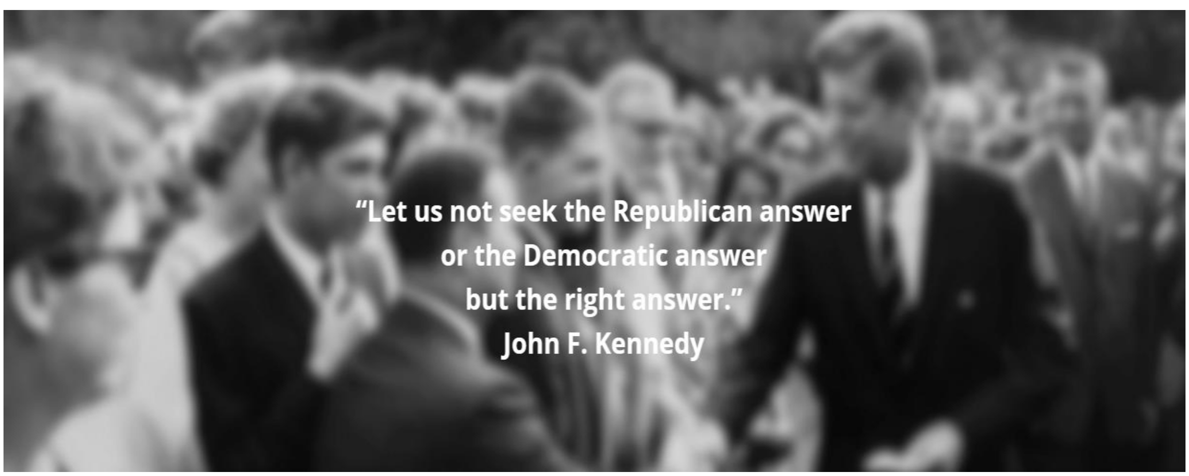
REASON IN GOVERNMENT
THE VOICE OF THE *RADICAL* CENTER

Grading Santa Barbara County's Economic Wellness

February 15, 2017



www.reasoningovernment.org

Introduction:

Sound public policy formulation, informed voting, smart economic development, and impactful philanthropy – all sources of pride for Santa Barbara County's residents – rest on accurate assessments of our community's underlying economic conditions. Indeed, the character of our community – from the quality of our roads and parks, to the services we provide the least affluent, to the opportunities we provide young people to live, work, and raise families here – is inextricably intertwined with the health and vitality of our local economy. Without an accurate understanding of the local economy, it is virtually impossible to provide informed answers to questions such as:

- Is this where I want to live in the future?
- Do I want my children to live here when they are adults?
- Does my community reflect my values and aspirations?
- Are my elected officials governing responsibly?
- Do I want to invest in my community?
- How can I make my community better?

Given the importance of these questions, we decided to assess the economic wellness of Santa Barbara County as we enter 2017.

It is important to note that when we refer to the County, unless otherwise noted, we are referring to our ***community*** as a whole, not simply our County government. The economic health of our County is affected by myriad factors – policy and budget choices made by our County and eight municipal governments, decisions made by local businesses and developers, cooperation among local businesses and our local universities, colleges, and community colleges, investments or loans made by local investors and banks, and the problems being address by local philanthropists.

We would further note that this report card is timely and relevant. The County's unemployment rate ***spiked*** in December. The two newly-elected County Supervisors must grapple with hard budget choices in the midst of skyrocketing pension costs and ever-increasing deferred maintenance obligations. Our cities face the same set of challenges, especially with the consistently dismal performance of CalPERS, which is likely to continue for the foreseeable future. Indeed, the City of Santa Barbara is considering budget cuts to offset its increased pension costs as well as a sales tax increase to start paying for potentially more than $500m in deferred infrastructure maintenance and improvements. In the absence of meaningful revenue increases (which are not likely in most jurisdictions based on current economic trends), the County and many cities will be forced to enact service reductions and other cost-saving measures to cover their pension costs. This will negatively impact the quality of life throughout the County and further delay a critical shift in public finances – from paying for the past to investing in our future.

