POLICY WATCH – June 2022

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No summer slowdown this July! As we each try to keep our footing as the world changes day by day, we do our best to keep positive that things will work out. In this issue, we look at the new "housing rich" millionaires and renew our understanding of how housing produces generational wealth and the need to do more to increase home ownership, especially for those who are finding housing costs out of reach.

We also look at more signs of a looming recession and its impact on our state budget. The predictions for this recession are that it should be nothing like the Great Recession but it behooves us to prepare as much as possible to minimize the effects of an economic downturn on top of our recovery which has been slower in California. Please save the date for NBLC's State of the North Bay Conference on October 13th which will be themed: From Recovery to Recession?

And we look at a different kind of college ranking system based on graduates' salaries not prestige. A notable finding is that some of the online colleges are quite competitive with the traditional colleges.

We hope that you enjoy the rest of the summer!

Best,

Cynthia Murray

Cynthia

The New "Housing Rich" Millionaires

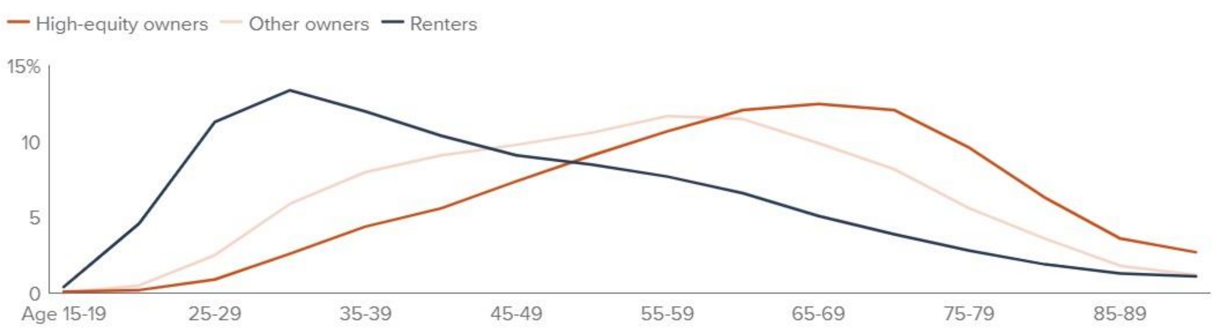
In the Public Policy Institute of California's report, California's High Housing Costs Have Created a Million "House Rich" Millionaires by Hans Johnson (Link) we learn that while California's high housing costs are out of reach to many potential homebuyers, there are also many who are benefitting from the increase in housing costs. Johnson says, "rapidly rising home prices have led to unprecedented levels of wealth among homeowners, including a growing number who have record amounts of home equity. In 2020, more than 700,000 California households had at least one million dollars in equity in their homes, according to American Community Survey data. With rapid price appreciation between 2020 and 2022, we estimate that approximately 1.2 million California households are now home-equity millionaires."

Johnson goes on to detail who "these house-rich Californians" are:

- Most have paid off their mortgages. In 2020, 58% of the state's equity millionaires owned their homes free and clear. Statewide, there has been a dramatic rise in the number of Californians who have paid off their mortgages, from 1.6 million households in 2000 to 2.4 million in 2020. The share of all owner-occupied homes that have no mortgage increased from 25% to 33% over that same time frame.
- Most have lived in their homes for a long time. About half have lived in their current home for more than 20 years. Those with no mortgage have stayed put the longest, with about one-third living in their homes for 30 or more years, compared to 11% of those with a mortgage, and 2% of renters. These long tenures are a testament to the important role that long-term homeownership plays in building household wealth.
- Because so many of them bought their homes decades ago, high-equity homeowners partly reflect the demographics of the state's past rather than the California of today. The most common age group for high-equity owners is 65–69, compared to 55–59 for other homeowners, and 30–34 for renters.

High-equity owners tend to be older

Percent of households by age group



SOURCE: PPIC calculations based on American Community Survey data accessed via IPUMS USA, University of Minnesota.
NOTES: High-equity homeowners are those with at least $1 million in equity. Among homeowners with no mortgage, equity is equal to respondents' reports of housing value. Among those with a mortgage, equity is equal to reported housing value less mortgage principal. We estimated mortgage principal based on the monthly mortgage amount. Contact author for details.
FROM: PPIC Blog, July 2022.
Get the data • Embed • Download image

