COLAB San Luis Obispo County

The Coalition of Labor Agriculture and Business

WEEKLY UPDATE
JANUARY 31 - FEBRUARY 6, 2021

THIS WEEK

BOS MEETING

VERY IMPORTANT POLICY – ROADS STILL UNDERFUNDED

COVID STATUS – PUSH REOPENING LOCAL BUSINESS

LAST WEEK

PASO BASIN AG PERMITTING ORDINANCE DRAFTING PROCESS OK'D

DANA SPECIFIC PLAN OK'D FOR PROCESSING

PAAVO OGREN APPOINTED TO THE WRAC

ECONOMIC DEVELOPMENT PROJECTS FUNDED

COVID VACCINE ROLLOUT SEEMS SMOOTH IN SLO COUNTY

BOARD MAY HAVE CONSIDERED KAREN VELIE HARASSMENT SUIT BUT NO ACTION WAS ANNOUNCED AFTER CLOSED SESSION

BOARD REVIEWED 2021 LEGISLATIVE PROGRAM
BOARD RECOGNIZED ECONOMIC REUSE OF DIABLO AS IMPORTANT

DID APCD OVERCHARGE PHILLIPS 66 FOR YEARS?

WHEN IT CLOSES THEY LOSE $500K PER YEAR & THE WORK DECREASES BUT THEY SAY THEY HAVE A BUDGET PROBLEM?

PLANNING COMMISSION
MORE CANNABIS, PLUS SOME OTHER SMALL PROJECTS APPROVED

COLAB IN DEPTH
SEE PAGE 14

YOU WILL BE ASSIMILATED
BY NOAH ROTHMAN

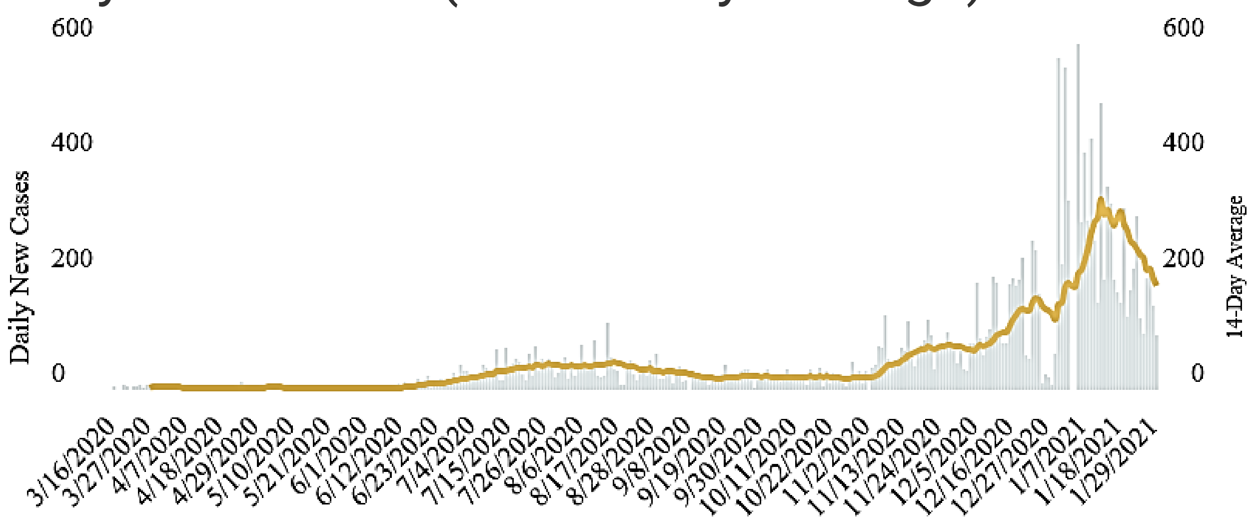
MAKING AMERICA CALIFORNIA
BY JOEL KOTKIN

THIS WEEK'S HIGHLIGHTS

Board of Supervisors Meeting of Tuesday, February 2, 2021 (Scheduled)

Item 7 - Update and possible action on COVID-19 in San Luis Obispo County.

Daily New Cases (and 14-Day Average)



46 (17 ICU)**

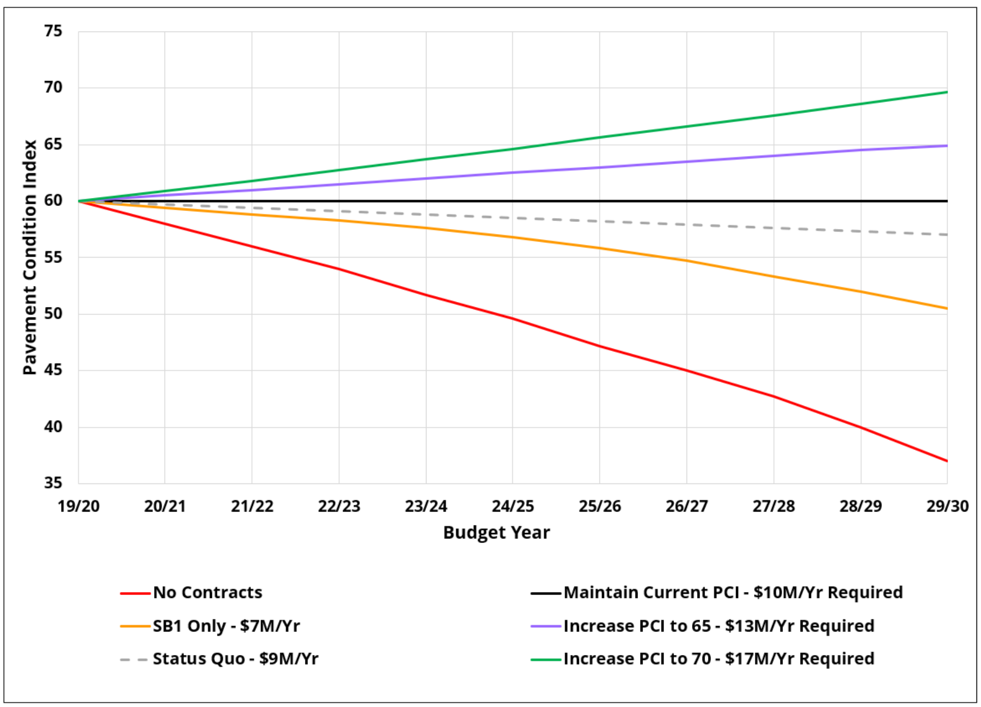
SLO County Residents with COVID-19 in Hospital

After last week's rescission of the "stay at home" order by Governor Newsome, the County is back in the purple lockdown tier.

