household size was over 60% larger than that of non-Latinos in 2000, compared to about 46% bigger in 1980. Similarly, more Latinos than non-Latinos are likely to live in multiple housing units (apartments). As shown in Table 1, for example, 40% of Latino households lived in apartments in 2000, compared with just under 33% for non-Latino households. Taken together, these two indicators indicate that Latino

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<sup>9</sup> SCAG staff used 1980, 1990, and 2000 Census Public Use Microdata Samples (PUMS) to duplicate the Table 1—Key Indicators of Compact-city Lifestyle in California, 1990—appeared in the paper: *Demographic Futures as a Guide to Planning: California's Latinos and the Compact City*, APA Journal, Vol 67, No. 4, for the SCAG region.

households tend to live in places that are substantially more compact and higher density than those of non-Latinos.

**Table 3 Key Indicators of Compact-city Lifestyle in SCAG Region, 1980, 1990, and 2000**

2000 Census PUMS				Household Size = Population / Household			% of Household in Multiple Housing Units			% of Compact Commuters*		
Household Income Distribution	20%-35%		65%-80%	20%-35%		65%-80%	20%-35%		65%-80%	20%-35%		65%-80%
Household Income Range	All Income	\$20,000-\$32,000	\$63,000-\$90,000	All Income	\$20,000-\$32,000	\$63,000-\$90,000	All Income	\$20,000-\$32,000	\$63,000-\$90,000	All Income	\$20,000-\$32,000	\$63,000-\$90,000
NonLatino	2.46	2.12	2.79	32.6%	44.8%	23.5%	4.1%	8.2%	2.6%			
Latino	3.96	3.82	4.53	40.0%	50.0%	20.3%	11.3%	13.8%	6.6%			
Native-born	3.00	2.80	3.32	32.0%	44.1%	18.4%	5.1%	7.4%	2.8%			
Foreign-born	4.41	4.15	5.35	43.7%	52.0%	21.6%	13.5%	15.4%	8.8%			
1995-00 Immigrants	4.61	4.02	6.59	62.6%	66.9%	46.3%	38.7%	59.5%	34.1%			
1990-94 Immigrants	4.26	4.33	5.18	62.9%	63.7%	38.6%	22.3%	25.2%	13.4%			
1980-89 Immigrants	4.52	4.27	5.56	50.8%	55.3%	28.5%	13.0%	16.1%	9.0%			
1970-79 Immigrants	4.62	4.27	5.43	32.9%	44.3%	16.5%	8.5%	10.7%	7.1%			
Immigrants before1970	3.85	3.37	4.73	23.1%	31.2%	10.2%	6.2%	12.5%	4.3%			
All Household	2.90	2.78	3.22	34.8%	46.8%	22.7%	6.7%	10.9%	3.8%			

1990 Census PUMS				Household Size = Population / Household			% of Household in Multiple Housing Units			% of Compact Commuters*		
Household Income Distribution	20%-35%		65%-80%	20%-35%		65%-80%	20%-35%		65%-80%	20%-35%		65%-80%
Household Income Range	All Income	\$15,000-\$25,000	\$50,000-\$67,000	All Income	\$15,000-\$25,000	\$50,000-\$67,000	All Income	\$15,000-\$25,000	\$50,000-\$67,000	All Income	\$15,000-\$25,000	\$50,000-\$67,000
NonLatino	2.46	2.10	2.79	32.7%	46.4%	23.1%	4.1%	8.3%	2.3%			
Latino	3.90	3.74	4.41	41.5%	51.8%	22.9%	13.3%	16.0%	10.2%			
Native-born	3.13	2.80	3.55	29.2%	39.8%	13.9%	4.9%	7.5%	3.9%			
Foreign-born	4.33	4.12	5.13	48.4%	56.7%	30.6%	16.6%	17.9%	14.0%			
1985-90 Immigrants	4.51	4.25	5.77	70.5%	75.1%	55.4%	32.4%	34.8%	36.8%			
1980-84 Immigrants	4.21	4.02	5.33	62.9%	67.9%	43.3%	21.3%	21.4%	23.8%			
1970-79 Immigrants	4.66	4.37	5.36	46.4%	53.1%	34.6%	13.0%	12.7%	9.9%			
Immigrants before1970	3.90	3.64	4.62	27.0%	35.1%	13.3%	6.9%	10.4%	5.2%			
All Household	2.79	2.60	3.09	34.7%	48.1%	23.0%	7.0%	12.0%	4.3%			

1980 Census PUMS				Household Size = Population / Household			% of Household in Multiple Housing Units			% of Compact Commuters*		
Household Income Distribution	20%-35%		65%-80%	20%-35%		65%-80%	20%-35%		65%-80%	20%-35%		65%-80%
Household Income Range	All Income	\$8,000-\$13,000	\$25,000-\$33,000	All Income	\$8,000-\$13,000	\$25,000-\$33,000	All Income	\$8,000-\$13,000	\$25,000-\$33,000	All Income	\$8,000-\$13,000	\$25,000-\$33,000
NonLatino	2.43	2.06	2.79	34.5%	48.7%	24.0%	5.7%	11.3%	4.4%			
Latino	3.54	3.45	4.03	40.6%	51.0%	25.4%	11.8%	19.7%	6.8%			
Native-born	3.20	3.02	3.56	32.2%	43.5%	20.7%	6.8%	11.9%	4.1%			
Foreign-born	3.84	3.71	4.66	47.8%	55.6%	31.6%	15.5%	22.9%	10.1%			
1975-80 Immigrants	3.90	3.76	5.51	65.7%	71.1%	48.5%	26.4%	25.3%	21.6%			
1970-74 Immigrants	4.07	4.04	4.74	53.1%	57.2%	44.7%	17.4%	18.3%	13.4%			
1960-69 Immigrants	3.94	3.79	4.56	43.4%	49.8%	29.8%	10.9%	16.3%	3.5%			
Immigrants before1960	3.37	2.96	4.24	29.9%	38.6%	14.0%	6.6%	5.4%	5.6%			
All Household	2.62	2.36	2.98	35.6%	49.2%	24.2%	7.1%	13.1%	4.8%			

Note: \* Commuters by public Transit, bicycle, or walking.

Source: SCAG staff Hsi-Hwa Hu processes Public Use Microdata Samples U.S. Census Bureau, 1980, 1990, and 2000.

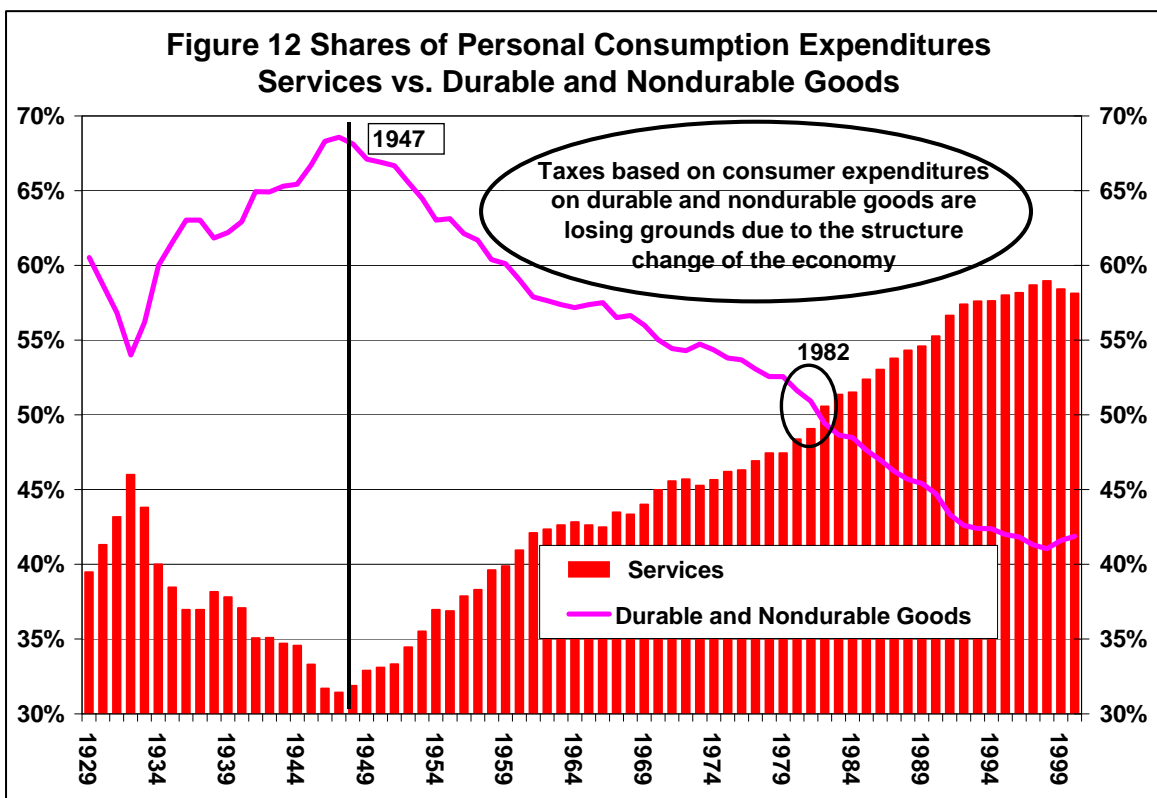
As to the mode choices for commuters, 2000 PUMS data indicated that Latinos were more than 2 3/4 times as likely as non-Latinos to commute to work by public transit, bicycle, or walking (11.3% vs. 4.1%). As income increases, Latinos' general compact commuting behavior decreases but remains substantially more likely than Non-Latinos to choose non-motorized transportation modes to work. This commuting pattern and mode choice for Latinos is consistent with household size and living arrangements, which together support a compact-city development or land use pattern.

One final caution from data presented in Table 3 may have significant implications in future planning of land use, transportation, and housing. Among Latinos, native-born Latinos and longer-settled immigrant Latinos tend to develop life styles closer to those observed for non-Latinos. Planners should carefully evaluate this "assimilation" process of immigrants and their likely impacts.

## Structural Change of the Economy and Imbalance: transportation demand and funding revenues

Growth in the services and information sectors and a decline in the share of manufacturing in total output and employment are long-term trends, which have been referred to as de-industrialization. This worldwide structural change is not a signal of economic demise but of a successful and healthy economy. Virtually all of the advanced economies are experiencing increasing service and declining manufacturing sectors.

The rationale for a growing service sector as a measure of an economy's success is that as wealth increases more is spent on non-manufacturing items such as travel, housing, insurance, banking and business services, health care, eating out, and entertainment. As indicated by Figure 12, around 1950, about one-third of personal consumption expenditures were on services, while in 1996, almost 60 percent of all expenditures were on services. In addition, this trend is expected to continue in the future—i.e., the share of total expenditures going to tangible goods will continue to decline.



The implications of this long-term structural change of the economy on revenue sources to fund transportation investments are enormous. *First*, California, along with the SCAG region, as well as many other states, relies almost exclusively on gasoline tax (an excise tax) and sales tax to fund transportation projects and

investment. However, due to the dual impact of advances in technology—improving fuel efficiency (miles/gallon) and declining costs of exploring and extracting fossil oils—both fuel prices and consumption levels have not been able to keep up with economic growth. Moreover, tax revenue from fuel consumption will very likely be adversely affected by a third wave of technological innovation in the near future: emerging zero-emission/low-emission automobiles are expected to substitute alternative fuels and electricity for gasoline consumption.

As for sales taxes, they are structured primarily to tax transactions of tangible durable and non-durable consumption items.<sup>10</sup> The sales tax base is shrinking as the economy shifts to one where more economic activity is based on service and information-related transactions. As a result, the share of California's total tax revenue from sales tax has been flat or declining and taxable sales as a percent of personal income has become smaller and smaller.

Accommodating the future population and employment growth forecasted in the region will take money. The region needs more schools, more transportation capacity and investment, more libraries and parks, more capacity for waste disposal, and a number of other public services. If funding sources and revenue bases don't expand accordingly when the economy and demand for services grow, the quality of life will be diminished.

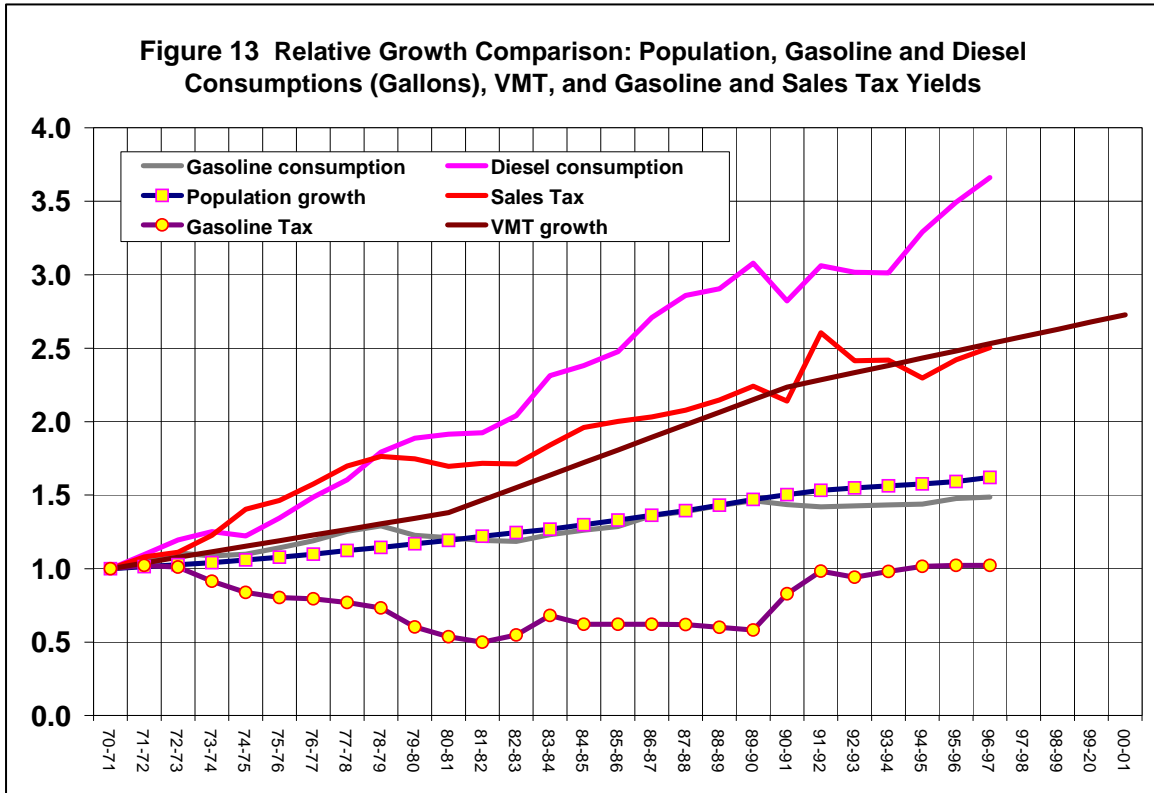
Many studies have documented the decline in California's and the region's public investment; the last great wave of investment was in the 1960s. When the region's and state's economy was being examined and re-examined during the 1991-93 recession, every bipartisan study group and commission documented the failure to invest in the future. World-class public investment is a key to attracting world-class private investment. No one can know whether California or the SCAG region has to be first in infrastructure investment spending to succeed in the 21<sup>st</sup> century economy. However, all agree that some dramatic improvement is necessary. Ranking in the bottom 20% of all states in major categories of public investment is simply not compatible with meeting the requirements of industries which will lead California and the region in the world economy.