Fortunately, the County's Economic Vitality Team (EVT) just held its first public meeting to discuss its current and planned efforts to boost economic growth in the County. It is critical that the EVT, which brings together the Chambers of Commerce in our community, begin its work by documenting the County's economic weaknesses, educating the public on its findings, and developing impactful policies and programs to put the County on a path to better economic health. The County desperately needs a cohesive strategy as well as regional coordination to address many of its economic weaknesses.

Our contributions to this larger effort were complicated by the fact that there was no pre-existing formula for assessing the economic health of a county, and traditional measures of county economic health are incomplete and potentially misleading. To address these challenges, we built a model for assessing economic health using publicly-available data that is updated regularly. We call it the "County Economic Wellness Model." It looks at a variety of measures, from unemployment to the poverty rate, public finances at the County and city levels, and housing availability and affordability.

We are confident that our Model will serve as a useful tool for educating elected officials, voters, the EVT and Chambers of Commerce, NGOs, investors, bankers, and philanthropists as they consider the steps we can take as a community to improve our economic wellness and the quality of life for our residents. We have made several preliminary recommendations in this Report to spur actions by both the public and private sectors. It is critical that we start taking these steps today. As is demonstrated in the analysis below, the County is hardly a model of economic wellness, and it is trending in the wrong direction on several economic health measures. We look forward to working with the community to improve our economic wellness this year and in the years to come.

The Board of Directors
Reason in Government
February 2017

Executive Summary:

Grading Santa Barbara County's Economic Wellness

Using our Model, we give Santa Barbara County a ***D+***.

Although there are a handful of bright spots, such as rising median household income, Santa Barbara County is not economically healthy. Its unemployment rate is high by historical standards, its poverty rate is much too high by any standard, its public finances are weakening at the County and city levels, its labor mix and business formation lack vitality, and its lack of housing drags down the overall economy in several ways.

The County Economic Wellness Model

The Model is very straightforward. First, we developed ten measures that, when combined, provide a ***comprehensive*** view of Santa Barbara County's economic wellness. These measures focus on economic health (*e.g.*, tax revenues, debts, and citizen income and wealth) and vitality (*e.g.*, business activity, labor force composition and participation, consumption, and residential and commercial development). Second, we assessed the County's relative performance in each category by comparing it to past performance, other counties in California (particularly Sonoma County, which serves as the best benchmark for our County), and regional or national averages and trends. If the County is excelling by comparison, it receives an "A." If it trails considerably, it receives an "F." The average produces an overall grade for economic wellness.

Using our Model, Santa Barbara County received the following grades:

1. Unemployment Rate: D+
2. Poverty Rate: D-
3. Median Household Income: A
4. County and Municipal Finances: D
5. Number of Firms: C-
6. Labor Mix: D
7. Median Value of Owner-Occupied Property: D-
8. Housing Units Per Resident: D
9. Ratio of Median Household Income to Median Rent: D
10. Income Dedicated to Rent: D+

The average of the County's grades produced an overall grade of ***D+***.

Taking Steps to Improve Santa Barbara County's Economic Health

There is no panacea for the County. Improving its economic wellness will take time and effort by the public and private sectors, often working in partnership across multiple political jurisdictions. Many of our negative conditions have developed over the past decade and will take years to reverse even with concerted action by government and the private sector.

But there are steps we can take today to start making a positive impact on our County.

First, and foremost, the Board of Supervisors and local city councils must take all actions necessary to stem the steady and increasing drain on public resources caused by skyrocketing pension contributions (and retiree healthcare costs).

Although government managers have been quietly warning about the impact of pension costs on public finances for the past several years, these costs have continued to climb and are nearing unsustainable levels. We recommend that the County Government and the eight city governments convene a task force to study successful pension reforms undertaken in similarly-situated California jurisdictions in the past five years and recommend pension reforms that all our local governments should pursue concurrently. These reforms may require negotiating firmly with public employees and their unions to increase employee contributions, pioneering and defending various pension reforms, and/or advocating for various pension reforms in the State Legislature and State Supreme Court.