Item 10 - Status of County Roads and Bridges – Maintenance and Funding Options. This is a very important report on the County's roads and bridges. The bottom line is that even with the new SB 1 gas tax, the County's road maintenance program is falling further and further behind each year as costs for materials and labor increase and the deterioration accelerates accumulatively.

Pavement Management Program: Improving the countywide average pavement condition index ***(PCI [1])*** *within ten years to the Board's adopted goal of 65 now requires an estimated $13 million per year investment, based on current projections. This is $4 million per year over recent available funding. As a result, the countywide average PCI is anticipated to steadily decline. Reducing Pavement Management to only SB1 funds (approximately $7 million per year) would result in a further decline of the countywide PCI of 1 point per year.*

The graphic below illustrates the PCI progressions over the years at different levels of County funding. It should be noted that the overall annual program, including State, Federal, and fee revenue, is about $26 million.



The chart below displays the overall budgetary needs and current sources.

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[1] The PCI is a scale from 1 to 100 with 100 being perfect. The County's policy goal is to not let the PCI fall below 65. Today it is at 60. The rural roads are at 51.

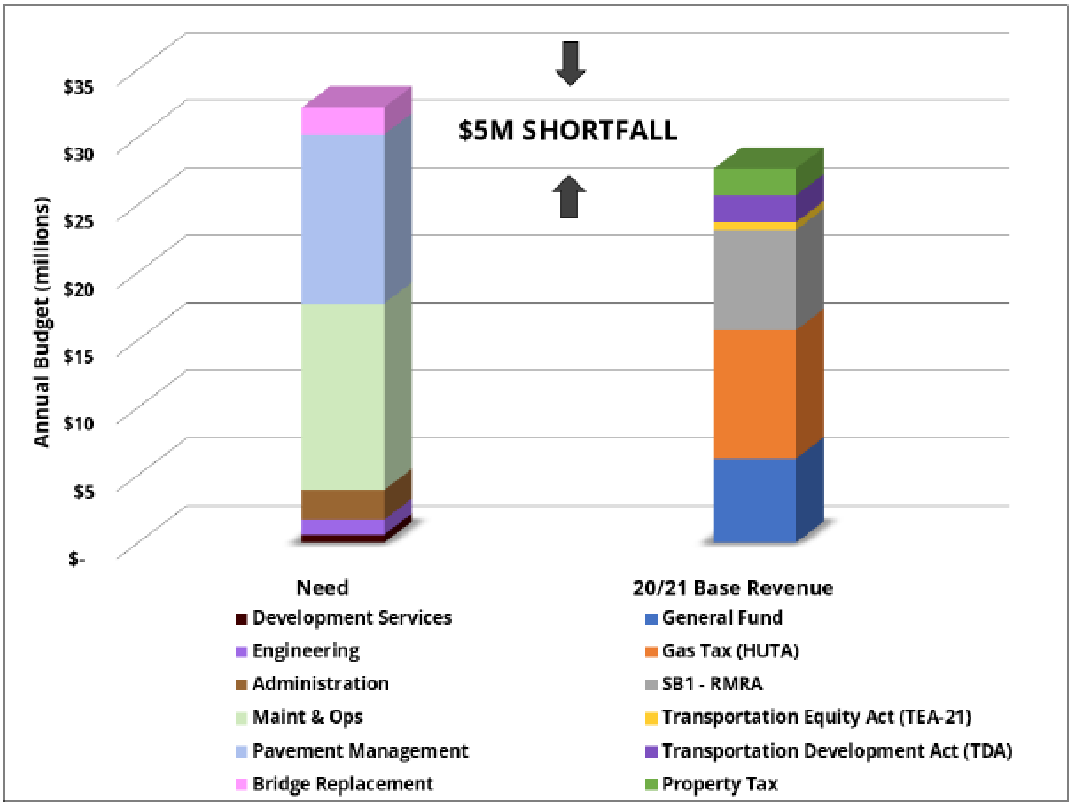


Figure 2. General Roads Maintenance Fund Needs vs. Revenues

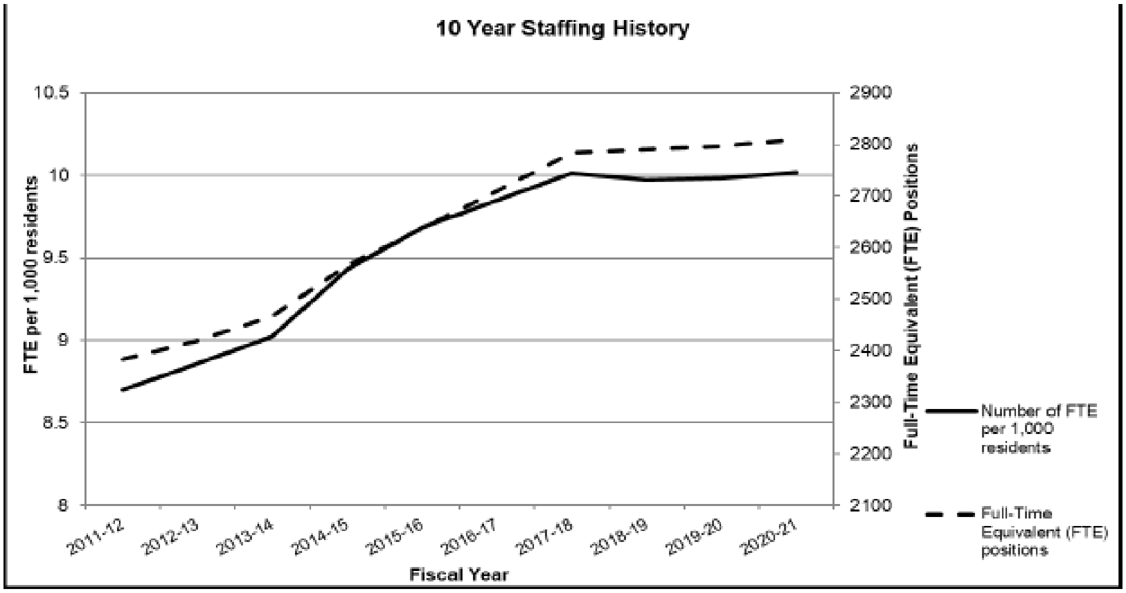
To maintain the roads at the current level will require a new $4 to $5 million per year. The reader may reflect that some prior choices have limited the availability of funds for capital investment:

1. Pension Obligation Bond debt payments - $13.3 million annually.
2. Diablo closure - $8 million in foregone general fund property taxes annually.
3. Phillips 66 closure - $1.7 million foregone in general fund property taxes annually. Note the schools get about 63% and the County around 40%.
4. Addition of 550 fully funded staff positions over the past 10 years with an average fully loaded cost of $116,777 per position.[2]