- Equity millionaires are more likely to be white or Asian compared to other homeowners or renters. White and Asian homeowners make up the vast majority of high-equity homeowners (87%). In contrast, only 13% of high-equity homeowners are Latino, Black, or Native American. These differences reflect and exacerbate other kinds of inequality in California, including income inequality and educational inequality.
- On average, high-equity homeowners with no mortgage are more educated and have higher incomes than renters, but they tend to be less educated and have lower incomes than those with a mortgage. This partly reflects the older ages of high-equity homeowners with no mortgage, many of whom are retired and became homeowners many decades ago when college enrollment and completion were less common.
- High-equity homeowners who own their home outright pay less in property taxes than those with a mortgage, largely because of Proposition 13, which limits increases in property valuations for

the purpose of taxation. High-equity owners without a mortgage have an annual median payment of $7,100, compared to over $10,000 for those with a mortgage.
- The vast majority of California's high-equity homeowners live in coastal metropolitan counties. Even though homeowners with no mortgage are more likely to live in inland metropolitan and rural areas, where homeownership rates are higher and housing prices are lower, those with the highest equity tend to live in expensive coastal metropolitan areas, especially the Bay Area and coastal Southern California.

"Homeownership has been key to wealth creation for generations of Californians," says Johnson. He explains, "Residents who came of age in the 1950s and 1960s did so in an era of rapid expansion of homeownership. After World War II, new transportation infrastructure coincided with the massive construction of new suburbs with abundant housing, loans became more accessible for many, and housing prices in California were only somewhat higher than in the rest of the nation. Over time, many of those homeowners became California's equity millionaires."

But Johnson cautions, "… redlining and discriminatory lending practices during that period kept many people of color from homeownership. Today, high housing costs limit young adults' access to this means of wealth creation. In 1960, over half (54%) of 30-to-34-year-olds in California owned a house, compared to about a third today. Finding ways to improve homeownership among young adults is central to housing stability and future housing equity."

Some solutions to the housing crisis are clear—we must build more housing, especially workforce housing. Others are being explored by the Legislature and housing advocates like help for first time homebuyers. The building industry is exploring new construction methods and materials in hopes of bringing down the cost of building. All possibilities should be considered and those that are worthy should be implemented if we are to make our state's economy and workforce vibrant and resilient and keep more people from falling into poverty.

Looming Recession?

The California Center for Jobs and the Economy issued its California Employment Report for June 2022 (Link) which revealed some more signs of a slowing economy. The report says "The June job and employment numbers remained positive but continued the slowing trend seen over the past 5 months. California continues to lag overall in recovery, and accounts for one-third of the remaining jobs deficit in the nation."

The report says, "The likelihood of a recession in 2021 appears to be increasing. Real GDP in the first quarter contracted at an annualized rate of 1.6% for the US and 1.0% for California. The most recent results from the Atlanta Federal Reserve Bank GDPNow current indicator tracking suggest another 1.6% contraction in the 2nd quarter as well."

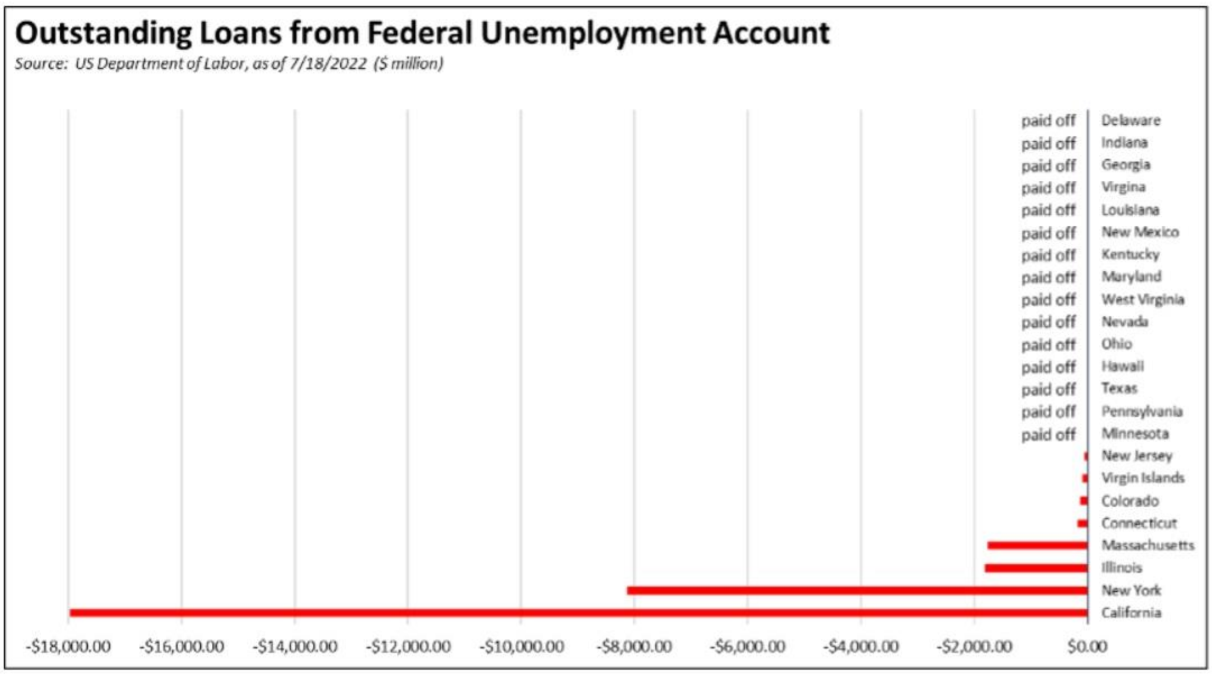
It continues, "Similar warnings are also beginning to show up in the state's revenue tracking. For the first month since the 2020 Budget Bill was passed based on a $54 billion deficit assumption, the most recent cash flow report from Department of Finance indicates revenues fell short of projections rather than greatly exceeding them. Fiscal year-to-date revenues in June came in $2.2 billion below the 2022 Budget Act projections. Personal Income Tax receipts alone came in $4.5 billion lower."