SCAG's regional transportation planning (RTP) has recognized the declining trend and purchasing power due to inflation in gasoline tax revenues. The RTP also has brought more exposure and debate in the region regarding structural change in the economy and the declines in transportation investment as a percent of per capita income. The SCAG region, through its RTP development process, and in partnership with region-wide stakeholders consistently examines its infrastructure funding bases in order to expand them to keep up with the growth of the population and economy. The next two figures, Figure 13 and Figure 14, illustrate the widening gaps and imbalances between growth in

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<sup>10</sup> Currently, according to the Federation of Tax Administrators, California places sales tax on only 13 categories out of 164 service-related transactions (5 categories in utilities, 2 categories in personal services, 3 categories in business services, and 3 categories on others).

transportation demand and transportation revenues, and the ability of the region to finance the expansion of transportation capacity.

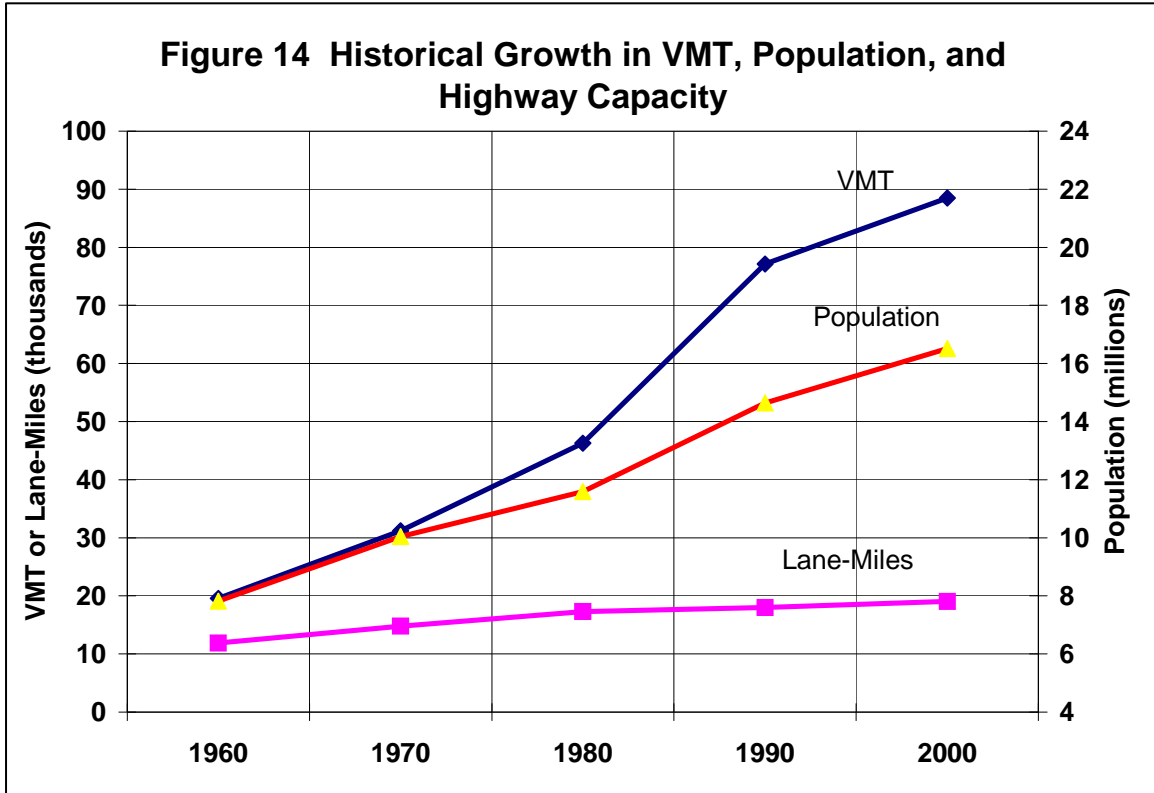


***Imbalance in Fiscal Arrangement: Fiscalization of Land Use***

This section will describe another recent phenomenon in California that works to sustain current jobs/housing imbalances, by greatly weakening the incentive of local governments to support new housing development in urban areas. It was created by state voter initiatives that substantially reduced property tax revenues to municipalities, and greatly reinforced the tendency of local jurisdictions to promote land uses that generate the greatest tax revenues.

Passed overwhelmingly by California voters in 1978, Proposition 13 places a limit on property tax rates of one percent of the value of the property. Increases in the valuation of property are now limited by Proposition 13 to 2% per year, and reassessments are made only upon a change of ownership. These changes have substantially reduced the amount of property tax revenue that goes to local governments. For example, the percentage of total revenues derived from property taxes dropped from 33% in 1977 to 12% in 1996 for counties, and from 16% to 8% for cities (Chapman 1998). Furthermore, to shore up its budget deficits in the early 1990's, the State shifted a substantial portion of the property tax base of local governments to its General Fund. Local governments, particularly cities, have largely made up for lost revenues from property taxes

through increased business and users' taxes, fees and benefit assessments. However, these taxing powers were threatened by the passage of Proposition 218 last year. Under the provisions of Proposition 218, all new taxes and assessments proposed by local governments are now subject to voter approval.



The sales tax thus has become increasingly significant for local governments, despite its relatively flat share of total revenues over the last three decades. The importance of sales tax also lies in the fact that, along with property taxes and vehicle license fee revenues, it is the only source of discretionary revenue that is available to local governments for all purposes. The local sales tax is one of the few revenue sources that can be substantially increased by an individual city as a result of decisions and actions to induce retail activity to locate within its borders. Since it is a zero-sum game, the winners in this contest to recruit retail business to their jurisdictions are only successful in shifting retail sales from one location to another within a region. Inevitably, the competition for sales tax dollars among cities has become increasingly intense, as cities fight over slices of a fixed revenue pie.

Much anecdotal evidence exists about cities offering various incentives and inducements to lure retail business to their jurisdictions, banking that in the long run they will derive a net benefit from the sales tax revenues. Retail projects are therefore the land-use most preferred by city governments in California for both new development projects on vacant land and city redevelopment projects.

Retail is followed, in order of preference, by office, mixed-use development, light industrial, single-family residential, multifamily residential, and heavy industrial uses. One survey found that of 20 possible factors influencing development and redevelopment decisions, “maximizing sales tax revenue” is ranked by 72% of cities as the primary factor motivating their decisions about development on vacant land, while two-thirds consider it the prime motivation on decisions about redevelopment projects. It is also ranked second by cities out of 12 potential factors that influence their annexation decisions. Cities ranked “likelihood of job creation” fifth and “meeting affordable housing needs” sixteenth as factors influencing both their development and redevelopment decisions (Lewis and Barbour 1999).

What does this preference for retail uses by cities mean for local and regional land use and development patterns? At the local level, cities’ recruitment of “big-box” stores and auto malls, that generate high levels of sales tax revenues per acre, can deplete the vitality of existing downtown areas. At the regional level, the preference of retail over other land uses, particularly residential, can have adverse impacts by sustaining and reinforcing patterns of jobs/housing imbalance.

In summary, the “fiscalization” of land use produced by Proposition 13 and subsequent initiatives and governmental actions has created a bias against the production of housing by local governments, and has served to dampen the production of much-needed housing. It has also exacerbated jobs/housing imbalances throughout the region, and fostered an atmosphere of competition and distrust among jurisdictions. In combination with the strong “agglomeration” economies of the New Economy that were previously discussed, the natural tendency of regional development to achieve jobs/housing balance over time is being thwarted by these new trends. This has negative implications for a region that is struggling to cope with increasing highway congestion with limited transportation dollars, and to meet increasingly stringent state and federal ambient air quality standards.

#### **IV. Key SCAG Region Planning Issues and Challenges**

Most of the top regional planning issues and challenges that many planning agencies have consistently tried to fight, to some extent, are “inevitable results” from those trends/forces discussed in previous section. These forces and trends work individually and in concert to shape different aspects of the same issue, or add multiple issues together to form complex urban challenges. For example, the supply-side of housing issues are most likely results of land use, zoning, and design restrictions, while wages, quality of jobs, and income jointly determine the affordability or demand-side issues of housing. Multiple layers of imbalance including job-housing locations/mismatches, transportation funding, capacity expansion, and growth, etc., shape travel demand and cause urban congestion and air quality issues. Not until these /trends/forces are understood, can



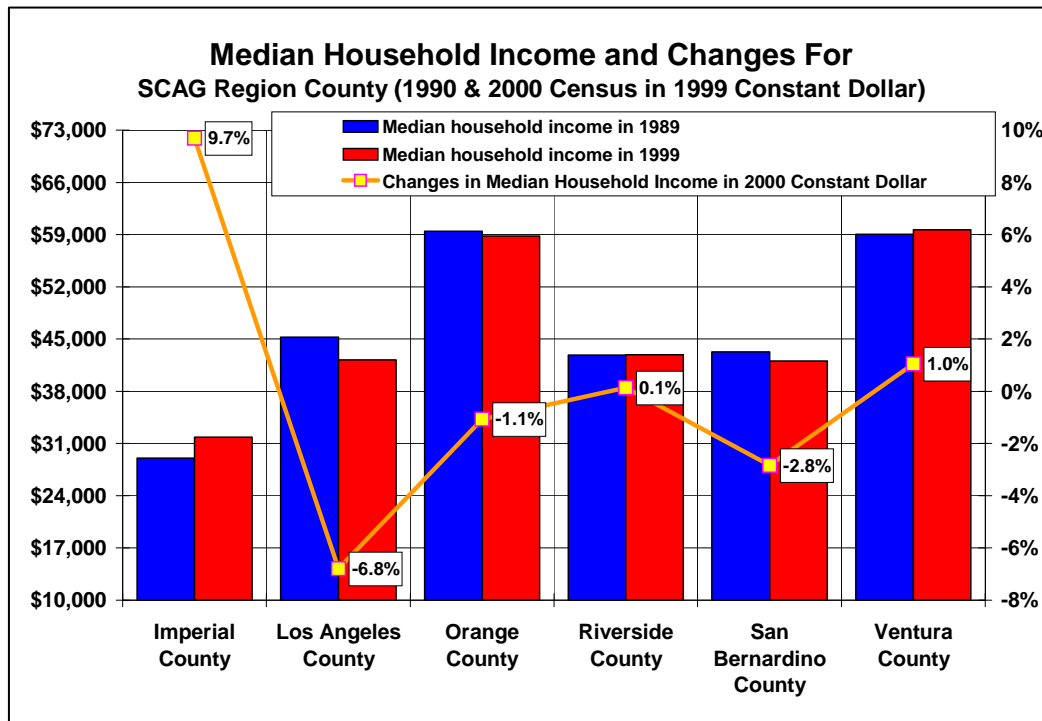
planners start to sort out nexuses across all issues and then start to plan and deploy effective strategies and policy responses.