5. The County is currently spending more on Behavioral Health from its general fund ($14.4million out of total agency budget of $70.4 million) than it does on roads ($11.4 million out of a total roads budget of $24.8 million). Note that Santa Barbara County, a larger county, is providing only $5.3 million in general funds to a Behavioral Health budget of $134, million.

The rationale for the continuous growth in this expenditure is given as:

[2] Note that many of these postions are categorically funded out of OBAMACARE and State mandated social service programs for which the revenues are nontransferable to other programs. Nevertheless, 100 fewer general fund staff positions would translate into $ 11.7 million freed up dollars.

The level of General Fund support for Behavioral Health is recommended to increase by $1.1 million or 9% compared to the FY 2019-20 Adopted Budget. The increase is largely driven by rising expenses for out of county hospital placements, State hospital placements, and Institution for Mental Diseases (IMD) beds which provide the highest level of residential care in locked facilities. Those increases are due primarily to a rising number of clients served, the transfer of all youth to out of county psychiatric hospitals and increases in the daily rates for the facilities.

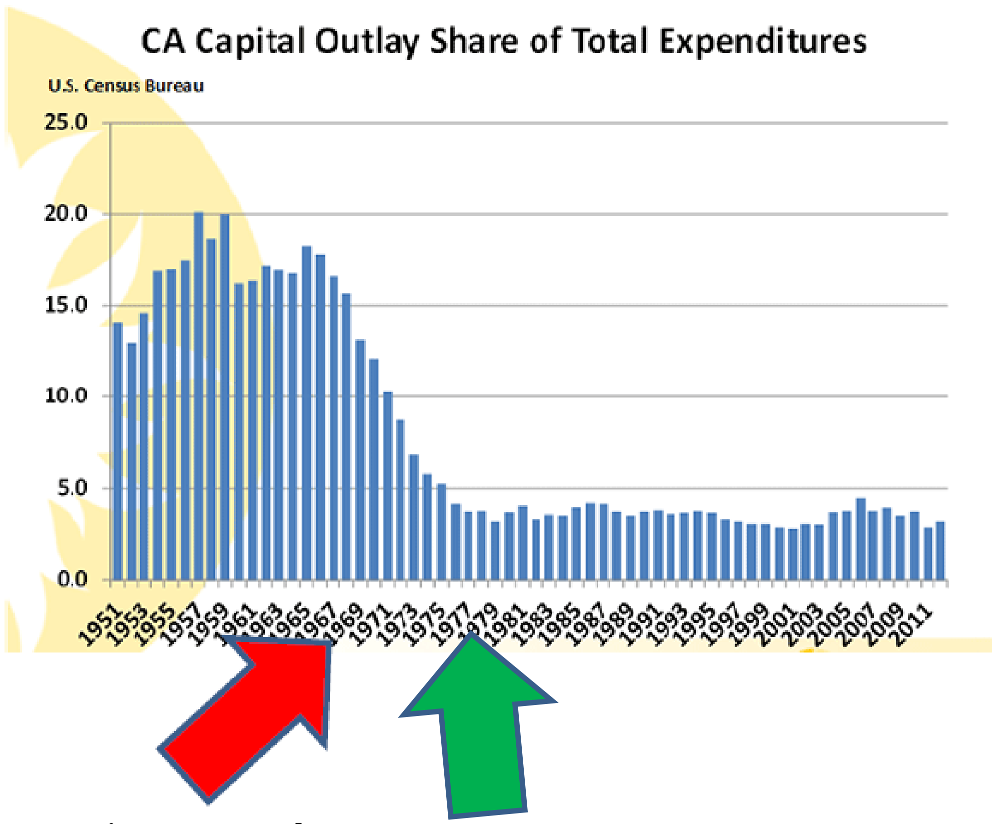


The bottom line is that the roads program, which is a service used by just about every citizen to travel, receive vital goods and supplies, bring in tourists, support emergency services, travel to school, and everything else, is being shorted . Even though the Board has stipulated that it should be a major budgetary priority and it is listed as such, in actuality it is not.

While the Board letter accompanying this item describes the problem, it does not propose any solutions within the County's current resources.

Government Employee Union Power has Destroyed Capital Investment in the State of California

We have repeatedly pointed out that over the decades as unions took control of the State Legislature, Governors, and many local governing boards, the percentage of dollars expended on capital investments has plummeted and has remained low. Often this phenomenon is blamed on Proposition 13, but as the chart below demonstrates, the capital expenditure ratio to all expenditures had already dropped prior to the inception of Proposition 13.