If our local governments do not take aggressive action today to improve our public finances, there is simply no way we can pivot from using taxpayer dollars to pay for our past to investing in our future (a goal shared by all elected officials), whether these investments take the form of increasing renewable energy, protecting the environment, strengthening our community colleges, alleviating poverty, or fixing our roads and parks. Indeed, not only will these worthy investments remain out of reach, but as promised budget and service cuts are implemented, Santa Barbara governments may start to bear an uncomfortable resemblance to those in Stockton and Vallejo.

Second, our local governments should commit to providing a greater level of transparency with regard to public finances; presenting critical financial data consistently over time in all public budget documents, and publishing historical budget data from the years leading up to the Great Recession. Similarly, the EVT should implement its plan to pull, aggregate, and publish county-wide economic development data on a single website as quickly as possible.

These commitments are critical to ensuring that voters have the information they need to make informed choices, whether that information comes from increased reporting by traditional media, the EVT, or more reports like this one. In preparing this Report, we noted that the level of transparency surrounding the incessant increase in pension costs, for example, varied widely from jurisdiction-to-jurisdiction. In some cases, municipalities failed to quantify base annual pension costs as well as the future cost increases caused by poor investment performance in the underlying CalPERS pension funds. This lack of transparency makes it virtually impossible for the public to understand the impact of pension costs on public finances, particularly the services that are being cut or the additional taxes that are being levied in order for a government to meet its pension obligations.

We also noted that key pieces of data, such as debt and annual debt servicing obligations, were not consistently presented from year-to-year. Not only does this make it difficult to assess the health of public finances, but it deprives the public of information necessary to gauge the extent to which a government is paying for its past instead of providing services or making investments in its future.

Finally, it is critical that governments publish financial data from 2005-2007 in order to put our current public finances in an appropriate historical perspective. Just as we should consider how close we are to achieving full employment by comparing our current unemployment rate to that achieved in the last period of economic expansion (2005-2007), we should assess the strength of our public finances by comparing recent revenues and expenditures to those in the same time period. Unfortunately, it is difficult to obtain municipal budget data dating back to 2005-2007 in many cases. This lack of data contributes to our climate of reduced economic expectations. Today, many in our community believe our economy is in relatively good shape because they have forgotten how much stronger it was in the past.

Third, whether through the EVT, SBCAG, or other mechanisms, the private and public sectors across the County must start exploring partnerships and innovative programs to ensure that:

- Voters, elected officials, and government employees are reminded of the need for, and benefits of, economic development in our community;
- Appropriate new development is encouraged and accelerated, as this is critical to increasing public revenues and creating needed jobs;
- Redevelopment and infill development projects that increase the supply of housing units are encouraged and accelerated, as we must increase housing supply in a manner that is consistent with the evolving character of our communities as the EVT's "workforce housing" initiative recognizes;
- Water insecurity is removed as an obstacle to development in the County;
- Our local employers and community colleges collaborate closely and frequently to ensure that these schools train students to succeed in our local workforce; and
- Goleta to the North County becomes a true technology corridor that is closely connected to our local colleges and universities, as this is critical to creating needed 21st century jobs and opportunities for our best and brightest to remain in our community.

Such partnerships and programs would reduce key barriers to economic growth, increase economic activity and vitality, and create a wide-range of higher-paying jobs. Taken together, these measures would also increase County and municipal revenues, thereby increasing public investments in our future.

Fourth, the private sector and philanthropic community must redouble their efforts to stimulate business formation and growth through all available mechanisms, including venture funding, micro- and other commercial lending/community banking, and grants. This is critical to further reducing the County's unemployment rate, improving the mix of jobs in our workforce, and driving further increases in median income.

Lastly, the philanthropic community has another key responsibility: It must do even more to alleviate poverty, the high rate of which calls into question our community's commitment to social justice and produces many negative impacts in our County.

Every dollar an impoverished family can spend on educational or job training opportunities rather than food, for example, represents a small but important step toward escaping poverty and public assistance. Both outcomes contribute to our County's long-term economic health. Yet food insecurity remains a serious problem in our generous County. We can and must do better.

Ultimately, there are many ways that members of our community can work together to improve the economic wellness of Santa Barbara County. At Reason in Government, we are prepared to do our part. In 2017, we will build on the recommendations made above to develop specific policy and programmatic proposals to improve our quality of life in Santa Barbara County by improving our economic health and vitality.