Parts of this section are abstracts from the 2003 State of the Region report, which provides assessment of how Southern California has been performing with respect to key regional issues and challenges. Since 1998, the Southern California Association of Governments (SCAG) has prepared the annual State of the Region Report. The Report tracks the region’s progress in achieving goals in the *Regional Comprehensive Plan and Guide*. It also compares the performance of our region with other large metropolitan regions. The report is intended to assist policy makers, business and community leaders in developing strategies to improve our communities. The key SCAG regional planning issues and challenges include:

**Economic competitiveness**

As indicated in previous sections, among the nine largest metros, the SCAG region has the lowest average payroll per job. When comparing per capita income among the 17 largest metropolitan regions in the nation, the region dropped from the 4th highest in 1970, to 7<sup>th</sup> in 1990 and 16th in 2002. Contrary to the growing trends in the state and the nation, both median household income and per capita income either declined or changed little in SCAG region counties during the last decade (Figures 15 and 16)

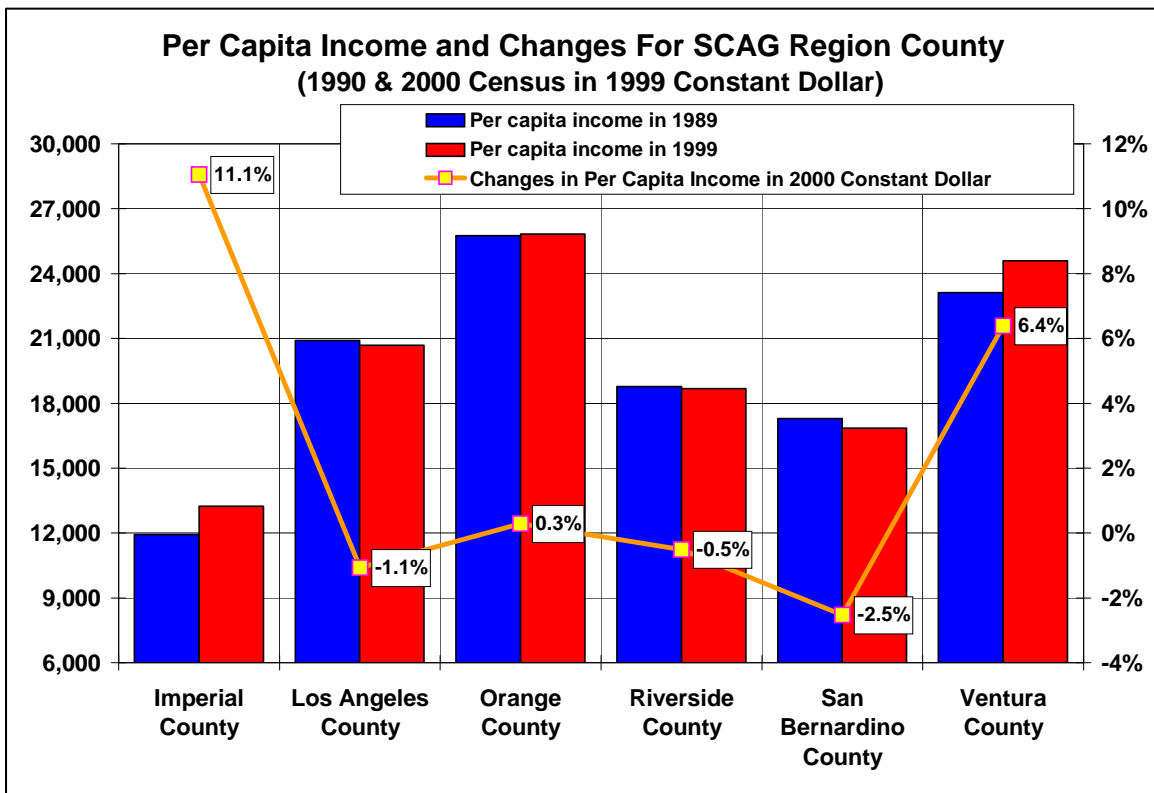
**Figure 15**



The significant decline in defense and aerospace manufacturing related employment during the 1990s was more than offset by dramatic growth in service-oriented employment. Business services, direct international trade services, tourism, health services, motion pictures/television production, apparel and textile industries together grew by more than 500,000 jobs during the decade. Small and medium-size companies created the majority of these jobs. Total value of international trade through the Los Angeles Customs District more than doubled, from \$130 billion to \$285 billion. By the end of the 1990s, the region's economic base was much more diversified than it was at the beginning.

The biggest challenge to the SCAG region's policy makers and economic development practitioners is not about the size or growth of the economy, but how to identify growing industry sectors that can provide relatively good-paying jobs accessible to a large, less-educated labor force.

**Figure 16**



***Poverty and concentration***

The biggest concern about the poverty issue in the SCAG region is that the region's poverty rates and its concentration have been in an upward trend during the last 30 years. In contrast, the nation's poverty rates remained relatively steady, hovering at about 12 to 14 percent during the last three decades. Figure

17 shows poverty rates between 1970 and 2000 for SCAG region, its counties, California, and the U.S. Some highlights from Figure 17 include:

- The poverty rates in the SCAG region increased sharply and consistently over the past thirty years: from about 10.5 percent in 1970 to nearly 16 percent in 2000, and have now surpassed that of the nation and the state of California. This translates to 1.5 million more people in poverty in the SCAG region since 1970.
- Four places—California, the SCAG region, Los Angeles County and Orange County—experienced increases in poverty rates in every decade during the last 30 years. Los Angeles County drove much of this rise; home to just under 58% of the region's total population, but with almost 66 percent of the region's poverty population.
- Orange County's poverty rates were substantially lower than poverty rates for the U.S., California, the SCAG region, and all other SCAG region counties, except for Ventura County, but the county experienced the largest jump in poverty rates—second only to Los Angeles County—of almost 60%, to 10.3 percent in 2000 from just 6.5 percent in 1970.
- As a result, the poverty population in Orange County more than tripled to almost 290,000 people in 2000, from just fewer than 90,500 people in 1970.
- Among the SCAG region's counties, Imperial is the only county which moved in tandem with poverty rates for the U.S. in each decade during the past 30 years. Poverty rate changes in Riverside, San Bernardino, and Ventura Counties showed the same patterns of change as the U.S. during both the 1970s and 1980s, however, as the rest of the SCAG region counties and California, poverty rates increased in contrast to the declining trend experiencing in the U.S. during the 1990s.

Table 4 shows more detailed statistics from the 1990 and 2000 Censuses regarding the SCAG region's population growth and poverty population growth by county. The following observations, in particular, deserve the attention of all policy makers in the region:

- In the last decade, the SCAG region's population grew by 1,864,365. Almost 35% of all this population (or, 651,000) was under the federal poverty threshold. The poverty population share of total population growth in Los Angeles County was almost 55 percent—more than half of the population growth during the 1990s (366,344 out of 667,693) was in poverty. This percentage was 31.1 percent for San Bernardino, 24 percent for Ventura, 22.4 Percent for Riverside, and 20.4 percent for Orange County. Imperial County (17.3%) was the only county in the region with a poverty population's share of population growth that was less than 20 percent in the last decade.
- The poverty population expanded throughout the region following the relative growth rates of county population growth, but at a much faster pace. Poverty population grew the fastest in Riverside County (62.5%), followed by San Bernardino (50.8%), Orange (44.1%), and Ventura County (43.6%). Los Angeles County accounted for the lion's share of total regional poverty

population growth in the last decade (56.3%), albeit lower than shares experienced in previous two decades, its poverty population grew only 28 percent.

Figure 17

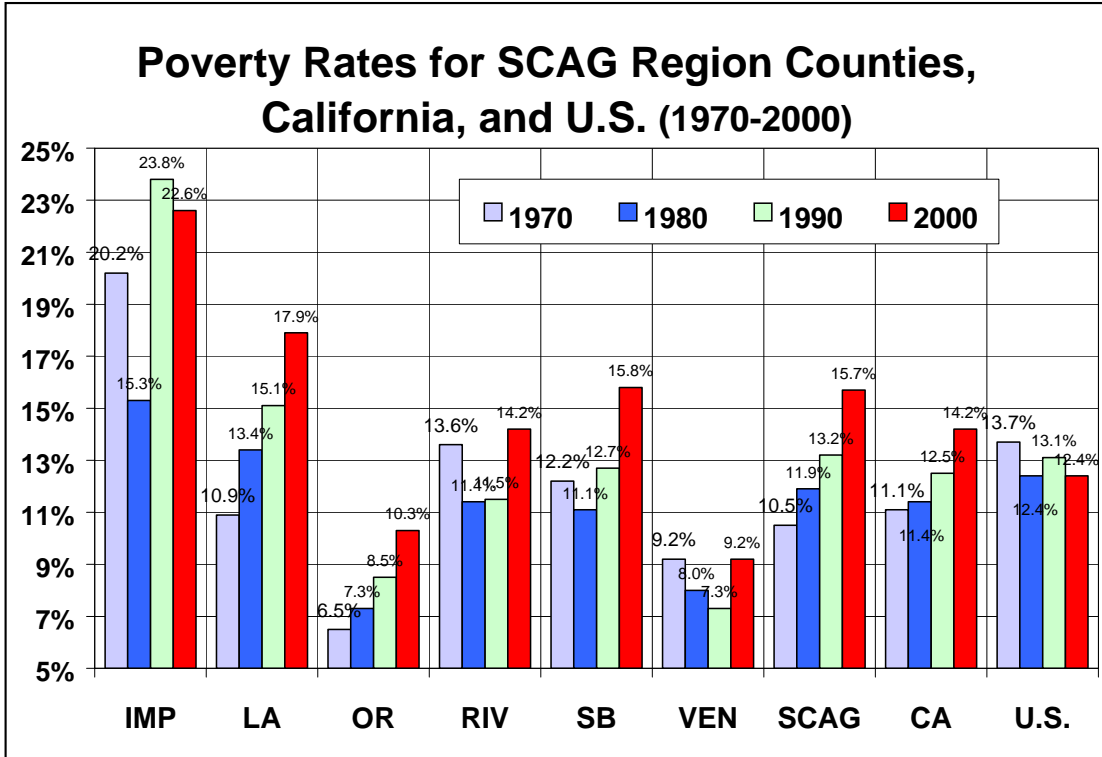


Table 4

SCAG Region Population, Population Growth, Poverty Population, and Poverty Population Growth																	
	Population: 1990	Share of SCAG Region Population by County: 1990	Population: 2000	Share of SCAG Region Population by County: 2000	Population Growth by County: 1990-2000	Population Growth (%) by County: 1990-2000	Share of SCAG Region Population Growth by County: 1990-2000	Poverty Population: 1990	1990 Poverty Rate (%)	Share of SCAG Region Poverty Population by County in 1990	Poverty Population: 2000	2000 Poverty Rate (%)	Share of SCAG Region Poverty Population by County in 2000	Poverty Population Growth: 1990-2000	Poverty Population Growth (%) by County: 1990-2000	Share of SCAG Region Poverty Population Growth by County: 1990-2000	Share of Population Growth: Poverty
Imperial	107,402	0.75%	131,459	0.81%	24,057	22.40%	1.29%	25,517	23.76%	1.35%	29,681	22.58%	1.17%	4,164	16.32%	0.64%	17.31%
Los Angeles	8,682,078	60.56%	9,349,771	57.71%	667,693	7.69%	35.81%	1,308,255	15.07%	69.26%	1,674,599	17.91%	65.93%	366,344	28.00%	56.27%	54.87%
Orange	2,369,931	16.53%	2,803,533	17.30%	433,602	18.30%	23.26%	200,860	8.48%	10.63%	289,475	10.33%	11.40%	88,615	44.12%	13.61%	20.44%
Riverside	1,143,985	7.98%	1,511,153	9.33%	367,168	32.10%	19.69%	131,690	11.51%	6.97%	214,084	14.17%	8.43%	82,394	62.57%	12.66%	22.44%
San Bernardino	1,377,485	9.61%	1,662,617	10.26%	285,132	20.70%	15.29%	174,727	12.68%	9.25%	263,412	15.84%	10.37%	88,685	50.76%	13.62%	31.10%
Ventura	655,482	4.57%	742,195	4.58%	86,713	13.23%	4.65%	47,742	7.28%	2.53%	68,540	9.23%	2.70%	20,798	43.56%	3.19%	23.98%
SCAG Region	14,336,363	100.00%	16,200,728	100.00%	1,864,365	13.00%	100.00%	1,888,791	13.17%	100.00%	2,539,791	15.68%	100.00%	651,000	34.47%	100.00%	34.92%

Population: persons for whom poverty status is determined, may be different from resident population.  
Source: 1990 and 2000 Census.

### ***Housing and housing affordability***

The decline of median household income and the larger household size of the immigrant population, combined with the under-supply of new housing units, shaped the housing performance outcome of the last decade.

Housing affordability provides an indication of the level of burden from housing expenses. Housing expenses constitute the largest share of household expenditures among all consumption items. When a household spends too much on housing, there is not enough left to meet other household needs, such as transportation, healthcare or education. Housing affordability also affects decisions as to where to live. Hence, housing affordability is an indicator reflecting the fundamental well-being of households. In addition, it also influences business decisions to locate or expand in the region. Lack of affordable housing will result in a weakening of our region's attractiveness and competitiveness.

In 2002, every county had lower housing affordability than the national average and the gaps have continued to widen since 1997. While more than half of the nation's households could afford a median-priced house in 2002, less than a third of the region's households could achieve the same.

When comparing homeownership in the nine largest metropolitan regions in the nation, the region's homeownership rate of 55 percent in 2000 ranked 8th, above only the New York Region. Among the largest metropolitan regions, Southern California had the highest percentage of owner and renter households with housing cost greater than 30 percent of the household income. Contrary to the decreasing trend at the national level, the percentage of housing considered crowded increased in every county in the region from 1990 to 2000. Almost 20 percent of the households in the region lived in crowded housing in 2000, compared to only 6 percent for the nation.

### ***Mobility and Congestion***

Highway congestion causes delay resulting in increased economic and social costs. In addition, congestion impacts the air quality in the region. The number of vehicle miles traveled (VMT) indicates the overall level of highway and automobile usage, and is directly related to mobile source emissions. From 1990 to 2001, the region consistently ranked as the most congested metropolitan region in the nation. Using annual delay per person as a measure, for example, residents in the region incurred a total of 50 hours of delay per person due to traffic congestion in 2001, the highest among the metropolitan regions in the nation. Nevertheless, between 1990 and 2001, annual delay per person stayed almost unchanged in the SCAG region while it increased significantly in other large metropolitan areas. In addition, total cost incurred due to congestion in the

SCAG region was \$13.8 billion in 2001, significantly higher than any other metropolitan regions in the nation.

Within the region, residents in the coastal counties (Los Angeles, Orange and Ventura) experienced a total of 52 hours of delay per person in 2001 versus 34 hours of delay in San Bernardino and Riverside Counties. Since 1990, annual delay per person in the Inland Empire has increased by 70 percent (from 20 to 34 hours) while delay per person in the three coastal counties has been more stable. This is partly because the number of total licensed drivers increased by 26 percent in the Inland Empire compared to 7 percent in the three coastal counties during the past decade.

