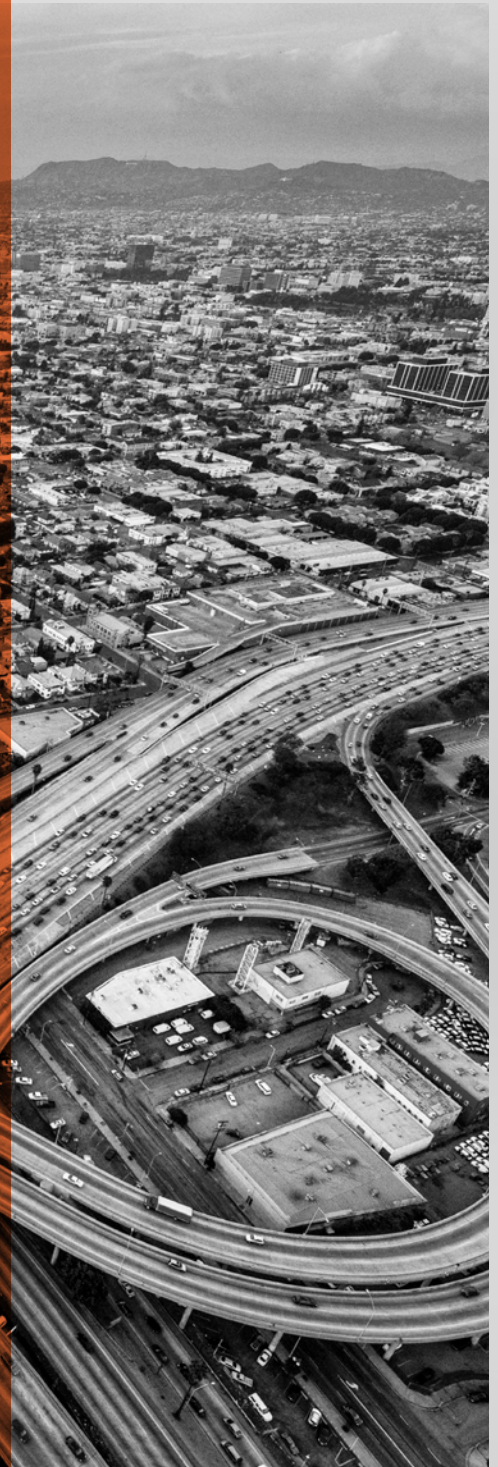

CALIFORNIA MIGRATION

A COMPARATIVE
ANALYSIS

MARCH 2016





Next 10 is an independent nonpartisan organization that educates, engages and empowers Californians to improve the state's future.

Next 10 is focused on innovation and the intersection between the economy, the environment, and quality of life issues for all Californians. We provide critical data to help inform the state's efforts to grow the economy and reduce greenhouse gas emissions. Next 10 was founded in 2003 by businessman and philanthropist F. Noel Perry.

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Data in this report can be accessed on www.Compare50.org, where users can chart and compare all 50 states on over 150 indicators.

Overview

In recent years, California has experienced negative domestic migration, meaning more people are moving from California to other states than the number of residents moving to California from other parts of the country. The increase in the number of residents moving out the Golden State to other parts of the United States is often blamed on California's high personal income taxes. However, data from the U.S. Census Bureau show this perceived connection between out-migrants and the state's income tax is overblown at best, and non-existent at worst.

In fact, statistics on the characteristics of California's inbound and outbound migrants suggest patterns in migration over the past decade are more related to housing costs in the state than to tax structure. That's not to say California's tax structure does not require reform—indeed, streamlining the tax code, broadening the tax base, and lowering tax rates would likely bolster the state's economy further. However, that does not implicate the tax regime as the sole, or even the primary, source of out-migration from California.

While it is true domestic migration into California has continued to be negative in recent years, it is important to look at who is leaving the state and where they going. This report analyzes data on:

1. Where California ranks among other states in terms of net domestic migration
2. The income, educational attainment levels, and occupations of California's inbound and outbound migrants
3. The reasons that migrants are opting to leave the state

Additionally, it is important to consider the characteristics of those entering the state from other countries.

This analysis is based on the most current data available from the U.S. Census Bureau's American Community Survey (ACS). The ACS details if an individual moved in the past year, where they moved to, where they moved from, their income, their educational attainment, and their occupation. This data will give insight into not only the number of people who are migrating in and out of California, but key demographic features about these migrants. Additionally, this dataset allows us to exclude the migration of college students who often only move temporarily.