The red arrow points to1969, when Collective bargaining was first allowed for public employees in California.

The green arrow points to 1979, when Prop 13 became operative. Union power shifted the resources to higher pay, pension enhancement, and other benefits prior to Prop 13.

This is a fundamental problem for the people of California, as has been repeatedly covered in our COLAB In Depth Section over the years.

LAST WEEKS HIGHLIGHTS

San Luis Obispo County Pension Trust Meeting of Monday, January 25, 2021, 9:30 AM (Completed)

Item 14 - Monthly Investment Return Report. There was good news for the County pension system. All the losses that occurred in the first quarter have been made up by the robust market growth during the following three quarters.

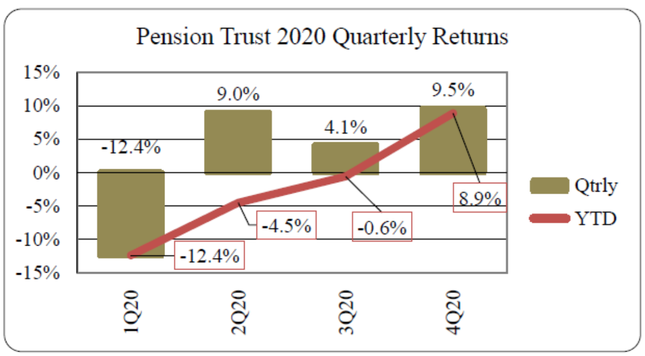
Item 14: Monthly Investment Report for December 2020

	December	**Year to Date 2020**		2019	2018	2017	2016	2015
Total Trust Investments ($ millions)	$1,552			$1,446 year end	$1,285 year end	$1,351 year end	$1,196 year end	$1,148 year end
Total Fund Return	2.7% Gross	**8.9%** Gross		16.3 % Gross	-3.2 % Gross	15.5 % Gross	6.6 % Gross	-0.8% Gross
Policy Index Return (r)	1.9%	10.3%		16.4 %	-3.2 %	13.4 %	7.7 %	-0.5 %

(r) Policy index as of April 1, 2020 revision to Strategic Asset Allocation Policy: 21% domestic equity, 21% international equity, 15% core bonds, 6% bank loans, 5% global bonds, 5% emerging market debt, 17% real estate, 0% commodities, 5% private equity, 5% private credit. Pending revision to Revised Investment Policy adopted Sept. 2020 to be effective in 2021.

The quarter-by-quarter total fund returns on the SLOCPT investments illustrated the chaotic nature of the 1st quarter followed by record-setting bounce-backs in equity assets. The strong recovery in equity markets has brought this preliminary estimate of full year 2020 returns to +**8.9%**. This

should lead to a small actuarial gain as the good investment year is smoothed into the actuarial valuation on a 5-year basis. The long term assumed rate of return on the Plan assets is currently 6.875% which is used as the discount rate for liabilities.



The cumulative gross rate of return on the SLOCPT fund based on these preliminary 2020 total fund return calculations is –

1 year	+8.9%
3 years	+7.0%
5 years	+8.5%
10years	+7.6%

Nevertheless, keep in mind that the system's long term debt is over $800 million.

Board of Supervisors Meeting of Tuesday January 26, 2021 (Completed)

Item 2 - Develop a new technical training program, with a term of February 1, 2021 through January 31, 2026; (2) SLO Partners in an amount of $200,000 to expand modern tech

entrepreneurship opportunities, with a term of February 1, 2021 through January 31, 2022; and (3) REACH in an amount of $300,000 to further the REACH 2030 jobs plan, with a term of February 1, 2021 through January 31, 2022. The Board approved the grants without comment or discussion. Members of the REACH Board phoned in their support.

Background: In November the Board reviewed a number of proposals for allocation of economic development funds. It selected the 3 entities noted in the Item title above. The staff is returning with the formal documents to issue the contracts.

The major strategic project in this group is the continuation of the County's support of REACH, which will prepare an overall County economic strategic plan and provide related analysis and on line resources. The County will pay $300,000 for this project. The County contributed $300,000 to REACH last year. Other than a very high level and general REACH goal report, it is not quite clear what the County received for this amount. REACH did help the County mobilize COVID operations.

It is not known from the write-up if other governments in the County such as the cities are contributing anything to the project. It is not known what Reach's private sector partner companies have contributed.

Simultaneously, REACH is entering into a multi-phase contract with Santa Barbara County to develop a master economic development plan related to Vandenberg Air Force Base. Its agenda write-up states in part:

The MOU participants have invited the County to officially join the effort and sign on as a partner on the project through the Addendum Number 1 to the MOU (Attachment D). Additionally, REACH has submitted a cost sharing contribution proposal (Attachment F) where the County is sponsoring the development of the Phase 1 assessment that is needed to qualify for State and federal resources to complete Phase 2 of the Plan. The Master Plan Project aims to facilitate regional economic growth through the addition of high-quality commercial space industry employment by enhancing competitiveness of the region and thus encouraging skilled jobs. Economic enhancement offers local government, the private sector, the nonprofit sectors, and County residents the opportunity to work together to improve the local economy for a public benefit.

The first phase of the project will cost Santa Barbara County $200,000, which is primarily being funded from cannabis taxes. A large portion of the money will be paid by REACH to the consulting firm Deloitte Touche to do the work. Deloitte Touche has been REACH's consultant in SLO County for the general strategy document produced last year.

As we pointed out in other venues, Santa Barbara County's overall economic development plan is to foster a very robust cannabis industry and tax it to death. If phase I is successful, the County may attract other funding partners such as the State and Feds to develop successive phases.