### ***Goods and Freight Movement***

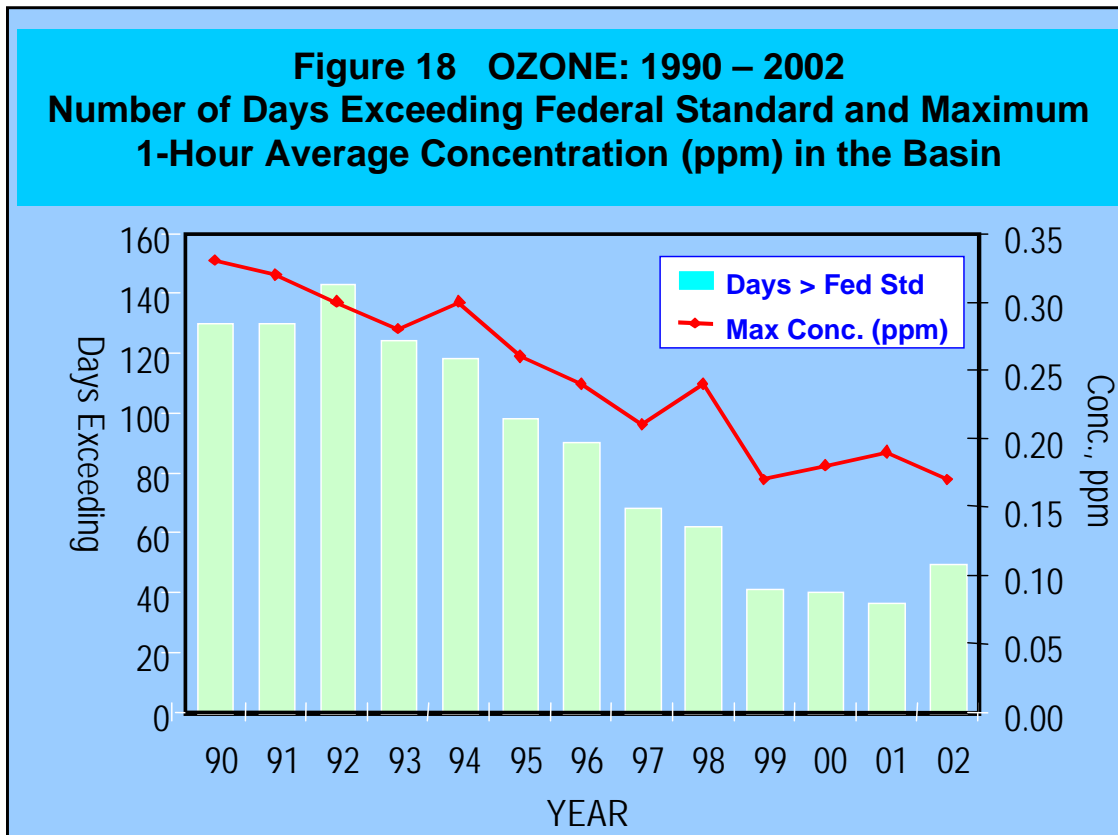
The region's world-class goods movement facilities, including the Ports of Long Beach, Los Angeles, LAX, regional rail and freeway systems have been a star performer in the last 30 years. However, many challenges and issues have to be resolved to accommodate the projected explosive growth in trade, maintain the region as the prime market place, trade and logistics center in the world, and enhance the region's long-term economic vitality. The top two challenges of the SCAG region's goods movement infrastructure strategies are, first, to finance the capital needed for capacity expansion and, second, address the increasing opposition to growth from affected communities suffering concentrated negative environmental impacts. The so-called environmental justice concerns and movement around affected communities along the region's port facilities and freight movement corridors could potentially cap the region from accommodating long-term growth potential and wealth projected from trade and goods movement.

### ***Environmental Quality—Air Quality, Water Resources, Solid Waste***

#### **Air Quality**

Good air quality is vital for the health of residents, nature and the economy. Human health effects of air pollution can range from lung irritation to cancer and premature death. Ecological effects include damage to crops and contamination of waters. Degradations in human and ecological health often adversely impact economic well-being. Despite significant improvements in the past two decades, the South Coast Air Basin still has some of the worst air quality in the nation in terms of the annual number of days exceeding federal standards. During the 1990s, the region achieved consistent improvements in the number of days exceeding federal or state standards for ozone and carbon monoxide. The region exceeded the federal one-hour standard for ozone during 40 days in 2000 compared to 130 days in 1990. However, in 2002, the number of days exceeding federal one-hour standard for ozone increased to 49 days from 36 days in 2001 (Figure 18). The number of days for health advisory also increased

from 15 to 18 days between 2001 and 2002. Data for 2003 to-date indicated that it would be worse than in 2002.



An important milestone reached is that the South Coast Basin met federal attainment standards in 2001 and 2002 for carbon monoxide. In addition, there was no exceedance for PM<sub>10</sub> in 2002, a slight improvement from 3 percent of days in 2001. For PM<sub>2.5</sub>, there were 10 days exceeding the federal standards in 2002, an improvement from 23 days in 2001.

Water Use

Ensuring reliable water resources to meet essential water demands and maintaining water quality are important goals in Southern California.

Southern California depends on both imported and local sources to meet its demand for water. This includes imported water from the Colorado River, the State Water Project via the California Aqueduct, and eastern Sierra Nevada via the Los Angeles Aqueduct. Together, depending on the rainfall level, imported water generally accounts for about 70 to 75 percent of the regional water supply. The remaining approximately 25 to 30 percent supply comes from local surface and ground water sources and from reclaimed water sources. It is important to

note that available water from all three imported sources may be reduced in the future as other users place greater demands on these sources.

Within the SCAG region, the Metropolitan Water District (MWD) is the largest urban water supplier. Its service area includes more than 14 million residents in the region. Within the MWD service area in the SCAG region, total water consumption did not experience significant increases for several years in the mid-1990s due to the recession, wet weather, conservation efforts, and lingering drought impacts. In 2001, total water consumption at 3.2 million acre-feet was about the same as in 1990, despite an increase of almost 1.5 million residents since 1990. Of total consumption, only eight percent was for agricultural purposes and the rest was for urban (municipal and industrial) uses.

While the MWD serves a significant portion of the SCAG region, many of the communities within the region are served by water districts outside of the MWD service area. The water agencies outside of MWD range from relatively small to very large water suppliers. The most significant difference in water use between the MWD and non-MWD service areas is the agricultural demand for water. While only eight percent of all water in the MWD service area was for agricultural purposes in 2001, more than 85 percent of all water used outside the MWD area was for agricultural purposes.

Total water consumption within the region but outside of the MWD service area was estimated to be more than 4.8 million acre-feet in 2001. Specifically, the Imperial Irrigation District (IID) alone diverts and delivers approximately 3.1 million acre-feet (MAF) of Colorado River water to nine cities and nearly 500,000 acres of agricultural lands in Imperial Valley. Of the water that IID transports, 98 percent is used for agriculture in the Imperial Valley. The remaining 2 percent is for urban (municipal and industrial) uses.

Although single-family homes account for about 55 percent of the total occupied housing stock, they account for about 70 percent of total residential water demand. Within the non-residential category, the top commercial and institutional water users include schools, hospitals, hotels, amusement parks, colleges, laundries, and restaurants. In Southern California, the major industrial users include electronics, aircraft, petroleum refining, beverages, food processing, etc.

### Per Capita Urban Water Use

Water consumption per capita is important when looking at a city's or county's growth projections in order to maintain a safe yield per person and sustain community well-being. Urban water use includes residential, commercial, industrial, fire fighting and other uses. Hence, per capita urban water use contains more than the amount of water used directly by an individual. Per capita water consumption for urban uses has generally been declining.



Specifically, per capita water consumption per day within the MWD service area decreased from 211 gallons in 1990 to 195 gallons in 2000 and 187 gallons in 2001.

Several factors contributed to the overall decline in per capita urban water consumption. An important one is the development of various conservation programs and practices. These include retrofitting with water efficient technology for showerheads and toilets and some changing landscaping practices toward drought tolerant plants. In addition, implementation of water pricing has also suppressed the growth in per capita water demand.

Within the region, there has been significant variation among counties in per capita urban water consumption. Factors affecting the per capita variation include climate, the relative share of residential versus nonresidential water uses, relative share of single vs. multi-family units, the types of businesses, persons per household, lot sizes, and income levels. In addition, differences in implementing water pricing and water conservation measures may also impact the per capita variations among counties. In Southern California, many of the differences in per capita water use can be attributed to climate differences. Within the region, the Inland Empire counties continued maintaining higher per capita urban water consumption rates than coastal counties, particularly Los Angeles and Orange Counties. This partly reflects higher landscape water use due to warmer and dryer climate conditions and partly the higher proportion of single-family residential units in the Inland Empire counties.

As Inland Empire counties continue growing at faster rates than coastal counties (as discussed in the Population Chapter), their higher per capita urban water consumption rates may offset potential savings through conservation and pricing strategies within the MWD service area. The MWD forecasts that per capita urban water demand in its service area will remain relatively constant over the next 25 years.

### Solid Waste

Solid waste is generated through the use of material, both raw and manufactured. If not treated properly, solid waste could have impacts on the ecosystem and human health. Hence, a sustainable society would minimize the amount of waste sent to landfills by reducing, recycling or reusing the waste generated as much as possible.

The 1989 California Integrated Waste Management Act set the stage for a series of statewide reforms in waste management. The centerpiece of the Act was a mandated goal of 50 percent diversion of each city's and county's waste from landfill disposal by the year 2000. Diversion measures waste prevented, waste re-used, waste recycled or waste composted. Waste diversion programs such as curbside recycling pickups, greenwaste collection and municipal composting

have steadily increased the diversion rate. At the statewide level, the diversion rate - share of diversions of the total waste generated - increased from 10 percent in 1989 to 48 percent in 2002. Hence among the 72 million tons of total waste generated in California in 2002, about 34 million tons were diverted, with almost half (17 million tons) estimated to be from the SCAG region.

In 2002, the total amount of waste disposed to landfills in the region reached over 19 million tons, almost the same as in 2001 and remained below the 1990 level. This progress was achieved despite an increase of 2.8 million (or 20 percent) in the total population since 1990. During the 1990s, waste sent to landfills in the region declined for several years and began to increase gradually since 1996. This is similar to the trend at the state level.

Since the passage of the Act in 1989, the region has been making progress in reducing the amount sent to landfills on a per capita basis. In 1990, the region disposed about 8 pounds of solid waste per day per capita into the landfills, slightly higher than that of the rest of the state. Various measures to implement the Act have reduced the per capita disposal rate by almost 25 percent to just over 6 pounds per day in 2002.

In 2000, less than half of all the local governments in Southern California met the 50 percent goal of diversion. Challenges for those local jurisdictions not able to meet the goal included lack of a ready market for diverted materials and the additional cost and time required to develop the infrastructure needed. Recyclable materials such as paper still comprise about 30 percent of the waste stream. An expanded market for recovered recyclables is essential to make further progress in the region's waste diversion efforts.<sup>17</sup>

### ***Equity—Social and Economic Disparity***

The region continued to have significant social and economic disparities among different racial and ethnic groups. These disparities are likely to have exacerbated during the most recent economic decline. Social and economic disparities have persisted in Southern California across many areas such as education, income, poverty and homeownership.

For example, based on the 2000 Census, the median household income for non-Hispanic Whites was over \$55,000, significantly higher than that for African-American households, which was below \$34,000. In addition, 41 percent of Hispanics and 30 percent of African Americans in the region owned their homes in 2000, compared to 65 percent of non-Hispanic Whites and 57 percent of Asians. More significantly, among the youth in different racial and ethnic populations, there were also significant disparities in educational performance regarding, for example, high school completion. National data also indicated that during 2002, recent immigrants and minorities suffered disproportionate impacts from the recent economic decline.

## ***Human Resources and Educational Attainment***

The SCAG region lost ground in educational attainment during the 1990s. Among the nine largest metropolitan regions in the nation, Southern California was the only one that did not make any progress in educational attainment, specifically with respect to the proportion of population 25 years and over who earned at least a high school diploma.

As recent as 2002, there were *no* noticeable improvements regarding educational attainment in the region. Among the nine largest metropolitan regions, the SCAG region most likely remained in last place in the percentage of adults with at least a high school diploma, and 2<sup>nd</sup> to last for at least a Bachelor's degree.

Among the different racial and ethnic groups, there are significant disparities related to educational attainment. For example, more than 43 percent of the Asian adults in the region achieved at least a Bachelor's degree compared to 18 percent for African American and seven percent for Hispanic adults. Conversely, about 35 percent of the Hispanic adults achieved less than 9<sup>th</sup> grade education level compared with only three percent for African American and two percent for White adults.

## ***The Evolving of Policy Responses***

Scarce workforce housing and affordability and availability issues have effected quality of life in the region. Not enough housing has been built to accommodate population growth. There is also an imbalance in the location of jobs and houses. The insufficient housing in job-rich urban areas supported existing trends in urban sprawl, longer commuting patterns, congested freeways and worsening air quality. Homeownership rates in the region are lower than in the rest of the country and lower in coastal areas than in inland valley and desert areas of the region. Municipal finances are based primarily on sales tax revenue, which on average is twice as high as local income from property taxes returned by the state to local government. This municipal finance situation has placed housing at a competitive disadvantage when properties become available, and led to a fiscalization of land use in much of the region.

During the 1970s and 1980s, many achieved the dream of home ownership on "leafy" suburban lots. However, there were many negative consequences of suburban development. In particular, environmental problems and associated quality of life issues have become increasingly more visible; their current conditions and predictable outcomes in the future outcomes from current path are unacceptable to the region.

As a result, collaborative decision-making across fragmented political boundaries prompted the formation of Councils of Governments during this period. In the last decade, regional and subregional efforts have gradually and increasingly started

to integrate environmental, transportation and land use policy in a manner consistent with California's local home rule tradition. By the year 2000, Growth Visioning had emerged as a tool to align local and regional plans and inform civic and business groups of future development and transportation investment choices. The region's Compass: Charting a Course for a Sustainable Southland is the largest such visioning effort in the country.

The 2004 RTP/GV was crafted by citizens and representatives from the region's 187 cities and county governments. The plan was founded on the ideas of thousands of people including residents, business owners, and local public officials. Together, they helped articulate a series of core values, which are the foundation for 2004RTP/GV policies and recommended actions. The policy recommendations are heavily shaped by principles of "sustainability" and "smart growth."

Sustainability means meeting our current economic, environmental, and community needs while also ensuring that we aren't jeopardizing the ability of future generations to do the same. Sustainability also means making a regional commitment to the "Three Es:" *economy, environment, and equity* — advancing a prosperous *economy*, supporting a healthy *environment*, and promoting social *equity*.

Smart growth means developing the region in a way that creates communities with more housing and transportation choices, better access to jobs, more public spaces, and more open space preservation. Smart growth more closely links jobs and housing, provides more urban public facilities such as parks and police stations, makes our neighborhoods more walkable, and places more jobs and housing near transit. It reduces land consumption in our rural and agricultural areas, and spurs reinvestment in our existing communities.