The main findings in this analysis include:

- California experienced a negative net domestic migration of 625,000 from 2007 to 2014. In other words, 625,000 more people moved out of California to other states than moved into California from other states.
- The vast majority of out-migrants went to just five states: Texas, Oregon, Nevada, Arizona, and Washington.

- California was a net importer of residents from 15 states and the District of Columbia from 2007 to 2014.
- Californians 25 years of age and over that do not possess four-year college degrees accounted for over 469,800 out-migrants. However, California was actually a net importer of nearly 52,700 residents with a bachelor's degree or higher.
- California remains the top state attracting international migrants, many of which are low-income earners and those that have obtained a bachelor's degree.

Despite seeing an overall negative net domestic migration, California is continuing to attract new residents to the state. Despite the rhetoric regarding California's oppressive tax regime or its overall hostility to business, individuals coming to California are primarily concentrated in high-wage occupations, which enable them to better absorb the state's high housing costs and cost of living. In contrast, the majority of California's outbound migrants tend to earn less than \$30,000 annually.

Migration trends also show that the middle-class is being priced out of the state. Net migration of those earning between \$30,000 and \$49,999 accounted for 43,100 residents leaving California. Meanwhile, low-income earners from other countries are replacing low-income earners leaving California for other states.

High housing costs have made California an increasingly difficult place for lower-income residents with less education to maintain their quality of life, while many middle-income residents are having trouble moving from renting to homeownership. Meanwhile, those with higher education and high-wage occupations continue to find the state an attractive place to live. Ultimately, the choice of where to live is one of consumption and reflects a variety of preference factors. Based on the data, it appears that despite a high cost of living, individuals who can afford to live in California will, because of all the state has to offer.

Where are Californians Migrating To?

From 2007 to 2014, California saw 625,000 more U.S. residents migrate out of the state than in. The vast majority of these migrants went to only a handful of states. The state seeing the largest net migration from California was Texas, which saw over 212,600 net domestic migrants from California between 2007 and 2014. Other states that were primary destinations of California-outbound migrants were concentrated in the western United States, with Oregon, Nevada, Arizona, and Washington rounding out the top five. Together, the top five states for California's net outbound domestic migrants accounted for over 550,800 (or 88%).

California was not the only state to see net outbound domestic migration from 2007 to 2014. Indeed, 23 other states saw negative net domestic migration over the same period. Besides California, which had the second largest outbound migration, the states seeing the largest amount of net outbound migration were concentrated in

the northeast, with New York seeing the largest number of net outbound domestic migrants (967,400). Illinois, Michigan, and Alaska also saw domestic migration turn negative over the period, however losses were not as steep in absolute terms as losses in New York.

Importantly, California saw *positive* net domestic migration from 15 states and the District of Columbia, despite an overall negative, from 2007 to 2014. The states accounting for the largest inflows to California include New York, Illinois, Michigan, New Jersey, and Alaska. Together these states accounted for a net inflow of over 119,600 migrants to California from 2007 to 2014. California attracted many residents from some states that do not have an income tax, including Alaska (20,700) and Florida (18,000). As will be discussed below, this counters the perceived link between migration and tax rates, and suggests other factors are driving migration trends.

In 2014, California saw out-migration fall, with just over 52,000 residents leaving California, on net. That puts California third in net negative domestic migration behind New York and Illinois. Florida attracted the most domestic migrants, with net in-migration totaling over 136,300 in 2014. What’s more, half the states in the nation saw negative net domestic migration over the period, indicating that this is not a California-specific trend.

California Net Domestic Migration by State, 2007 to 2014

State	Rank	Net Domestic Migration (000s)
Total		-625.0
Texas	1	-212.6
Oregon	2	-96.2
Nevada	3	-95.2
Arizona	4	-90.3
Washington	5	-56.5
Alaska	46	20.7
New Jersey	47	27.8
Michigan	48	29.7
Illinois	49	41.4
New York	50	46.5

Source: American Community Survey

Who are California's Migrants?