In the end, there are 2 major questions for both Counties:

1. Where can you locate major commercial and industrial facilities under their respective schemes of land use?

2. How can you attract businesses if land use entitlements take years and millions of dollars to obtain and are then saddled with major exactions?

The full item can be accessed at the link below:

https://agenda.slocounty.ca.gov/iip/sanluisobispo/file/getfile/129620

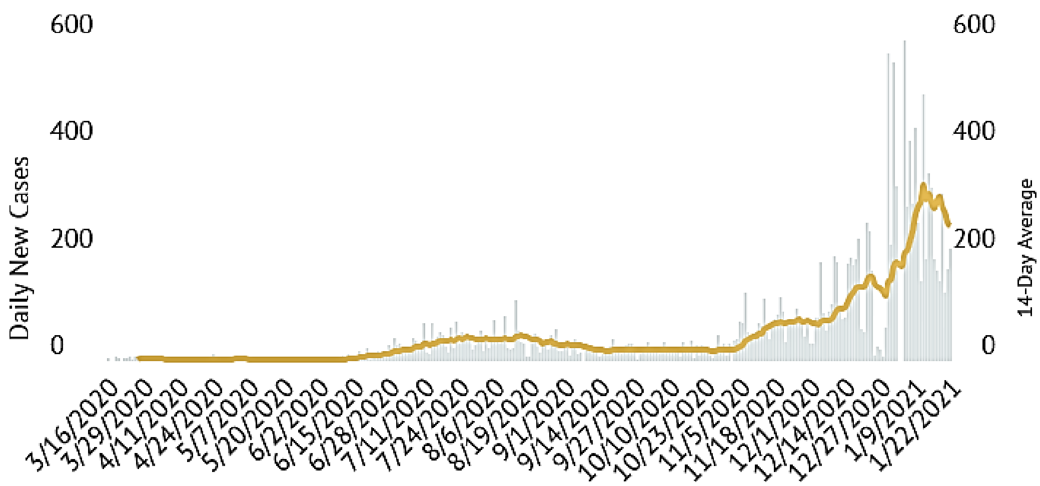
Item 11 - It is recommended that the Board of Supervisors approve the appointment of Paavo Ogren to the Water Resource Advisory Committee as the District 3 representative. This position serves at the pleasure of the Board. The appointment was approved by the Board unanimously**.** In addition to some of the issues listed below, several speakers asserted that Ogren is not a resident of the 3rd District and that he maintains former residence there as a rental property. The Board did not seek to press the matter.

Background: Ogren is qualified by education and experience, but was Public Works Director in the Paso Water District days. He was an inside player and provided advice selectively to Supervisors. (He is not the only one.) See last week's Update for a sample of a direct communication from Ogren to Supervisor Gibson. The County Administrator was not copied. Significantly, the then Supervisor from the District, Frank Mecham, was not included. This example has to do with the issue of the so-called PRIOR Agreement, which had and has a major bearing in the litigation in which the basin overliers are seeking confirmation of their water rights.

The WRAC is dominated by agency bureaucrats and environmentalists. The end game for most of these interested parties is to find problems which can then be used as an excuse to perform expensive consultant studies, hire more staff, and apply for State grants to pay for it all. No one is concerned that much of the State grant money is paid for with debt. The end product is always more regulations and more fees and taxes.

Item 24 - COVID Status as of Friday, January 22, 2021

Daily New Cases (and 14-Day Average)



52 (12 ICU)** SLO County Residents with COVID-19 in Hospital

The discussion was pretty much focused on vaccine and how to encourage the State to allow more businesses to reopen. It had just been annouced the evening before that the Governor had rescinded his December stay at home order.

Separately, residents report that the vaccine inoculations for eligible people are going smoothly in SLO County.

The vaccine website states in part:

Based on current vaccine supply and risk of serious outcomes from COVID-19, adults 75 years and older can get a COVID-19 vaccination by appointment only at one of three clinics in SLO County in SLO County as of Monday, Jan. 18, 2021.

Due to limited vaccine supply, the vaccine clinics in San Luis Obispo, Paso Robles and Arroyo Grande currently have a limited number of appointments available each day. Prioritizing vaccination appointments to residents 75 years and older will help prevent serious health outcomes among some of our most vulnerable community members.

While only those age 75 and older will be the first group in Phase 1b of the County's vaccine distribution plan, anyone between the ages of 65 and 74 will be in the second tier of Phase 1b vaccinations. SLO County is home to over 26,000 residents 75 years and older, but currently only has enough vaccine supply to vaccinate roughly 4,000 people each week. Find out more about when and where the vaccine is being distributed

Item 27 - 2021 State Legislative Program. The County's and State Legislative lobbyists presented the results of last year's efforts and updated the Board on the environment in Sacramento. The Board made a few minor changes and one large change. Supervisor Peschong proposed the addition of an item that calls for County and other levels of government to recognize the importance of promoting and funding economic reuse of the Diablo site and adjacent properties for economic development. The platform had previously only considered its open space and recreational potential.

Background: The platform is used as a guide by lobbyists, legislators, governmental associations, and the departments on how to judge various bills that emerge during the year. The overall thrust is to maintain the County as independent from State and Federal interference and for these higher levels of government not to take any revenues away from the County. Simultaneously, the County seeks expansion of existing funding programs and the creation of new programs. Significantly, the County does not reconcile the conflicting logic of these two overall strategies. Nor does it provide any analysis of ways in which the Feds or State can provide more while dealing with long-term debt.

Some of the Platform positions which COLAB has supported in the past and continues to support included:

15.Oppose any measures or legislation that reduces the super- majority vote required to raise taxes from 2/3rd to 55%.

16.Oppose any legislation or initiative that proposes to modify Proposition 13. Specifically, oppose any legislation or proposal that would establish a so- County of San Luis Obispo 2020 2021 Legislative

Platform Page 8 of 43 called "Split Roll" for property tax, which would thereby reduce protections for commercial property owners.. Oppose any legislation that would further the effort to modify Proposition 13 in lieu of the ballot proposition.