More and more, local officials are incorporating these principles of smart growth and sustainability into their general plans and policy documents. More and more, a key strategy in improving transportation mobility, housing affordability, economic well being and social equity is not to focus on regional scale solutions alone, but on treating "hot spots" in limited areas and across subregions. In this way, the sum of collaborative efforts influences the direction of regional growth. It also elevates in importance the regional perspective in local and state planning that can mean all the difference in solving metropolitan area problems such as job housing imbalance and traffic congestion.

## **V. Initiatives toward a Sustainable, Prosperous, and Equitable Future**

The region needs to design a set of strategies to simultaneously address as many urban challenges and issues as possible and achieve the principles of sustainability, prosperity, and equity. Previous analysis regarding major trends, forces, and their imbalances provide a framework regarding challenges that must

be addressed by regional initiatives. As we concluded, the causes for urban ills are interrelated and the proposed strategies must reinforce each other, be suitable for the SCAG region's constraints, and tackle the roots of the trends, not just the superficial outcomes.

### ***Challenges related to growth***

- Huge growth: According to the 2004 RTP growth forecast, the SCAG region is projected to add additional 6.26 million people, 2.26 million households, and 3.04 million jobs over next three decades. This is equivalent to adding two cities the size of Chicago into the region.
- Underlying characteristics of growth: Population growth will be exclusively from Hispanics and Asians, and will be primarily second and third generations of immigrants.
- Population aging: Like many countries in the world, declining fertility rates and scheduled retirement of the baby boomer generation will reduce the growth rate of the working age population, and in turn will constrain the employment growth and pose a threat to the economic vitality of the region.
- Open space: Growth and the accompanying suburbanization are the primary causes for losing open space. Past development patterns would consume far more land than a smart growth development pattern.
- More expensive housing and fewer types of housing choices: are inevitable results because current densities in the cities and urbanized unincorporated areas are too low, and planned densities on currently vacant land are even lower. This pattern limits our ability to address our projected housing needs, pushes up housing costs, and can result in more people sharing the same house due to high home prices and rents.
- Congestion and air quality: Jobs are a key driver of population growth. Current local general plans allow for more growth in jobs than housing and largely separate residential areas from job centers, which exacerbate imbalance between jobs and housing, increase traffic and air pollution.
- Other environmental degradations (energy, water consumption, urban runoff): An imbalance between jobs and housing also leads to more and longer commutes, and increased energy consumption. It also affects development patterns—increases impervious land—within our watersheds, which increases urban runoff, and in turn, affects the quality of both our drinking water and our water bodies, such as lakes, streams, bays, beaches, and the ocean. Finally, same type of housing development in different parts of the region will result in significant differences in water consumption because of the variations of temperature around the region.

### ***Challenges related to underlying socioeconomic competitiveness***

- The region faces a large, less-educated labor force
- Dysfunctional public finance arrangements for infrastructure and housing investment

## ***Requirements of the Initiatives/Strategies***

- The strategies should focus on promoting economic and employment growth;
- Create good paying jobs which are accessible and available to a less-educated workforce in the region so upward social mobility can be achieved
- Correct job-housing imbalance and address geographic wage/income differentials
- Due to public financing constraints and imbalances, rely primarily on private sector investment and through wealth creation and value-capture financing
- Make effective use of existing infrastructure, promote housing production, reduce housing construction costs, and land consumption
- Result in positive outcomes in energy, water consumption, water pollution reduction, and alleviate congestion and air pollution.

## ***SCAG Initiatives/Strategies***

SCAG initiatives can be characterized as:

- Strategies calling for region-wide long-term infrastructure investments focused on housing, transportation, and goods movement (will further be extended to cover water supply, urban runoff and water quality, water delivery, sewer, and solid waste facility, etc.)
  - Short-medium term strategy: *Operation Jump-Start: Reversing Southern California's Economic Decline*
- RTP/Growth Visioning/land use strategy
  - *Expanding Regional Housing Supply Opportunities*
- Build upon globalization and international trade, promote Logistics and distribution industry
  - *Logistics industry: An Answer to SCAG Region Upward Social Mobility)*
- Investment in communities in needs

## **The Rationales:**

The region, as with California and the nation, faces a significant amount of infrastructure investment “catch-up.” The level of funding for capital outlays remained relatively unchanged for the last three decades. The last great wave of investments in infrastructure was in the 1960s.

- ❖ Thus, the SCAG 2004 RTP finance strategy recommended that the region invest in transportation projects worth \$90 billion between now and 2030, through private sector finance. *Operation Jump- Start*—representing \$26 billion among the \$90 billion total investment—covers primarily freight/goods movement projects that will be implemented first and expected to be completed by 2020. Investments proposed to upgrade and expand the region’s freight and goods movement facilities once completed by 2030, will add 177,000 jobs—more than half in the good-paying logistics industry. The

job gains will be due to efficiency improvement in the freight/goods movement sector.

- ❖ Similarly, providing adequate, affordable and smartly located housing opportunities is one of the most important long-term challenges facing the region. Through the 2004 RTP/Growth Visioning land use strategies, SCAG is proposing to build 400,000 additional housing units between 2010 and 2030, equivalent to adding \$36 billion direct investment in the housing construction sector. This investment is projected to create an additional 700,000 relatively good-paying construction jobs.

The region gradually realizes that it must think “big” and think “outside the box” in order to solve the region's challenges. In the most direct terms, the region found it can't meet mobility and air quality requirements without a pro-active approach to land use and development. There are simply not enough transportation dollars flowing into the region to build our way out of congestion.

- ❖ The 2004 RTP/Growth Vision land use scenario establishes regional development policy by clearly calling for growth and development in the region to be funneled into specific “opportunity” areas.
- ❖ The targeted "growth areas" identified in the vision and the RTP are, essentially, transportation rich corridors and regional and sub-regional centers, and the emerging Inland Ports.
- ❖ The over-arching theme in identifying these areas was to take advantage of potential efficiencies in the existing and planned transportation network, and make jobs and housing more balanced.
- ❖ As a result, innovative land-use techniques in region-wide development opportunity areas ensure that regional land resources will be used in the most efficient manner, open space is preserved and traffic congestion and air pollution is improved. In addition, positive impacts are also expected in reducing urban runoff, maintaining water quality, moderating both water and energy demand.

### The right place

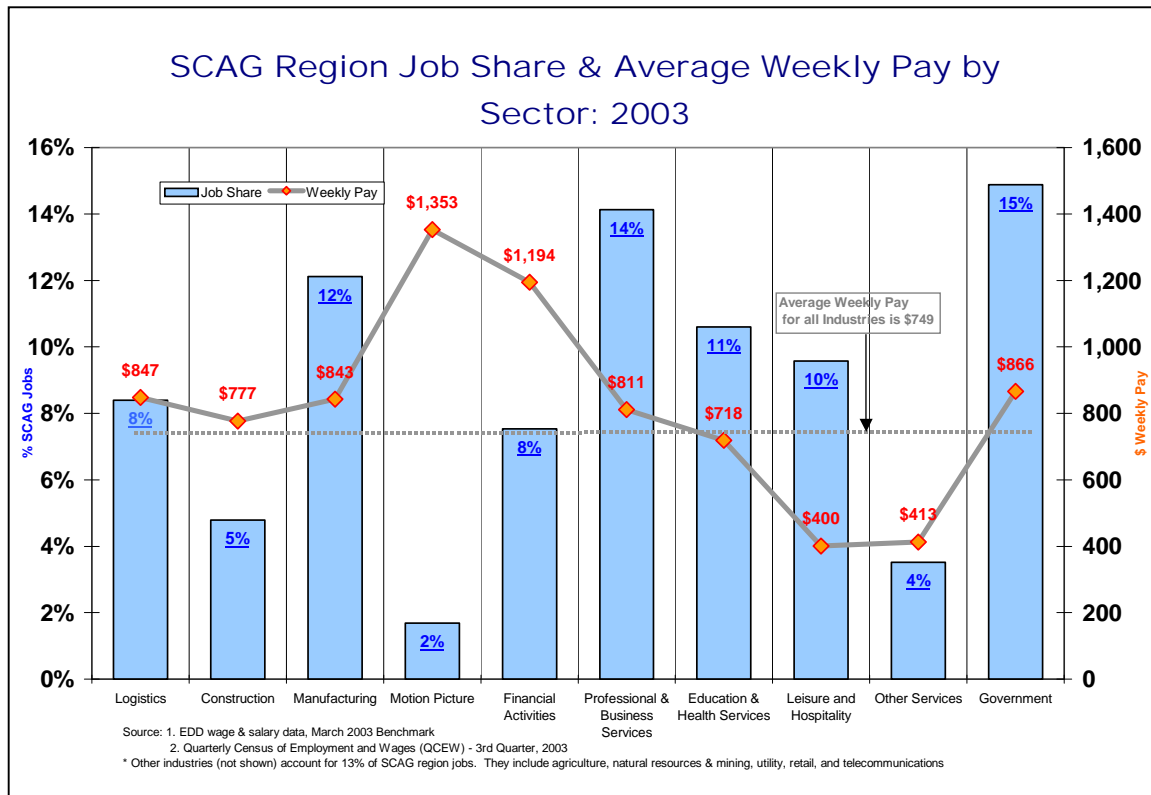
Regional growth visioning and land use strategies will also bring many positive impacts on improving social equity and justice.

- ❖ Investment in “communities-in-need” including revitalization of older suburban and inner-city markets,
- ❖ Promotion of economic development in urban core areas by attracting population, consumption, taxable sales, and enhancement in local property tax bases and increases in sales tax revenues,
- ❖ The created wealth in those growth opportunity areas could in turn serve as the basis for additional finance of infrastructure investment through value capture and benefit assessment districts.

## The right jobs

Finally, and most important, economic development focusing on investments in building infrastructure and housing creates the right jobs needed for the SCAG region. The most effective strategy to fight urban ills and poverty is to empower people by providing them living-wage job opportunities. As mentioned above, the large number of less-educated workers requires access to good-paying jobs with defined skill ladders in which workers can move up to prosperity. Both construction and logistics jobs meet these criteria. In addition, wage statistics also indicate that the entry-level positions in the construction and logistics industries pay higher salaries than the average pay for all industries. Figure 18 provides the average wage information by sector in 2003 for SCAG region.

**Figure 19**



Following are detailed descriptions of SCAG initiatives that will ensue a sustainable, prosperous and equitable regional future:

### ***Regional Transportation Plan/Growth Visioning – Compass***

How will Southern California accommodate its growth in people, jobs and needed infrastructure? Fiscal inequity exists between communities; there is an affordable housing crisis; an energy crisis; and water supplies are shrinking just as our



needs are growing. Decision-making itself is diffused over nearly 190 local governments and thousands of special purpose agencies. There is no planning compact to guide development. How then can the region come together to address its shared challenge of creating a vision of future growth that promotes prosperity, social equity and environmental sustainability? It starts through an informed civic dialogue; a Growth Visioning process that serves consensus and cooperation.

SCAG's growth visioning process, known as Southern California Compass (<http://www.socalcompass.org>), is designed to develop a comprehensive strategy to guide growth in the region. The process involves local elected officials as the primary stakeholders, and is based on principles formed by these officials and adopted via SCAG's public process. In brief, the principles are to:

- Improve **Mobility** for All Residents
- Foster **Livability** in All Communities
- Enable **Prosperity** for All People, and
- Promote **Sustainability** for Future Generations.

These principles are intended to foster quality of life through neighborhood design and scale, natural systems sustainability, outreach and participation, and social equity. The foundation of the project is broad, multi-faceted public outreach and involvement. The key source of input on a preferred regional vision is a series of workshops in which participants place chips representing the expected growth on a base map of the region. The exercise and game pieces are structured so that participants learn to work with land use tradeoffs that result from competing goals, such as development intensity and transportation choice.

By linking the growth visioning exercise with regional transportation planning, SCAG assures that visioning participants consider a full range of possible transportation options. Effectively, the visioning process elevates growth as a key element of regional transportation decision-making, showing the connections between growth decisions and transportation needs more clearly than ever.

SCAG realizes that it must "think big" in order to solve the region's challenges. In the most direct terms, we've found we can't meet mobility and air quality requirements without a pro-active approach to land use and development. There are simply not enough transportation dollars flowing into the region to build our way out of congestion. Fortunately, initial transportation modeling results have shown considerable potential benefits from strategic land use assumptions while accommodating projected growth in the SCAG region. In addition, the analyses from the 11 Compass public workshops not only substantiate these benefits, yet, more importantly, suggest that a broad spectrum of stakeholders and citizens in the SCAG region support such ideas.

## Growth scenario development for 2004 RTP

In order to utilize the valuable progress and findings from growth visioning for the current 2004 Regional Transportation Plan update, an approach was crafted to make land use and growth assumptions the centerpiece of the RTP alternatives analysis. These processes led to the development of a “best fit” growth distribution for our region. This scenario, the Growth Vision alternative, considered a number of regional policies developed through extensive outreach to regional stakeholders and intended to operationalize the Compass Principles. These include:

- Using in-fill where appropriate to revitalize underutilized development sites,
- Focusing growth along transit corridors and nodes to utilize available capacity,
- Providing housing opportunities near job centers,
- Providing housing opportunities to match changing demographics,
- Ensuring adequate access to open space,
- Providing job opportunities, when appropriate, in housing-rich communities,
- Land use changes corresponding to the implementation of a decentralized regional aviation strategy and its consequent short- and long-term job creation,
- Land use changes corresponding to the implementation of Operation Jump Start and its consequent short- and long-term job creation, and
- Consideration of the local input and feedback received from 90% of the jurisdictions in the SCAG region.

### ***Southern California Association of Governments’ Initiative in Expanding Housing Supply Opportunities***

Providing adequate, affordable, and smartly located housing opportunities is the most important long-term challenge facing the SCAG region. Without an adequate housing supply in the region, unmet demand will drive housing costs and rents even higher. Lower and lower affordability will further exacerbate overcrowding, push workers away from their place of work, increase vehicle miles traveled (VMT), congestion, pollution and worsen our quality of life. Thus the top priority among various housing issues is to design a system to increase supply/production of housing or to expand the opportunities for housing supply. Housing deficits can be addressed by local governments through changes in densities, transferring land use from commercial/industrial to residential, adding units to redevelopment projects, etc.