Santa Barbara County's Economic Wellness Report Card

Overall Grade: **D+**

Although there are a handful of bright spots, there are far too many weaknesses in the overall local economy for Santa Barbara County to earn a "C" or better, particularly when compared to other coastal counties in California. Moreover, the trends in four economic categories are negative and two are flat, which suggests the County is not on a road to recovery. Although the eventual end of the drought and improvements in long-term water security for the County will have a positive impact on the County's overall economic condition, if we want to improve our economic health and vitality before our local governments become unable to perform core services and our communities become unaffordable and undesirable for many, we need to take other steps to reverse these trends in the near-term.

Economic Wellness Model

We are not the first to examine the County's economic health heading into 2017. In late 2016, many economists argued that Santa Barbara County was in the midst of an economic renaissance. When the October jobs report was released before Thanksgiving, the County unemployment rate stood at 4.6%, which caused one prominent economist to declare that we had achieved virtually full employment through solid and stable job growth. Just three weeks earlier, another prominent economist proclaimed that economic conditions in our area were much better than most people realized, and that this would be clear to anyone considering the correct statistics.

There is, however, no consensus on what those "correct statistics" are or should be. Unlike the national economy, there is no readily-determined, easily-accessible, county-level equivalent of the national GDP growth rate.

Moreover, traditional measures of County economic health and vitality – bond ratings, unemployment rate, median income, and median home value – do ***not*** provide a complete picture of a County's economic condition and can be misleading when viewed in isolation.

A strong bond rating and a balanced budget, for example, do not necessarily mean public finances are on a sound mid- or long-term footing. That assessment can only be made by considering debt service requirements, unfunded liabilities, and deferred obligations and other future expenditures. Today, Santa Barbara County is professionally-managed, enjoys a strong bond rating, and has very little debt; however, it is simultaneously facing a $1 billion pension shortfall and deferring over $300 million in maintenance obligations on critical infrastructure, including parks and roads. Our largest municipalities, moreover, are facing many of these same challenges and, in many cases, are in even worse fiscal shape. The health of our public finances, therefore, is decidedly mixed.

The unemployment rate, standing alone, is also potentially misleading. Although Santa Barbara County achieved a 4.6% unemployment rate in October 2016, the significance of this unemployment rate depends largely on what the County unemployment rate has been in prior Octobers. Viewed in historical context, today's purported "A" grade for our purportedly "very low" unemployment rate would have been yesterday's "C+." By way of comparison, the County achieved ***substantially*** lower levels of unemployment in the Octobers of 2007 (3.6%), 2006 (3.4%), 1999 (3.2%), and 1998 (3.5%). As this example illustrates, we must guard against "grade inflation" and diminished expectations when assessing the economic condition of our County.

An equally relevant, but often overlooked measure of economic health and vitality, is the poverty rate. Can anyone credibly claim that our County is well when its unemployment rate is dropping, but its poverty rate is not? Our poverty rate is, in fact, substantially higher today than it was in 2010. And it is higher than the national average as well. Not only is this economically troubling – poverty imposes burdens on public resources and limits economic activity – but it calls into question our commitment to social justice. We must ask: "Is this the kind of community our compassionate residents wish to forge?"

To address the shortcomings in traditional approaches to assessing economic health and vitality at the County level, we have built our own "Economic Wellness Model" for Santa Barbara County. The Model is very straightforward. First, we have identified ten measures that, when combined, provide a ***comprehensive*** view of Santa Barbara County's economic wellness. These measures focus on economic health (*e.g.*, tax revenues, debts, and citizen income and wealth) and vitality (*e.g.*, business activity, labor force composition and participation, consumption, and residential and commercial development). Second, we have assessed the County's relative performance in each category by comparing it to past performance, other counties in California (particularly Sonoma County, which serves as the best benchmark for our County), and regional or national averages and trends. If the County is excelling by comparison, it receives an "A." If it trails considerably, it receives an "F." The average of the County's grades produces an overall grade for economic wellness.