20.Support legislation that recognizes hydroelectricity and nuclear power as renewable energy sources.

Several new items for this year included:

12. Seek and support legislation that: 1. Allows local governments to have local control and autonomy in responding to the COVID-19 pandemic. 2. Allows local governments to respond to the pandemic effectively and efficiently. 3. Provides local governments full funding for pandemic emergency response, testing, contact tracing, vaccination, and health care response, including support for local hospitals and alternative care sites. 4. Provides local governments funding to address food and housing insecurity. 5. Addresses issues due to unemployment, under-employment, and other employment related hardships. 6. Provides business relief and supports flexibility in taxes and other business expense payments.

New Item12 above is fine at the moment. New Item 13 below seems to be biased toward converting the entire Diablo site into some sort of giant passive park which pays no taxes and provides no economic development opportunities. As noted above, Supervisor Peschong successfully advocated adding productive economic development to the package.

13. PG&E and Eureka Energy own a significant amount of property at and around Diablo Canyon. This property encompasses thousands of acres and several miles of coastline and extends from Avila Beach in the south to Montana de Oro State Park in the north. Additionally, in 2000, San Luis Obispo County voters endorsed Measure A, which asked the advisory question of: "Shall the County Board of Supervisors recognize the Diablo Canyon Lands as an exceptionally precious coastal resource by adopting policies that promote habitat preservation, sustainable agricultural activities, and public use and enjoyment consistent with public safety and property rights once the lands are no longer needed as an emergency buffer for the Diablo Canyon Nuclear Plant after its remaining operating life?" The County must have a leading role in any discussions about future uses at and around the property.

Item 29 - Executive Session - In Velie, Karen v. Adam Hill, et. al, Appeal No. B299267. There was no report from the session that any action had been taken.

Background: Cal Coast News Investigative News Reporter and Publisher Velie sued former County Supervisor Adam Hill and the County for harassment and attempting to destroy her business. He reportedly threatened her, her advertisers, and others. Apparently the case is now before a Court of Appeals. It is not known what decision is before the Board at this point.

We do know that Hill harassed and threatened many people over the years. The Board has never conducted a full independent investigation of Hill's activities in general. It may be afraid to settle the case lest others come out of the woodwork before the statute of limitation s runs out on whatever Hill did to them. On the other hand a new Court proceeding could reveal myriad problems, and the Board might be better off providing substantial compensation in the hope that she would settle.

Item 28 – Paso Basin Water Ordinance Question. The Board on a 3/2 vote (Gibson and Legg dissenting) directed the Planning staff to return with a project cost, schedule, and other details to prepare an ordinance which would require agriculturalists in the Paso Basin to obtain permits to develop agricultural operations under certain circumstances.

The issue derives from the expiration of the current water moratorium ordinance in 2022. The Board is very concerned that if the moratorium ends, there could be extreme pumping. One option would be to continue the moratorium until the various SGMA plans kick in. However, this could take many years. Many small and medium operators are now locked out from planting their land under the moratorium.

The proposed new land use ordinance would require permits for larger new agricultural developments and preparation of environmental impact reports (EIRs) on the largest ones. At the same time farmers who are now locked out by the moratorium would have an opportunity to expand or begin an operation.

All of this is complicated by restrictions based on how much water farmers had used in prior years (called the look back period).

Many are concerned that requiring permits for agriculture and especially EIRs sets dangerous precedent.

Another damned if you do and damned if you don't dilemma

Item 30 - Processing Dana Reserve Specific Plan. The Dana Specific Plan is a proposal for a large 1,000-plus unit home development adjacent to the intersection of Willow Road and Highway 101 in Nipomo. A specific plan contains all aspects of a proposed development and allows phases to be opened up as the market place allows. This proposal also contains some light commercial as well as public uses, such as a community college satellite and child care facilities.

Prior to a developer preparing detailed application and conducting CEQA review, the Board and staff assess whether there are any legal or substantive problems which would render the project infeasible. This forestalls wasting huge amounts of expenditure and time. In this case the Board authorized the applicant to develop a full application and EIR. It could still be a roll of the dice but with a little less risk.

The Board was very positive about the prospects of the project and the new housing.

San Luis Obispo County Air Pollution Control District (APCD) Meeting of Wednesday, January 27, 2021 (Completed)

The meeting agenda was largely devoted to administrative and organizational matters, including election of a Chair and Vice-Chair. However, **Item D-3** below raises a question about how much the APCD has been charging Phillips 66 over the years.

Item D-3 - Establishment of a Fiscal Study Committee. The agency, which has a total annual budget of $5.7 million, rakes off about $500,000 per year from the Phillips 66 Refinery, which will be closing in 2 years. They are going to have to figure out how to survive with less money or raise their fees or persuade the voters to tax themselves. On the other hand, they will not have Phillips to regulate or monitor. Therefore they should have less work and need less staff.

Or were they overcharging Phillips to float other parts of the agency? This is illegal, as fees are supposed to be in proportion to the actual work and resources necessary. The Board of Supervisors should have the Auditor Controller go in and investigate this one. If the $500,000 per year has been actually entirely attributable to the Phillips regulatory workload, why will they have a problem? On the other hand is the admission of a future shortfall actually an admission that they were overcharging Phillips?

Planning Commission Meeting of Thursday, January 28, 2021 (Scheduled)

The Commission approved applications for a chiller, a cannabis grow, a cannabis dispensary, a cell tower, and several single or small home developments. Again the Commission demonstrated its current predilection of being positive and trying to solve any problems rather than simply rejecting projects.

There were no large policy projects to change regulations or amend Plan documents.