SCAG has identified increased housing production, along with specific types of development patterns, as regional policy priorities.

Beyond mere production, the 2004 RTP/Growth Vision land use scenario establishes regional development policy by clearly calling for growth and development in the region to be funneled into specific “opportunity” areas. The targeted “growth areas” identified in the vision and the RTP are, essentially, transportation rich corridors, regional and sub-regional centers, and the emerging Inland Ports. The over-arching theme in identifying these areas was to take advantage of potential efficiencies in the existing and planned transportation network, while better balancing jobs and housing.

SCAG’s 2004 RTP/Growth Visioning planning processes provided a consensus-based growth redistribution scenario according to the regional growth and development principles. Elevating housing in this growth and development discussion will directly improve regional accessibility and mobility, economic health, environment quality, sustainability and social equity. The plan identified growth opportunity areas that have tremendous potential to substantially augment the housing supply and meet and unmet market demand. The plan and its attendant principles envision high intensity, nicely designed, moderately priced buildings in following areas:

- ❖ Transit center
- ❖ Urban centers
- ❖ Infill development
- ❖ Transit Oriented Development (TOD)—Using public transit to create more accessible and livable neighborhoods<sup>11</sup>

### The Potentials and Benefits

A detailed analysis of the SCAG region’s land inventories, uses, and interactions with existing and planned transportation infrastructure, indicates that a modest concentration of development in growth visioning opportunity areas could increase regional housing supply by more than 47 percent, or 750,000 units, between 2010 and 2030 (Map 1). The adopted 2004 RTP Growth Vision Plan Forecast—representing a minimum deviation of regional land use distribution from local inputs—could readily augment SCAG region housing supply by over 400,000 units, or 25 percent, between 2010 and 2030 (Map 2).

- Innovative land-use techniques in region-wide development opportunity areas ensure that regional land resources will be used in the most efficient manner. As indicated in Figure 19, growth visioning opportunity areas identified in approximately 200 transportation analysis zones (TAZs)—6% of the total number of 3,191 TAZs—could accommodate between 250,000 to 550,000

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<sup>11</sup> “Moderate to higher density development, located within an easy walk of a major transit stop, generally with a mix of residential, employment, and shopping opportunities designed for pedestrians without excluding the auto. TOD can be new construction or redevelopment of one or more buildings whose design and orientation facilitate transit use.” Technical Advisory Committee for the “Statewide TOD Study: Factors for Success in California.”

additional housing units, or between 16% to 35% of total growth between 2010 and 2030. Put another way, illustrative of the impact on land use efficiency from the growth visioning principles, this is the so-called “two percent” strategy. The opportunity areas identified through 2004 RTP Growth Vision principles account for just two percent of land mass located in modeling area, but they could accommodate between 16 to 35 percent of regional growth from 2010 to 2030 depending on different level of land use intensity and techniques.

- Enabling development in regional Growth Visioning opportunity areas could potentially reduce housing costs and prices significantly. It is estimated that the magnitude of the resulting costs/price reductions per unit could be as significant as up to 20 to 35 percent. This analysis compares equivalent size units in growth opportunity areas to those located in a suburban s with poor access to transit and the local/regional transportation network system. As a result, the housing affordability conundrum may finally be solved and regional housing needs could be met with broad range of housing types and choices. The region will benefit from experiencing a significant rise in affordability and homeownership—which means that thousands of Southern Californians will be able to buy or rent housing that they cannot afford today.
  - a) The potential increases in housing supply by 10, 20, or 30 percent consistently year after year will balance and offset pricing pressures from chronically unmet demand.
  - b) There are many development advantages, which could significantly reduce cost/price per unit through innovative land use techniques in those opportunity areas. Examples include higher density, fewer requirements for parking, leverages to incentives/resources provided by federal, state, regional and local government policies.
  - c) A guaranteed portion of housing development through the above policies, e.g., affordable housing density bonuses, etc., in growth opportunity areas will be affordable to more people.
- In addition to satisfying a critical social need—shelter, stability and security for families—housing construction and building activities bring tremendous economic benefits. Housing construction and development raise economic growth by creation of good-paying jobs and enhance the local government tax base through robust housing and mixed-use development. According to estimates provided by National Association of Home Builders (NAHB), the positive economic effects from increases in housing construction are far-reaching and long-lasting. NAHB estimates that every 100 single-family (multifamily)<sup>12</sup> housing construction will generate \$11.6 (\$5.3) million in new

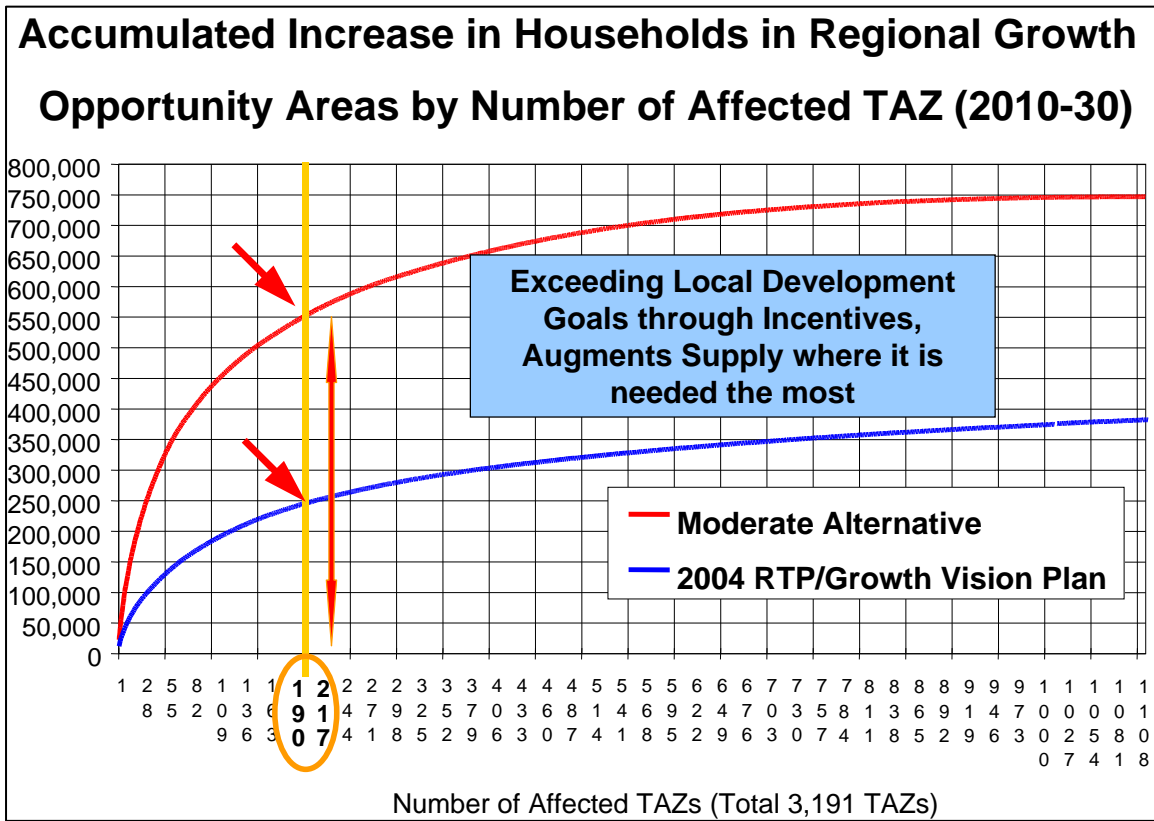
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<sup>12</sup> 100 new single-family housing is equivalent to \$12 million (assuming \$60/Sq. Foot construction costs for an average quality, one story, 2,000 Sq. Feet, 3BR/2BA wood frame single-family with attached two car garage) worth of construction activities in SCAG Region. 100 new multifamily apartment is equivalent to \$5.98 million (assuming an average of \$63/Sq.Foot construction costs for half of the units are low rise Class D apartments and another half of the units are high rise Class A apartments, with average 950 Sq. Feet per unit) in Southern California.

income to local businesses and workers in the first year of construction, and \$2.8 (\$2.2) million every year thereafter. This construction will also create 250 (112) jobs in the local community in the first year and 65 (47) jobs every year thereafter<sup>13</sup>.

In terms of contribution to local taxes and fees these 100 new single-family (multi-family) housing units constructed will bring \$1.4 million (\$630,000) in additional local taxes and fees in the first year of construction, and \$498,000 (\$384,000) every year thereafter, for a total of \$5.9 (\$4.1) million over 10 years.

**Figure 20**



Housing's economic impact doesn't end when a home is sold and the new owners move in. In fact housing continues to be an economic force long after the sale is closed. NAHB further estimates that in the first 12 months after purchasing a new home, owners spend an average of \$8,900 to furnish, decorate and improve their homes—more than the twice the \$4,000 spent by non-movers. Likewise, renters also spend significant amounts on furnishing and decorating their new apartments. Such economic activities, which will bring additional tax revenue to local governments, are often overlooked. On average, according to

<sup>13</sup> Housing: the Key to Economic Recovery, 2002, National Association of Home Builders, Washington, DC 20005  
[http://www.nahb.org/publication\\_details.aspx?sectionID=702&publicationID=46](http://www.nahb.org/publication_details.aspx?sectionID=702&publicationID=46)

NAHB statistics, the production of housing and the value of housing services produced by housing stock contribute to about 14 percent of the region's gross regional product (GRP), or more than one-seventh of the region's economic output.

Using NAHB's housing benefit data, building additional 400,000 housing units in SCAG region between 2010 and 2030 is equivalent to add almost \$36 billion direct investment in housing construction sector. It will create additional 700,000 good-pay jobs.<sup>14</sup>

- Maximize the utilization of existing and planned infrastructure. The resultant savings in transportation infrastructure costs are enormous, in the tens of billion of dollars. As indicated by the 2004 RTP modeling results, it will cost the region an additional \$48 billion, \$17 billion, and \$11 billion investment, respectively, in transportation infrastructure in order to achieve equivalent VMT, VHT, and delay reductions obtained through the growth vision/land use strategies. Furthermore, regional land use and development policies will result in more than 200,000 additional daily transit boarding, which otherwise would cost the region almost \$6.5 billion dollars to achieve the same increases in boarding through investment in transit.
- Finally, the 2004 RTP modeling results show that land use benefits account for 54%, 20%, and 12%, respectively, of overall reductions in vehicle mile traveled (VMT), vehicle hours travel (VHT), and delay. Implementation of the growth vision and land use strategies will also result in significant reductions in radio organic gas (ROG) emissions, on average two additional tons per day, or more than 70 percent of total ROG daily emission reduction from the RTP.
- The regional growth vision and land use strategies will also bring many positive impacts to improving social equity and justice. They include revitalization of older suburban and inner-city markets, promotion of economic development in urban core areas by attracting population, consumption, taxable sales, and enhancement in local property tax bases and increases in sales tax revenues, etc.

### Implementation Steps and Measuring Progress

In order for the SCAG region to use its land use policies as a metric for local housing performance, SCAG must take the following steps:

1. Determine regional opportunity/priority areas (two scenarios illustrated by Map 2 and Map 3 from the 2004 RTP/Growth Vision process are completed).

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<sup>14</sup> A straight linear extrapolation of benefit data from NAHB, assuming technological relationship between investment and job impact is unchanged. Thus job impacts may be overstated.

2. Work with local jurisdictions to identify additional associated opportunity areas at the jurisdiction level - based either on increased development expectation over "no project" or simply on whether one or more areas exist in the jurisdiction boundaries. In addition, areas where capacity is currently under-utilized would qualify as potential expanded development areas.
3. If associated opportunity or under-utilized areas are hard to identify in some jurisdictions, they could partner with opportunity areas already identified at regional, subregional, and/or corridor levels, contribute development resources, both in housing/business and transportation investment to ensure that their share of development opportunity areas are available.
4. Once a baseline for every local effort is established, progress toward the effort can be periodically checked and evaluated. The extent to which growth planning and policy undertaken by local governments is supportive of regional development policy is based on their utilization of these opportunity areas identified by the RTP and Growth Vision. This will be done by considering local actions in response to opportunity areas, including whether they do the following:
  - a) Reexamine local land use policy, allow mixed-use, allow variety and mix of housing types, allow innovative and flexible site planning and design, allow and encourage infill and redevelopment, and offer incentives to encourage development.
  - b) Access SCAG assistance,
  - c) Access state/federal assistance,
  - d) Actually achieve development policy goals measured by permitting activities, etc.
5. Identify methods and sources of funding for ensuring long-term affordability of a share of total new housing built.

This concept can serve as a metric for analyzing and grading local government response to regional development policy. The region could measure housing development/production performance as related to each jurisdiction's efforts toward recognizing smart growth development principles and working toward making growth visioning opportunities areas available for housing development. In addition, performance can also be assessed based on whether local jurisdiction offers incentives (density bonuses, density transfers, tax credits, reduced fees/rebates, parking requirements, etc.) to encourage development and utilization in those opportunity areas.

## Public Sector Efforts Enabling Private & Local Performance in GV Opportunity Areas

SCAG has proposed a series of implementation measures for the Growth Vision that we intend to begin to implement in FY 04-05, and that can assist local governments in achieving success. In reviewing them here, we will focus on those targeted for local government action.

**Identification and promotion of interested subject areas** - A key component of the vision implementation will be the establishment of selected pilot project areas to work intensively with jurisdictions on development and investment. SCAG will survey all jurisdictions for interest, but actual pilots will be on a voluntary basis. In a sense, any jurisdiction that volunteers to be a pilot area can be judged to be a good actor (can be credited "points" in a system judging performance).

The method employed in developing pilot project areas will be technical assistance around using land use policy to incentivize private development. This is an extension of the work performed by Fregonese-Calthorpe for MTA in Los Angeles County. In brief, SCAG will offer a service whereby a menu of land-use policy options can be optimized for local conditions in order to reach a "tipping point" where investment is triggered. The menu of options includes parking requirements, allowable heights and densities, floor area ratios, etc.