"While the June results reflect only one month of receipts, the revenue realities since the $54 deficit figure was put on the table have instead showed sustained growth well above any prior expectations. The June results are the first outlier. It still remains to be seen whether they become a trend," says the report.

And in an alarming note, the report says, "Yet in spite of these recessionary signs, California remains one of the least prepared states to weather another downturn. While budgetary reserves are now back at levels that could withstand a mild downturn, a number of debts are unresolved and growing."

"In particular, California's unemployment insurance fund is wholly unprepared for another round of renewed demand. In the most recent trust fund solvency rankings, US Department of Labor shows California near the bottom, coming in only barely above New York and Virgin Islands."

"California also continues to carry by far the largest debt owed to the federal trust fund, while every other state except New York and Massachusetts has substantially reduced or paid off their debt including—as specifically authorized—use of federal pandemic assistance funds for this purpose."



The state budget did address some part of this debt. The report says, "In the most recent budget actions, only $250 million was allocated to retire a portion of the currently $18.0 billion debt. Another $750 million was indicated for this purpose in 2023-24 and $500 million in 2024-25 to offset higher unemployment insurance tax rates for small businesses. These later allocations, however, are statutory and subject to reversal in future budget bills, similar to the situation where an increased Prop 98 share for education from the 2020 Budget Act was later reversed before it came into effect."

But not nearly what's needed. "Instead, California employers now face a long-term—if not permanent if the fund weakens irrevocably in another downturn—increase in the cost of employing workers, both through higher federal tax rates to pay off the debt and continuation of the highest levels for the state tax rates. The cost of jobs recovery at a time when the state remains behind let alone the cost of preserving jobs in a potential downturn consequently will increase as the result of these budget actions."

And looking at another big liability, the report says, "The budget did pay off other debts, including $2.9 billion in Prop 2 funds to reduce the unfunded liabilities in the CalPERS state plans. The budget summary indicated this payment will *"result in a minimum of $5.8 billion in estimated savings for the state over the next three decades."* Retirement of the unemployment insurance fund debt instead would have resulted in savings previously estimated by LAO of about $5 billion in interest payments over the next one decade."

"These potential pension savings, however, were quickly overshadowed as CalPERS announced its current financial results. As of the end of June, the CalPERS fund was down $29 billion for the fiscal year and lost $61 billion compared to its peak position at the end of December. CalSTRS has yet to report on their results."

Looks like the budget surplus can't be counted on going forward.

2022 Best Undergraduate Colleges in the U.S. – Ranked by Salary Outcomes

Shadi Bushra analyzes a report, Best Colleges by Salary Score | OnlineU, which lists colleges with the highest alumni starting salaries for bachelor's graduates across majors. He says, "Getting an undergraduate education is an increasingly expensive venture. Average college costs have been climbing for decades and continue to outpace inflation. Higher education is a significant financial investment, and we believe salary is a critical metric of a student's return on that investment. Our list of the best colleges for a bachelor's degree ranks schools by Salary Score, a proprietary data point that shows how much alumni earn compared to other graduates in the same field of study. This list highlights schools whose graduates earn the highest starting salaries for their major, no matter what they studied. While other rankings highlight the most prestigious colleges with the best reputations, our list shows which schools have the best outcomes for their students. We're also the only company to rank graduate schools and online colleges based on alumni earnings by major.