While California has seen a significant number of residents leave the state in recent years, it is important to look at who is opting to leave the state, and conversely what the demographic make-up is of those still moving into the state. A common theme is to look at the migration out of California and blame it on a poorly performing economy or income taxes without looking at who the people migrating actually are,

or, ultimately, why they are leaving the state. This is especially important from a public policy perspective in that having the right diagnosis is critical to overcoming challenges. Indeed, if tax rates are the drivers of out-migration, the policy recommendation that logically follows is to lower the tax rate. However, if, as the data suggests, there are other more important drivers, then the reduction of tax rates will do little to stem the tide of those leaving the state.

Looking at the income levels of domestic migrants undermines the assertion that California’s progressive tax system is driving residents from the state. In fact, from 2007 to 2014 California has actually seen a net positive domestic migration of individuals who earn over \$50,000 annually. This means there are factors other than income taxes impacting migration decisions, since the majority of out migration can be attributed to residents who earn less than \$30,000 and are not subject to California’s higher upper-income tax brackets. This also follows the earlier finding that California *gains* residents from states with no income taxes. Indeed, it appears that California’s high cost of living and housing costs, particularly for middle- and lower-income residents, is playing a larger role in the decision to move into or out of the state.

Educational attainment levels of California’s migrants provide perhaps some of the best insight into the underlying nuances of migration in the state. To illustrate, from 2007 to 2014, California residents 25 years of age and over with a bachelor’s degree or higher had the lowest propensity to leave the state, with this demographic actually seeing a net inflow of nearly 52,700 domestic migrants over the period. In contrast, California residents who do not possess a bachelor’s degree had the highest propensity to leave the state, with this demographic seeing a net outflow of over 469,800 domestic migrants over the period. This should not come as a surprise given that education is a primary driver in income disparities and the concentration of out-migrants in the lower-income categories.

California Net Domestic Migration by Personal Income, 2007 to 2014

Annual Income	Net Domestic Migration (000s)
Under \$30,000	-458.9
\$30,000 to \$49,999	-43.1
\$50,000 to \$99,999	36.2
\$100,000 to \$149,999	13.4
Over \$150,000	0.6
Total	-451.8

Note: Includes only persons that earned wages or salary.
Source: American Community Survey

The data on out-migration from California by occupation tells a similar story as when analyzed according to educational attainment and income levels. The vast

majority of outbound migrants were concentrated in lower-skilled, lower-paying fields—namely Sales, Office Administration, Transportation, and Food Preparation, which together accounted for a net outflow of over 192,700 domestic migrants over the period. In contrast, California continues to attract workers in high-skilled, high-wage fields like Computer/Mathematical, Healthcare Practitioners, Science, and Architecture/Engineering occupations, attracting 54,200 net inbound migrants.

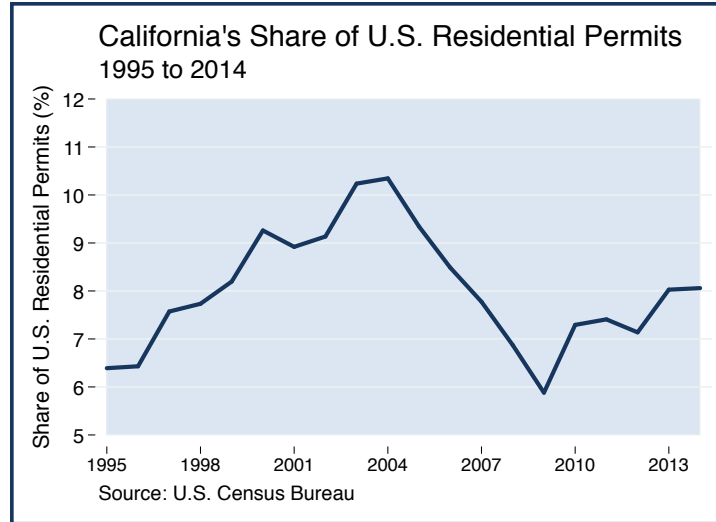
These occupational patterns support the argument that high housing costs rather than income taxes are impeding positive net domestic migration to the state. Since California is a relatively progressive tax state in terms of income taxes, increases in the income tax burden are less likely to affect workers in low- and middle-wage occupations than those in higher-wage jobs. Yet, it was lower-wage and middle-wage workers who left the state in greater numbers while there was actually an influx of higher-wage workers.

Why are Californians Migrating?