Additionally, SCAG will update its periodic *Regional Comprehensive Plan* in order to provide a guide for local government action in support of the vision. Jurisdictions can be surveyed for actions in response to the RCP and, again, be scored and rewarded accordingly.

The key difference between the Compass implementation program and the RCP is that the Compass effort is customized work for specific locations whereas the RCP will describe generalized potential local actions in support of regional plans. As such, participation in Compass pilot areas should be viewed more favorably.

## State and Federal Governments

While the growth visioning initiative is originated in a regional planning framework where transportation performance is foremost, it has yet to be recognized by both federal and state agencies as promising ways to increase housing supply, raise affordability, promote economic growth and revitalize urban core areas. However, many of the key development policy ideas proposed here are consistent with, for example, HUD's priority initiative "*Knocking Down Barriers to Affordable Housing and Increasing Housing Supply*." Moreover, the RTP/Growth Vision land use strategy already developed by SCAG fully encompasses State objectives in that it;

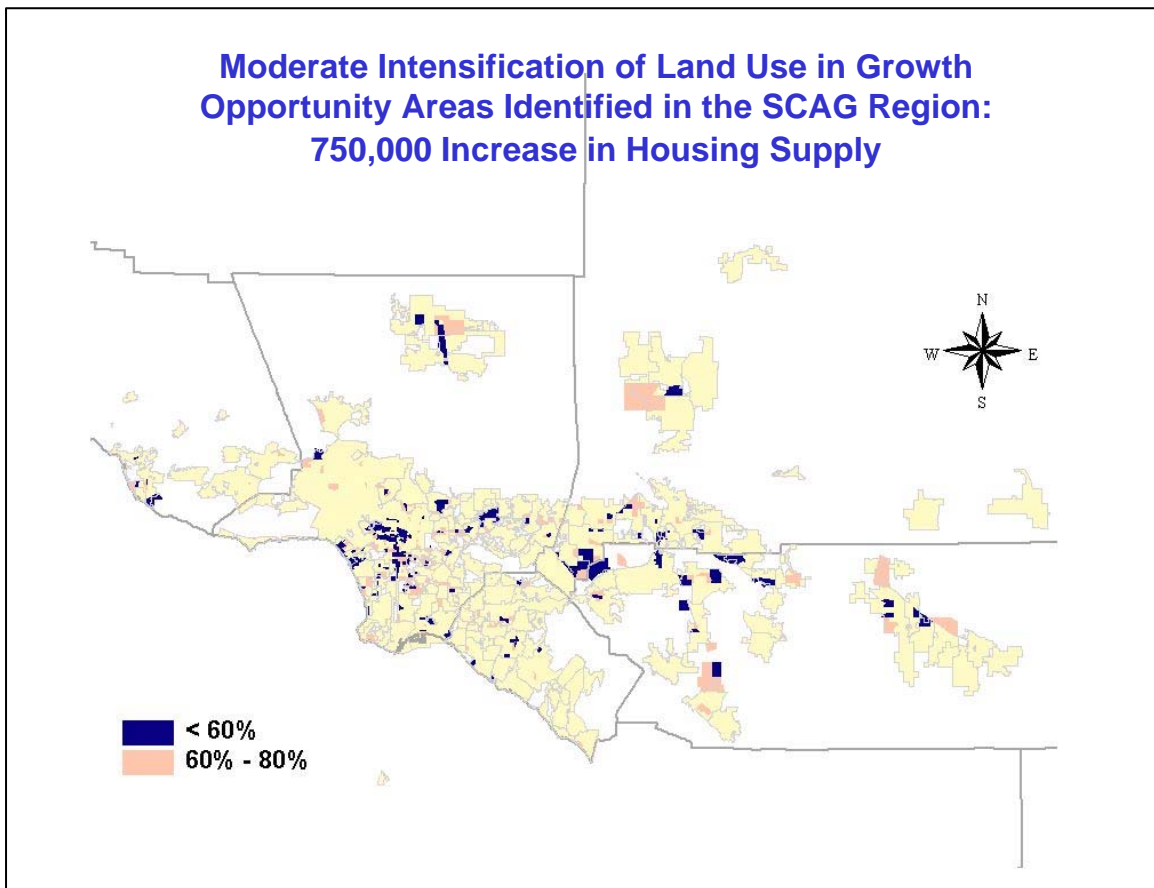


- a. Relies on development policy and practice to achieve performance,
- b. Incorporates broad growth principles,
- c. Assumes adequate levels of housing production,
- d. Presents opportunity for additional housing supply
- e. Works to improve housing affordability,
- f. Performs in all transportation measures,
- g. Improves economic conditions in the region,

Thus the growth visioning opportunity areas developed under the RTP/ Growth Vision processes may become fertile grounds for implementing strategies to reduce development and regulatory barriers and increase the housing supply. These are practical approaches that need State incentive funding, General Plan, housing element credit and resource allocation priority. What the State could do next is to reinforce the implementation of the RTP/ Growth Vision land use strategy by:

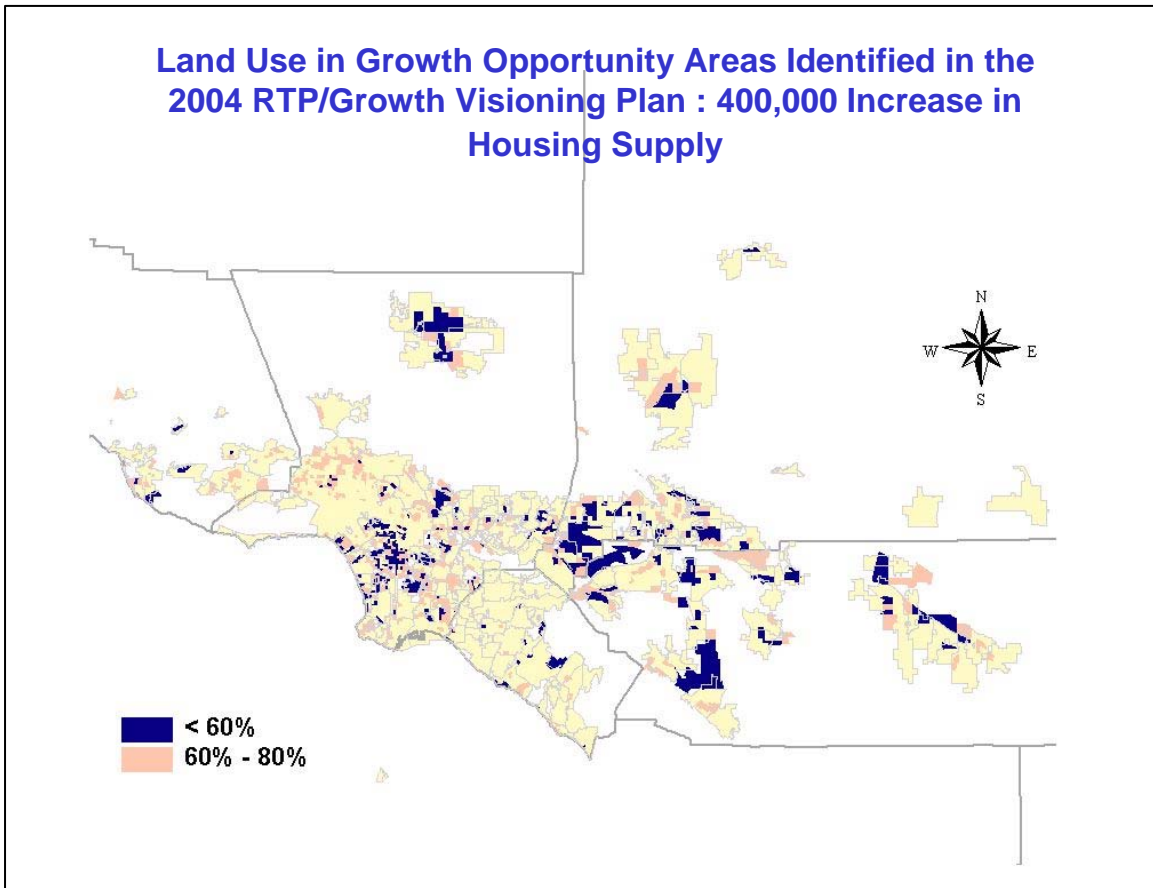
- Protecting transportation funding for projects key to the success of the RTP/Growth Vision land use and development strategy.
- Aligning transportation/housing funding.
- Channel federal housing and economic development efforts/resources/strategies into the growth visioning opportunity areas.

**MAP 2<sup>15</sup>**



<sup>15</sup> The dark blue TAZs represent growth visioning opportunity areas that could accommodate up to 60 percent of the 750,000 housing units with just moderate intensification of land use. The two darker-colored TAZs combined could accommodate up to 80 percent of the 750,000 housing units through changes in land use strategies.

**MAP 3**



## ***Operation Jump-start: Reversing Southern California's Economic Decline***

The objective of the Operation Jump-start proposal is to eventually reverse the long term declining trends of the SCAG region's economic performance relative to other metro regions. Previous analyses showed the importance of the SCAG region's long term imbalances between job creation and population growth and recognized that recently created jobs in the region pay relatively low wages compared with other areas. The Operation Jump-start proposal is designed to bring long term benefits to the regional economy through short-term infusion of significant privately funded investment in transportation infrastructure in order to:

- Grow jobs
- Grow jobs faster than job growth in other places
- Grow jobs faster than population growth
- Grow high-wage, high-quality jobs that are accessible to the less-educated labor force in the region
- Lay the long term foundation to develop basic industries in areas currently are job poor and with relative low average wages, correcting long term trends in increases in inter-county wage gaps

### The expected impacts

Moving forward the implementation and construction of major goods movement projects recommended in the Regional Transportation Plan (RTP) and ensuring timely completion of the Maglev (initial operating segment—IOS), together will inject over **\$26 billion dollars** into the SCAG region's economy between 2005 and 2020. This stimulus to the regional economy, primarily through *privately funded* transportation infrastructure investment, will create 370,000 jobs by 2020. Furthermore, it will generate much larger increases in personal income than traditional government spending or tax cut programs, because jobs associated with transportation infrastructure investment are relatively high paying.

The core strategy of this economic stimulus package is to allow the private sector to establish property rights in transportation infrastructure projects, to invest in those projects and, eventually, to earn decent returns from the investments through user benefit creation and toll collection. Implementing this package will require enabling legislation at both the Federal and State levels to allow and encourage private sector investments in transportation infrastructure.

### The Proposal

The key elements of the SCAG proposal to stimulate the regional economy through investment in transportation infrastructure are:

- ❖ Total project investment: \$26 billion, or \$6.4 billion a year.
- ❖ Time frame: 2005 to 2010; complete all construction by 2010.

- ❖ Creation of 370,000 relatively high-paid jobs in the region over the six-year construction period, an average of 62,000 jobs per year
- ❖ Transportation infrastructure investments comprise:
  - Goods movement projects: a user-supported regional truckways system, rail capacity improvements and separation of grade crossings
  - Initial Operating Segment of Maglev—from West Los Angeles to Ontario Airport
- ❖ Private sector financing for the bulk of the project costs. Preliminary financial analyses show that these projects are all self-sustainable based on users' benefits and hence their willingness to pay through toll charges.
- ❖ Enabling legislation at both the state and federal levels is required to:
  - Authorize public-private partnership arrangements for the purpose of financing a regional toll-based transportation system by: (a) enabling agreements with private entities in support of revenue generating projects such as toll facilities, and (b) allowing complete access to the tax-exempt bond market (tax-exempt private activity bonds for transportation infrastructure development)
  - Enable public/private venture entities to further capitalize on innovative financing provisions in TEA-21, including the TIFIA program.
  - Delineate a legal and regulatory framework for an implementing agency or agencies with specific responsibilities for planning, construction, maintenance, toll collection and enforcement.
  - Permit tax credit bond financing to support rail capacity improvement in Southern California.

***Logistics and Distribution: Build on Regional Strength in Goods Movement and Capitalize On Globalization and Trade<sup>16</sup>***

The freight logistics industry is crucial to the efficient operation of the World, U.S., California, SCAG Region and local economy. Freight logistics involves the movement, storage and handling of goods and materials across the entire logistics chain, from producer to consumer, from point of origin to final disposal. The economy relies on the freight logistics industry to facilitate trade, and in doing so, the industry makes an important contribution to economic well being all over the world.

**The SCAG Region Freight Logistics Industry: Providing the will and means to trade anywhere, anytime**

If the area's economic power is to be unleashed, its economy must be freed of the constraints imposed by lack of truck, rail and airport infrastructure. Investment in these projects would have the beneficial effect of allowing the region's logistics sector to accelerate by providing a growing base of good paying

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<sup>16</sup> Abstracts from the paper, "Logistics & Distribution: An Answer to Regional Upward Social Mobility." By John E. Husing for Southern California Association Governments,

jobs which its marginally educated workers can learn via on-the-job experience and learning. This would appear to be the only route the region has available to helping those workers achieve growing standards of living while simultaneously correcting the recent deep slide in Southern California's relative prosperity vis-à-vis other major parts of the country. Importantly, this investment would do so while helping to mitigate the environmental difficulties caused by the inevitable increase in truck and rail traffic congestion and idling diesel engines.

### Falling Job Quality & Per Capita Rankings

For Southern California, the importance of dealing with these issues begins with understanding that from 1987-2001 the SCAG region slipped from 4<sup>th</sup> to 16<sup>th</sup> in per capita income among the 17 consolidated metropolitan areas in the United States. Worse, despite tremendous job growth in the post-Cold War recession period, the region slipped from 4<sup>th</sup> to 11<sup>th</sup> in average payroll per job. This decline in the region's relative standard of living came about as the 12 sectors that shrank from 1990-2003 were largely high paying manufacturing sectors that paid an average of \$45,165 a year. At the same time, the 12 sectors that provided the most job growth averaged only \$33,145.