COLAB IN DEPTH

IN FIGHTING THE TROUBLESOME, LOCAL DAY-TO-DAY ASSAULTS ON OUR FREEDOM AND PROPERTY, IT IS ALSO IMPORTANT TO KEEP IN MIND THE LARGER UNDERLYING IDEOLOGICAL, POLITICAL, AND ECONOMIC CAUSES

YOU WILL BE ASSIMILATED

BY NOAH ROTHMAN

When the "Green New Deal" and its supporting documents were first released, all but the most zealous climate-change activists noticed that much of the legislation was only tangentially related to environmental remediation. The policy proposal also called for a federal employment guarantee, the universalization of Medicare, "debt-free" college, and a basic minimum income. Why? Because all of that would be critical if the fossil-fuel industry and the economic sectors that rely on it were dismantled.

This vision of revolutionary economic transformations would deracinate millions. The displaced, therefore, must be "transitioned" into occupations that Washington's aspiring social engineers deem valuable. This multi-trillion dollar apparatus is merely the infrastructure necessary to preserve a minimum living standard following the destruction of the productive economy.

If that sounds a little condescending to you, it should. The Green New Deal mentality sees people not as complex, productive human beings with thick and rich ties to their communities but as problems to be fixed. These are not individuals with chosen associations and skillsets acquired over a lifetime but cogs in a machine—interchangeable and replaceable, given the proper investments and guidance from enlightened bureaucracies.

The Green New Deal proved a source of unending humiliation for those Democratic lawmakers who concerned themselves with winning elections, but the document was nevertheless an honest expression of the prevailing ethos on the environmentalist left. Even the Biden administration has displayed flashes of this contemptuous snobbishness.

"And with the stroke of a pen," Senator Ted Cruz said of the Keystone Pipeline last week, "President Biden has told those 11,000 workers, those union workers, 'Your jobs are gone.'" Cruz asked his interlocutor, Transportation Secretary-designate Pete Buttigieg, what he might say to "those workers whose jobs have just been eliminated by presidential edict." Buttigieg's response played directly into Cruz's hands. "The answer is that we are very eager to see those workers continue to be employed in good-paying union jobs," he explained, "even if they might be different ones."

This week, Biden's Climate Envoy, former Secretary of State John Kerry, ill-advisedly elaborated on what Buttigieg meant by "different" jobs. "What President Biden wants to do is make sure that those folks have better choices," Kerry said. The health risks associated with, for example, fossil-fuel extraction as an occupation alone should make people who are employed in those fields eager for a career change. Why should someone be trapped in a coal mining job, for example, when that person could be safer and happier as a solar panel or wind turbine technician. "Same people can do those jobs," he asserted. "That is going to be a particular focus of the Build Back Better agenda."

The assumption embedded in comments like Kerry's and Buttigieg's is that, absent the interventions of a beneficent federal government, the lives these suffering masses lead today are not of their choosing. They could not possibly have opted of their own free will to live where they do, to surround themselves with the people they associate with now, and to educate themselves in and train for the occupations in which they are engaged. They must be hostages to forces beyond their control. Not only would reinventing the consumer economy from the top-down mitigate the effects of climate change, but these souls could also be liberated from their imprisonment.

The Biden administration is engaged in some sloppy sleight of hand by using the language of choice to describe a series of conditions that social engineers would impose on the unsuspecting public. Choice has been removed from the equation—for the good of the planet, of course, but also for your own benefit. This is not a species of philanthropy but resentment. It's a display of frustration with the proletarian rabble who won't be led to water, much less drink. And, ultimately, it is a conceit that lays the psychological foundations for the extreme measures, which will be justified not despite the public's resistance but *because of it*.

Those who think they're performing an act of charity by promising to rob millions of their chosen way of life and consign them to service in a "civilian climate corps" surely have the best of intentions. Social engineers who see people as obstacles to realizing their vision usually do. But this is an outlook that sets the stage for conflict. And if history is any guide, the outcome of a fight between the voters and the public servants who despise them is predetermined.

Noah Rothman is the Associate Editor of Commentary *and the author of Unjust: Social Justice and the Unmaking of America*.

MAKING AMERICA CALIFORNIA

BY JOEL KOTKIN

The Biden administration seems determined to run the country on the ruinous model of the Golden State.

As the Biden administration settles in and begins to formulate its agenda, progressive pundits, politicians, and activists point to California as a role model for national policy. If the administration listens to them, it would prove a disaster for America's already-beleaguered middle and working classes.

Biden, suggests an ecstatic account in the *Los Angeles Times*, seeks to "make America California again," and he will have plenty of help. Californians will run Health and Human Services, the Treasury, Homeland Security, and Energy. Former California senator Kamala Harris is vice president, and San Francisco's Nancy Pelosi rules the House of Representatives. Progressives like Laura Tyson and Lenny Mendonca see the shift as embracing "California's distinctive approach to market capitalism." The Golden State, they insist, can "show the way forward" toward a more socially just future.

As a California resident for nearly half a century, I wonder if these worthies see the same state I do. California has its wonderful spots, great neighborhoods, beautiful vistas, amazing entrepreneurs, and great amenities, but it makes a poor advertisement for social democracy. It suffers the nation's highest poverty rate and presents the widest gap between middle- and upper-middle income earners of any state. Minorities—notably African-Americans and Latinos—do worse in California's metros than elsewhere in the country, according to a recent study that we conducted at the Urban Reform Institute. In Atlanta, African-American median incomes, adjusted for costs, are almost double those in San Francisco and Los Angeles; Latinos earn $20,000 more in midwestern and southern cities than in the enlightened metros along the California coast.

California's vast inequality is sustained not by broad prosperity but by the presence of three of the world's biggest technology firms—Apple, Google, and Facebook— whose shareholders generate huge capital gains. The state's model depends as well on venture-capital firms, many of them the same funders of earlier start-ups. Rather than the dazzlingly innovative and diverse economy of its heroic past, the California economy is now dominated by giant information cartels that seem happy, like feudal lords, to divide the vast digital domain among themselves. This top-down model was embraced recently by Governor Gavin Newsom, who boasts that a new round of initial public offerings demonstrate that the state's growing billionaire class is "doing pretty damn well."