And it is the online colleges that produce the most surprising results in this report. Key Insights:

- Online higher education is continuing to make inroads against on-campus colleges: Online college Thomas Edison State University is again the top public school, beating out UC Berkeley and other contenders
- Half of the top ten colleges by Salary Score are Ivy League schools, while Columbia University, another Ivy, moved up eight spots to #11
- Despite the negative public perception of for-profit colleges, grads from those schools reported above-average salaries when compared to public and private nonprofit school graduates

Bushra says, "We created Salary Score, a proprietary system that ranks schools based on how much graduates earn in their first year compared to alumni across the country with the same degree. We assign each program a Salary Score which says how much alumni earn compared to graduates in the same field of study. We also assign each school a Salary Score that is the average of its programs' Salary Scores."

"At its simplest, says Bushra, "a Salary Score of 50 means that a school or program's alumni are making about the median salary of all alumni in their field. Any score below that is progressively less than the average of schools or programs. Any score above 50 shows that the school or program's alumni are making more than the average. A score of 90 or more indicates alumni in the top 90th percentile among all schools or all programs."

Seeing the successful results of some of the online colleges reinforces that much of education and training is expected to become offered online going forward with educational software and apps predicted to have one of the highest growths in the industry.

Save the Date: NBLC's State of the North Bay Conference on October 13th

Members in the News

Bank of America Making Positive Impacts in the North Bay
Bank of America works tirelessly to strengthen our communities. Here is the latest update on positive impacts their work has brought to the North Bay.

Becoming Independent Campaign Celebration and Ribbon Cutting
Campaign Celebration and Ribbon Cutting on Tuesday, August 23rd from 4:30 pm – 6:00 pm.

Redwood Credit Union Makes Forbes' List of America's Best Credit Unions for Third Consecutive Year
For the third year in a row, Redwood Credit Union has been recognized as a top credit union in California in Forbes' list of America's Best Credit Unions in Each State.

Redwood Credit Union Offers Free Shred-a-Thon in Santa Rosa, August 6
Redwood Credit Union invites the Sonoma County community to come out to its annual free document shredding event on Saturday, August 6, 2022, from 9 a.m. to noon at their administrative offices at 3033 Cleveland Avenue in Santa Rosa.

Sonoma State Receives Top Honor for Commitment to First-Generation Student Success
Sonoma State University has received a prestigious designation for demonstrating a commitment to improving experiences and advancing outcomes of first-generation college students.

Providence Sonoma County Partners with Bay Area Medical Alliance Offering Local Alternative to Kaiser
Canopy Health, a fast-growing Bay Area medical alliance, is expanding into the North Bay, partnering with one of Sonoma County's largest hospital operators and affiliated doctors in a bid to compete more closely with Kaiser Permanente, the region's dominant health care provider.

Midstate Construction Completes Amador Valley & Foothill High School Classroom Buildings
General contractor Midstate Construction Corporation, and owner Pleasanton Unified School District (PUSD) recently completed two new classroom buildings at Amador Valley High School & Foothill High School in Pleasanton, CA

Kaiser Permanente Northern California 2021 Community Health Snapshot
Kaiser Permanente Northern California 2021 Community Health Snapshot is out now!

Kaiser Permanente Invests $1.3M in Grants That Prioritize Mental Health
Kaiser Permanente is committed to ensuring that mental health is treated with the same level of importance as physical health.

Burbank Housing's Grand Re-Opening Reception
Congratulations Burbank Housing on your new home in southwest Santa Rosa!

The Buck Institute for Research on Aging Makes a Call for Researchers in Aging and Environmental Health Sciences to Join Forces
It's becoming more and more obvious that the environment we live in has a lot to do with life expectancy and overall health.

NorCal Public Media Launches the Pat Geis Public Media Internship Program
NorCal Public Media has created a paid public media internship program through a generous bequest from J. Patrick Geis.

BPM Expands into Sacramento Through Upcoming Combination With Avaunt Ltd.

BPM LLP, one of the 40 largest public accounting and advisory firms in the country, intends to expand its footprint in Northern California, adding a Sacramento office through a combination with Avaunt Ltd.

Sonoma State University Appoints Ming-Tung “Mike” Lee Interim President
California State University (CSU) Interim Chancellor Jolene Koester has appointed Ming-Tung “Mike” Lee, Ph.D., to serve as interim president of Sonoma State University (SSU).