Ultimately, the choice of where to live is one of consumption, and reflects a variety of preference factors. High housing costs have made California an increasingly difficult place for lower-income residents with less education to maintain their quality of life, while those with higher education in high-wage occupations continue to find the state an attractive place to live.

For years, California has suffered from a chronic undersupply of housing despite rising population and increased demand. For example, although home to more than 12% of the nation's population, California has consistently accounted for just 8% of residential permitting for almost twenty years. In fact, between 2007 and 2015, California accounted for just 9% of the new residential permits in the nation. The state simply has not built enough new housing to keep pace with its expanding population over the long term.

Indeed, the lack of permitting does not appear to be a demand issue. According to the California Association of Realtors, inventory levels averaged just over four months of supply in 2015 in California, while the nation overall saw inventory levels average over five months of supply. This means at the average rate of sales in 2015 the stock of available homes in California would dry up in just four months, while the stock of available homes in the nation overall would last five months.



What's more, vacancy rates in California are well below the nation overall, where the homeowner vacancy rate was 1.9% in 2014, compared to just 1.1% in California. The story is similar for renters, with the rental vacancy rate at 7.6% in the United States overall compared to just 4.5% in California. This suggests homes in California are more in-demand relative to the nation overall.

Homes in California also tend to be more expensive than in other states. For example, homes in Austin (the most expensive metro area in Texas) sold for a median price of just over \$261,000 in 2015, compared to nearly \$395,000 in California as a whole, according to the National Association of Realtors. Prices are even higher near the coast with homes in the Bay Area selling for a median price of over \$700,000 in 2015. This puts the dream of home ownership out of reach for many residents, especially for those who are not in high-wage occupations.

The rental market in California is also expensive compared to other metropolitan areas. According to REIS, the cost to rent an apartment in the United States averaged \$1,227 in 2015, while the cost to rent in California's major job centers, like San Francisco (\$2,557), San Jose (\$2,109), Los Angeles (\$1,602), and San Diego (\$1,545), was well above this rate. With these figures, an individual opting to live in an area with rents near the national average could save over \$10,000 annually compared to the San Francisco and San Jose areas.

It is important to note that these price differences are not just a result of California being a more desirable place to live relative to other areas. Our research suggests that a litany of fees, CEQA, NIMBYism, and the fact that Proposition 13 forces municipalities to look to permit and development related fees for revenue, all contribute to California's affordability issue. So, to solve the out-migration issue, the focus should be put on these roadblocks, rather than the state's personal income tax rate.

Based on the data, it appears that despite a high cost of living, individuals who can afford to live in California will. However, it is important to look closely at how affordability has impacted migration, and why it has been a persistent issue in California over the years.

International Migrants

Counter to the trends observed in domestic migration, California continues to be the most popular destination for international migrants. Between 2010 and 2015, 835,000 net international migrants moved into California – more than any other state during that period. New York (630,800), Florida (610,500), and Texas (463,400) have also been popular states for international migrants.

Furthermore, unlike patterns in domestic migration, the majority of international migrants moving into California earned very low incomes. More than 80% of migrants entering California between 2007 and 2014 earned less than \$30,000 per year, which is not much different from international migrants entering in New York (78%), Florida (85%), or Texas (78%).

Despite earning low wages, many international migrants enter the nation with an advanced education. Approximately 33% of California’s international migrants 25 years of age and above had obtained a bachelor’s degree, similar to the rate in New York and greater than the 27% rate in both Florida and Texas. The majority of international migrants entering California with a bachelor’s degree come from Asia.

Share of International Migration into California by Educational Attainment and by Region of Origin, 2007 to 2014

Educational Attainment	Africa	Asia	Australia	Canada	Europe	Mexico	South America
Less Than High School	32.5	37.1	34.3	29.6	30.8	71.4	57.7
High School Graduate	15.6	13.5	11.5	11.1	11.5	14.3	12.5
Some College	16.8	12.2	16.7	15.6	11.7	7.1	12.3
Bachelors Degree	22.3	22.4	24.6	22.2	19.6	3.5	11.5
Grad./Prof. Degree	12.8	14.8	13.0	21.4	26.5	3.8	6.0

Source: American Community Survey

Conclusion

Although California experienced a negative net domestic migration of 625,000 from 2007 to 2014, it appears that despite high housing costs and a high cost of living, individuals who can afford to live in California will and international migrants destined for the United States will continue to start their search for a better quality of life in California. This is in contrast to the common talking point that individuals are deciding to move from the state because of high personal income taxes. In fact, California has seen a net inflow of residents who earn over \$50,000 annually, have bachelor’s degrees and/or advanced degrees, and work in high-skilled occupations.