An economy dependent on the veritable drug rush of an IPO does not share its bounty widely. Incomes for California's middle and working classes have been heading downward for a decade, and the poor, despite an elaborate welfare state celebrated by Tyson and Mendonca, have seen their incomes tumble, even before the pandemic. Only the top 5 percent of taxpayers have done well, while the middle quintiles, and especially the bottom quarter, have suffered negative income growth. These results, the state budget admits, are worse than in the rest of the country.

This has left the state increasingly dependent on a relative handful of taxpayers, usually beneficiaries of stocks or real-estate inflation, to fill its coffers; according to Franchise Tax Board data, 46 percent of all personal income taxes are paid by individuals in the top 1 percent, with the top 5 percent paying two-thirds of all personal income taxes. Capital-gains collections have grown five-fold since 2010, while income taxes, which made up barely one-third of the state budget in 1980, now constitute two-thirds.

Meantime, the old middle class continues to fade, and a new one is, for now, largely stillborn. California's regulatory policies, shaped largely by climate concerns, have pushed housing prices so high that the state, according to a recent AEI survey, is home to six of the nation's worst markets for first-time homebuyers. The state accounts for four of the nation's six largest metros with the lowest homeownership rates and, according to a recent study by economist John Husing, unionized construction workers can't afford any median-priced homes in any coastal California county. There is less construction going on in California—and even if you build it, you can't afford it.

As major companies have left the state, fields like hospitality, which generally pay low wages, have become one of the few big growth industries. Over the past decade, 80 percent of the state's new jobs, notes Chapman University business professor Marshall Toplansky, have paid under the median wage. Half of these paid less than $40,000.

The pandemic has widened class chasms nationally, but California's gaps seem especially wide. For many working-class Californians, the harsh lockdowns have been a disaster. A state economy that produces few higher-wage jobs means the choice for many is between jobs that barely support a family and no job at all.

By contrast, many well-capitalized, larger tech and service businesses that can afford to comply with the mandated restrictions have thrived, but overall, the state in 2020 suffered among the nation's highest unemployment rates, outdone only by tourism-dominated Hawaii, Nevada, and New Jersey. Particularly hard-hit has been Southern California, which lacks the vast tech economy of the Bay Area and has been buffeted by the shuttering of tourist facilities—over 25,000 jobs have been lost in Anaheim, for instance, home to Disneyland. Arizona State University's Seidman Institute reports that out of the 36 U.S. metros with more than 1 million people, San Francisco and greater Los Angeles ranked toward the bottom in terms of job losses, surpassed only by Las Vegas, Detroit, and northeastern cities like Boston and New York. Los Angeles now has the highest unemployment rate of the nation's top ten metro areas, higher even than New York's.

Small businesses have been especially hurt by the lockdowns. One quarter of California's small businesses, according to Opportunity Insights, an economic indicators tracker based at Harvard University, have closed since January 2020. Given the recent surge in Covid cases and intensifying

lockdowns, many more are likely to disappear. The pandemic has been far kinder to the wealthy, who, according to the leftist blog The Bellows, have seen their revenues and profits soar, boosting their wealth by an estimated $1 trillion since March. Alphabet, Apple,
Facebook, along with Puget Sound-based Amazon and Microsoft, now make up 20 percent of the stock market's total worth.

The embrace of California as a model, particularly of social justice, seems badly timed. The current "boom," centered on a handful of social media and consumer service firms, is creating nothing like the middle- and working-class prosperity of the past. More important may be the demographic evidence: for the first time in its modern history, California is losing population, not just from out-migration but from a stunning reduction of in-migration of young families and immigrants, even before the pandemic. Once the land of youth, California is now aging 50 percent faster than the rest of country, notes demographer Wendell Cox, according to the American Community Survey.

Rather than seek to expand middle-class opportunity and restore the attractiveness of the state to a broad array of industries, many, including Governor Newsom, who faces a determined recall campaign—he compares it with the Capitol riot—insist that the state "always comes back" with new companies, opportunities, and avenues for growth. This may explain their relative indifference as companies have moved out, a blasé attitude that may persist even as other iconic firms—Disney, Visa, Chevron, Uber, and Levi Strauss—consider major relocations.

Simply put, California's performance economically, particularly for its middle and working classes, hardly constitutes a model of social justice or green accomplishment. In actual reductions of greenhouse gases, California is not the environmental icon that it pretends to be. If the largely preventable wildfires are included, the state has increased its emissions; the smoldering fires, as one environmental analyst puts it, "dwarf the state's fossil fuel emissions."

The apparent decision of the Biden administration to model its policies on California, particularly in terms of regulation, augurs, if anything, far worse for the rest of the country. The assault on fossil fuels—starting with the announced end of the Keystone XL Pipeline—will destroy a large number of generally well-paying union construction jobs. The banning of fracking, already endorsed by Vice President Harris, would devastate economies in less climactically blessed states like Texas, Pennsylvania, or Ohio. Similarly, California-style regulation already makes it difficult for industrial firms to reshore to the Golden State; imposing similar strictures would slow and even end the gradual shift of industry to the Midwest and other parts of the Heartland.

Under what Tyson and Mendonca call "a capitalism we can believe in," the middle of the country will see its economies threatened even as digital revenues continue to pour into Palo Alto or San Francisco. To be sure, if intentions and rhetoric are measured, the state's commitment to "social justice" is second to none, but the realities on the ground—in terms of income, poverty, homeownership, and minority progress—tell a different story.
In the end, the California model works only for the few—but if enough of these super-wealthy few stay put, then the Golden State might yet pretend that it can survive the effects of its policies. It's doubtful that the rest of the country could enjoy that luxury.

Joel Kotkin is the Presidential Fellow in Urban Futures at Chapman University and executive director of the Urban Reform Institute. His latest book is The Coming of Neo-Feudalism. *You can follow him on Twitter @joelkotkin*. This article first appeared in the January 25, 2021 City Journal.

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