### Cost Competitiveness An Issue

In part, this situation came about because slippage occurred due to California's high cost environment. Recently, this has been evidenced by its very high workers compensation costs relative to other states, its high electrical rates and its extraordinarily expensive housing. As a result, companies in the sectors that have come under pressure in recent years have either avoided the state, put their growth elsewhere, or in the worst situations moved away. This has applied to aerospace/defense firms in the early 1990's, high technology companies in the late 1990's and general manufacturing in the past three years. Historically what has propelled the state's economy have been waves of innovation that have created large numbers of new jobs as California's risk taking environment and successful university systems have spawned the successful marriage of entrepreneurship, research and well educated workers.

### Logistics: A Good Paying Sector With Defined Skill Ladders

As a result, if Southern California is to increase the average level of prosperity for its labor force, it is imperative that a sector emerge that can replace manufacturing in providing these conditions. Fortunately, this is occurring with the logistics group that includes companies in such fields as wholesale trade; truck, rail and air transportation; general warehousing; and non-local courier services. It also includes operations ancillary to these sectors providing such goods handling services as stevedoring, container loading, vehicle towing and air traffic control.

From 1990-2003, this group was one of the few non-population related sections of Southern California's economy to provide significant job growth. In addition, the average 2003 pay level in logistics (\$45,314) exceeded that of the other two blue collar sectors: manufacturing (\$43,871) and construction (\$40,439). This was also true for two of the three largest employing sectors in this group: wholesale trade (\$46,892 for 352,373 workers) and support activities (\$49,829 for 52,662 workers). Meanwhile, the logistics group provides unskilled workers with entry level salaries well above the minimum wage at \$8.07 to \$10.45 depending on the sector. From there, workers can attain significantly better pay through experience and on-the-job learning as they move up to \$12.96 to \$14.91 an hour with minimal experience, and on to annual average incomes in the mid-\$30,000's to high \$40,000's with more experience.

Relatively strong pay scales are possible in the logistics sector because it has become one of the most capital and information intensive parts of the U.S. economy. The shift occurred because of the adoption of "just-in-time" systems by the nation's manufacturers and retailers. These systems track inventories and only order new merchandise once existing supplies start to disappear. Logistics companies thus receive orders in a computerized format and must respond rapidly. As a result, functions like transmitting orders to foremen, communicating orders to warehousemen, picking-up orders and placing them on conveyor belts, tracking orders along highways, checking that goods meet design specifications, assembling or repairing merchandise, or driving delivery routes are governed by complex information systems. Workers are paid well because of the efficiency inherent in their increasing use and understanding of technologies like bar coding-laser scanners, e-mail, word processing, personal digital assistants, global positioning systems, geographic information systems, and robotics plus various measuring and calibration devices.

### Logistics: Significant Issues

That said, the growth of the logistics group is not guaranteed due to the major issues it raises. Whether it is giant warehouses (*up to 60 acre sites*), large intermodal facilities or major airports, the facilities required by logistics firms require very large tracts of vacant land. In addition, each job requires about 2,200 square feet of space versus 1,000 square feet in manufacturing and 300 square feet in office sectors. These facts often engender opposition from neighbors and elected representatives. The huge land requirements mean that much of the future growth of logistics must occur in Southern California's inland counties. This will have the advantage of putting good paying jobs with a strong job ladders in the area that needs them the most due to its large marginally educated workforce. However, it also means that the inland area will be abnormally burdened by the logistics group's intense use of land, its heavy truck traffic, the closing of arterial streets by trains, the noise of train whistles and the air quality impacts of diesel fumes. Meanwhile, the logistics group's success is

endangered by the lack of transportation infrastructure that underlies many of these difficulties.

### Logistics: Strategies For Success

Fortunately, a variety of strategies exist that can allow the logistics group of sectors to increase the productivity of Southern California's economy while simultaneously helping to raise the living standards of Southern California's marginally educated workers and ameliorating the worst of its side effects.

- **Operation Jump-Start.** As described before, SCAG has proposed Operation Jump-Start, a series of privately funded initiatives that would accomplish several tasks. Two dedicated truck lanes would be built along the 141.8 miles from the Victor Valley to the ports (*\$16.5 billion*). These projects would separate trucks from cars, reducing congestion, speeding the movement of goods and reducing driving dangers. The trucking industry would consider fees to pay for this infrastructure in exchange for triple trailering on the dedicated routes. Expanded rail track would be built along the UPSP and BNSF lines from Los Angeles through the San Gabriel Valley, Orange County and urbanized Inland Empire (*\$1.2 billion*). In addition, grade crossings would be built separating the major arterial streets from these tracks (*\$2.2 billion*). These projects would allow rail capacity to expand to meet the demand. Arterials would no longer be severed by passing trains. The speed of goods moving in and out of Southern California would be increased. Train whistles would no longer be used in urbanized areas. Finally, a Meglev train from LAX to ONT would be built, helping to further reduce road congestion and tying those two airports together. Together, these strategies would lead to the freer movement of trucks and trains, reducing diesel emissions from idling vehicles.
- **Additional Intermodal Rail Yards.** As with other aspects of Southern California's goods handling infrastructure, the region's intermodal rail yards near downtown Los Angeles and in San Bernardino are reaching their absolute capacity causing time delays in moving both domestic and international containers between trains and trucks. Both BNSF and UPSP are investigating the building of new facilities along their main lines in the Inland Empire.
- **Expanded Air Cargo Capacity.** Every air cargo forecast indicates that LAX cannot handle the long-term volume anticipated for Southern California. Los Angeles World Airways has picked a developer for a new one million square foot air cargo cross-dock for ONT. Hillwood (*a Perot Company*) intends to build a 240,000 square foot air cargo facility at San Bernardino International Airport. Southern California Logistics Airport already provides two-hour turnaround for dedicated air cargo carriers.



March Air Reserve Base is being developed as a joint use facility to also handle dedicated air cargo carriers.

Should these strategies be brought to fruition, Southern California would benefit in several ways. During the construction phases, a very large number of blue collar jobs would be created. These jobs plus the strong multiplier impacts of construction spending would buoy the region's economy. Once the projects are completed, the efficiency and competitiveness of the Southland's economy would be enhanced while the most negative aspects of congestion and idling vehicles would be mitigated. Importantly, this expanded infrastructure backbone would unleash the potential strength of the logistics sectors, offering Southern California's marginally educated workers a growing path towards on-the-job learning and higher standards of living. Ultimately, these strategies thus offer the region a solution to addressing the recent declines in its relative prosperity.

### ***Investment in "Communities-in-Need"***

SCAG's planning efforts have captured early-on the waves of immigration population surges since 1975. In retrospect, foreign-born populations and Latinos have indeed brought profound impacts to almost every aspect of SCAG regional planning concerns: population, economy, diversity, poverty, housing and urban form, social equity disparity, etc. during the last three decades. It is no doubt that immigrants, especially Latinos and their second and future generations, will continue to impact the region for decades to come. Immigrants and Latinos have accounted for almost all the population growth in the region between 1975 and 2000. Their futures will also be the region's future for they will be responsible for even more population growth in the next a quarter century compared with the last one.

The immigrants' close association with poverty and concentration of poverty around so-called "communities-in-need" has been a big regional planning concern to SCAG. Currently, SCAG is teaming up with the UCLA Lewis Center and other regional planning agencies—the Los Angeles County Metropolitan Transportation Authority (MTA) and South Coast Air Quality Management District (SCAQMD)—to investigate income distribution and equality in Southern California and examine trends, causes, geographic considerations, and public policy implications. In addition, SCAG will soon start to update the Regional Comprehensive Plan (RCP). The strategies adopted in the previous RCP to address the social equity and disparity issues associated with immigrants and Latinos in the SCAG region were to bring investments to "community in need". Following are excerpts from the Economy Chapter of the RCPG updated in 2000.

#### Communities "in need"

Communities "in need" are identified in the Human Resources and Services Chapter of the RCPG as those communities that possess threshold levels of certain key social indicator characteristics. These indicators are:

- Population below poverty level;
- High school dropouts – persons 25 years and over;
- English spoken “not well or not at all” – persons 5 years and over; and
- Unemployed in labor force.

Census tracts in the highest quartile of any three of these four indicators were identified in the Human Resources and Services Chapter as “communities in need” for all six SCAG region counties.

In Harvard Business School Professor Michael Porter's report on rebuilding communities in need<sup>17</sup> he posits that jobs, investment, and businesses in our inner cities will materialize only as they have elsewhere -- as the result of private, for-profit initiatives and investment based on economic self-interest and true competitive advantage. If the aim is to create a healthy, sustainable economic base in economically depressed communities, with the employment and wealth that comes with such a base, then the task is to identify the unique existing and potential competitive advantages of these communities that will sustain profitable companies, capable not only of serving the local community but also of "exporting" beyond it. The belief, therefore, is that businesses located within communities in need must be genuinely profitable and capable of competing on a regional, national, and even international scale, lest they run the risk of being outside the economic mainstream.

To guide communities-in-need economic development, a new model must draw its energy from the urban core's untapped economic and entrepreneurial potential. Working off of inherent strengths, the strategy should rest on the proposition that inner cities provide unique potential competitive advantages that companies can leverage in order to turn a profit. The focus, therefore, should be on identifying those competitive advantages and on encouraging the formation and growth of companies that can exploit them – in essence overcoming the “friction of information” that exists concerning opportunities in the inner city. If companies are to put down roots in the inner city, they must be motivated by profits. Key inner-city advantages identified by Porter include:

Strategic Location. Communities in need often occupy economically valuable locations. They sit near congested high-rent business centers and astride transportation and communications nodes. Inner-city locations thus offer potential advantages for businesses that benefit from proximity to downtown business districts, logistical infrastructure, entertainment and tourist destinations, and concentrations of companies. Strategic location creates opportunities for relocating warehousing, data processing, food preparation, and other activities that benefit from downtown proximity away from more expensive downtown headquarters (or other company locations). For example, in Los Angeles many industry clusters such as toy and electronics importing and distribution, are

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<sup>17</sup> Michael Porter, "The Rise of the Urban Entrepreneur," *Inc. Magazine, State of Small Business*, 1995, p. 105

dependent up transportation linkages and warehouse facilities. Such businesses have emerged and remained in the inner city despite government policies that often erode the area's locational value. That persistence suggests that the potential to expand the base of location-sensitive businesses in inner cities is significant.

### Local Market Demand

The second potential competitive advantage of the inner city lies in the unmet demands of its own population. Even though average incomes are relatively low in inner cities, high population density creates substantial purchasing power and a large market. These advantages are not well understood, nor are they well documented. Economist David Friedman in his 1994 study for RLA found that the "neglected regions" of Los Angeles County -- those with 20 percent or higher poverty rates -- showed a remarkable economic base of more than 15,000 companies employing 350,000 people with sales in excess of \$4 billion. Such figures are not easy to assemble. If the federal and state statistical agencies could make them available in a convenient form to businesses, they might well alter firms' decisions as to whether or not to invest in the inner city.

### Integration with Regional Clusters

A third potential competitive advantage of the inner city is a company's ability to leverage access to nearby regional business clusters. The inner city's proximity to regional clusters also offers employment opportunities to appropriately trained residents. Those jobs are usually far more practical and accessible than jobs in distant suburbs. With training and other work-force development programs tailored to cluster needs, both the regional firms and the inner city benefit.

### Human Resources

The fourth potential competitive advantage of the inner city lies in its human resources. Inner-city workers are often more motivated and loyal in businesses that suffer high turnover. For instance, Porter identified a bakery in the heart of Boston's inner city that supplies decorated cakes to supermarkets. It attracts and retains residents from the area at \$7 to \$8 an hour (plus contributions to pensions and health insurance), and its labor pool is one factor that has allowed the company to thrive. Those entry-level, hourly jobs represent a starting point in building a sustainable inner-city economy. Furthermore, research reveals a substantial capacity for entrepreneurship in inner cities.

The competitive-advantage model proposes a new approach to creating a sustainable economic base in distressed urban communities. Agreeing to such a model and implementing it will not be easy. The private sector, government, inner-city residents, and the general public all hold their own views and prejudices about the inner city and its problems. Those views will be slow to

change. People who have devoted years to social causes and who view profit and business in general with suspicion will be uncomfortable seeing the inner city in economic rather than in social terms. Elected officials may resist changing legislation and confronting angry and frightened constituents. And government entities may be reluctant to cede power and control accumulated through past programs.

Porter concludes that the real leaders of the economic revival of inner cities will come from outside the traditional community-service circles. Those leaders -- businesspeople, entrepreneurs, and investors -- are just emerging. They will need the support of community activists and organizations, social-services providers, and elected and non-elected government officials -- all of whom have an important, though supporting, role to play in revitalizing inner cities. Inner-city regions cannot wait any longer. The ongoing damage to inner-city residents and to the whole of society cannot be tolerated.

## **VI. Implementation and Regional Governance**

SCAG strongly believes that its proposed strategies and initiatives are effective in addressing key urban growth issues, and ensure the region a sustainable, prosperous, and equitable future. However, the proposed strategies require specific follow-up actions, identifiable responsible parties, established timelines, and specific benchmark criteria for measuring success. Without strong implementation strategies, well-designed and well-intentioned plans too often are left to gather dust on a shelf.

To avoid such a fate, the SCAG initiatives will need to be based on cooperation and consensus building among all jurisdictions and stakeholders who hold the keys to realizing our shared vision of the future. Successful implementation will depend, in part, on the extent to which local decision-makers, including elected officials, buy-in and take ownership of the strategies. The proposed initiatives will only succeed with strong partnerships that include local governments, public agencies at all levels, community interest groups, the private sector, and the public.

Even with local buy-in and support, how the region governs itself, resolves conflicts and different interests among various parties, and moves toward “regionalism” is among the biggest challenges of implementation. The region has yet to develop an effective governing and conflict resolution system with emphasis on “mitigation” and “compensation,” where regional projects can move forward. Examples of current policy impasse can be evidenced by the case of 710 extension and regional airport development. Further tests of regional wisdom and consensus building could happen very soon around SCAG initiatives to expand and invest the region’s goods movement infrastructure and facilities.

SCAG has to work very hard to communicate to the region regarding its initiatives. SCAG's mission statement is, "to enhance the quality of life of all southern Californians by working in partnership with all level of government, the business sector, and community at large to meet regional challenges and to resolve regional differences."

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