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California still has plenty of room for improvement. The state's permitting rules and its building regulatory environment could be eased and streamlined to address California's real enemy: the high cost of housing. High housing costs have made California an increasingly difficult place for lower-income residents with less education to maintain their quality of life, while those with higher education and who work in high-wage occupations continue to find the state an attractive place to live.

Appendix

States with Negative Net Domestic Migration into California, 2007 to 2014

State	Net Domestic Migration (000s)
Texas	-212.6
Oregon	-96.2
Nevada	-95.2
Arizona	-90.3
Washington	-56.5
Colorado	-45.1
Oklahoma	-44.5
North Carolina	-31.9
Utah	-28.8
Georgia	-28.2
Idaho	-25.4
Tennessee	-18.4
Iowa	-12.1
Kansas	-12.1
Montana	-11.9
Virginia	-11.6
South Carolina	-11.1
New Mexico	-10.4
Indiana	-7.8
Nebraska	-7.4
Arkansas	-7.3
Wyoming	-6.4
South Dakota	-5.2
Hawaii	-4.3
Missouri	-2.8
New Hampshire	-2.8
Kentucky	-2.5
Vermont	-2.4
Maine	-2.3
Delaware	-1.3
North Dakota	-1.2
Mississippi	-0.6
Rhode Island	-0.4
Louisiana	-0.1

Source: American Community Survey

States with Positive Net Domestic Migration into California, 2007 to 2014

State	Net Domestic Migration (000s)
New York	46.5
Illinois	41.4
Michigan	29.7
New Jersey	27.8
Alaska	20.7
Florida	18.0
Pennsylvania	18.0
Connecticut	10.2
Maryland	7.3
Wisconsin	6.4
Minnesota	5.1
Massachusetts	5.0
Ohio	4.4
Alabama	2.2
District of Columbia	1.0
West Virginia	0.6

Source: American Community Survey

California Net Domestic Migration by Occupation, 2007 to 2014

Occupation	Net Domestic Migration (000s)
Computer/Mathematical	18.0
Healthcare Practitioners	17.1
Arts/Entertainment	15.2
Science	11.7
Architecture/Engineering	7.4
Legal	1.6
Farm./Fish./Forrestry	-1.8
Business/Financial	-6.7
Military	-6.7
Protective Service	-11.6
Community/Social Service	-13.2
Personal Care	-13.2
Healthcare Support	-16.3
Install./Maint./Repair	-18.2
Management	-20.6
Education	-22.2
Cleaning/Grounds Keeping	-27.8
Construction	-39.4
Production	-41.1
Food Prep./Serving	-41.3
Office/Administrative	-45.4
Transportation	-46.7
Sales	-59.3
Total	-360.5

Note: Includes only persons that were in the labor force.
Source: American Community Survey

California Net Domestic Migration by Personal Income, 2007 to 2014

Annual Income	Net Domestic Migration (000s)
Under \$10,000	-329.3
\$10,000 to \$19,999	-74.0
\$20,000 to \$29,999	-55.6
\$30,000 to \$39,999	-27.2
\$40,000 to \$49,999	-15.9
\$50,000 to \$74,999	20.2
\$75,000 to \$99,999	16.1
\$100,000 to \$149,999	13.4
\$150,000 to \$199,999	-2.0
\$200,000 to \$250,000	9.0
Over \$250,000	-6.5
Total	-451.8

Note: Includes only persons that earned wages or salary.
Source: American Community Survey

California Net Domestic Migration by Education, 2007 to 2014

Educational Attainment	Net Domestic Migration (000s)
Less Than High School	-192.4
High School Graduate	-111.6
Some College	-165.8
Bachelors Degree	11.8
Grad./Prof. Degree	40.9
Total	-417.1

Note: Includes only persons 25 years of age and over.
Source: American Community Survey

California Net Domestic Migration by Age, 2007 to 2014

Age	Net Domestic Migration (000s)
Under 18	-205.4
18 to 25	-4.5
26 to 40	-141.2
41 to 50	-110.9
51 to 65	-140.5
Over 65	-22.6
Total	-625.0

Source: American Community Survey