The ten measures embedded in our Model are:

1. Unemployment Rate – health and vitality are measured by growth in the labor force and decreases in the unemployment rate.
2. Poverty Rate – health is measured by looking at changes in the County poverty rate.
3. Median Household Income – health and vitality are assessed by considering changes over time.
4. Public Finances – health and vitality of the County government and its 3 largest municipalities (which, taken together, account for virtually all of the public spending in our community) are assessed (when the available data permit) by considering trends in: (a) economically-sensitive revenue sources; (b) debt service levels; (c) spending growth vs. population growth; (d) pension costs and unfunded liabilities vs. public investments; and (e) bond rating.
5. Number of Firms – vitality is evaluated by measuring changes in the total number of businesses in the County.
6. Labor Mix – vitality is measured by considering changes over time in the percentage of certain higher-paying jobs that reflect the 21st Century economy.
7. Median Value of Owner-Occupied Property – health is assessed by measuring changes over time.
8. Housing Units Per Resident – health and vitality are measured by considering changes in the availability of housing for County residents.
9. Ratio of Median Household Income to Median Rent – health is reflected in a higher ratio that is increasing (*i.e.*, income gains are outpacing rent increases).
10. Income Dedicated to Rent – health is measured by measuring the number of households that spend more than 35% of their income on rent.

We have built our Model to address the entire County, notwithstanding the well-documented cultural and socio-economic differences between the South and North County communities. Although the South County economy is substantially healthier than the North County, the economic weaknesses identified in this Report do not hamper the North County alone. For example, Goleta, Santa Barbara, Montecito, Summerland, and Carpinteria all ***lost*** certain types of information, finance, or professional services jobs from 2010-2015. During this period, there was also net migration out of certain South Coast communities, and Santa Barbara's relatively high poverty rate did not budge. Conversely, the North County has greater water security and a greater housing supply – foundations for future economic growth.

Moreover, neither the North County nor the South County is insulated from the economic challenges facing its neighbor. North County commuters – many of whom would not be commuting if the North County had a more robust economy or if the South County had more (affordable) housing -- cause a substantial amount of the traffic congestion that irritates residents of the South County. As this vignette demonstrates, although our County is comprised of separate communities, they are all economically intertwined.

This is especially true in the realm of public finances. We all suffer, North and South alike, when the County lacks the resources necessary to invest in public goods and services. If the North County were economically healthier, fewer roads in the South County would resemble cobblestones. If the South County were not losing residents and certain types of 21st century jobs, the County could provide additional needed services in the North County. If the County cannot address its fiscal imbalances, law enforcement across the North and South County could suffer.

The County, of course, is not the only government actor in our community. There are 8 municipalities – Santa Barbara, Santa Maria, Lompoc, Goleta, Carpinteria, Buellton, Solvang, and Guadalupe – that impact the economic health of our community through policy, regulatory, and budgetary actions. With regard to public finances, though, the County government is the dominant actor in our economy, accounting for well over half of all public spending in the County. When combined with our 3 largest municipalities – Santa Barbara, Santa Maria, and Lompoc – these four government actors account for well over 90% of all public spending in the County.

For these reasons, we have studied the County's economy as a whole, with a focus on the County and its 3 largest municipalities when assessing the health of public finances.

In addition to encompassing the entire County, Version 1.0 of our Model is comprehensive in economic scope and comparative – features that address the two major flaws in many economic assessments of the County's health: myopia and lack of context/perspective.

Although we will continue updating and refining our Model to improve its utility, we are confident that it will serve as a useful tool ***today*** for educating elected officials, voters, the EVT and Chambers of Commerce, NGOs, investors, bankers, and philanthropists as they consider the steps we can take as a County to improve our economic wellness and the quality of life for our residents.

Measures and Grades:

Unemployment Rate:

Grade: D+
Trend: ↑

The unemployment rate is improving year-to-year and the County is adding jobs. However, employment in the County is substantially below the levels achieved in 2005-2007, and the County is substantially underperforming Sonoma County.

Poverty Rate:

Grade: D-
Trend: —

The poverty rate is currently higher than the national average and substantially higher than the levels achieved in 2005-2007. Moreover, Sonoma County's poverty rate is 4.6% lower than Santa Barbara's and Sonoma County has consistently outperformed Santa Barbara on this measure.

Median Household Income:

Grade: A
Trend: ↑

Medium income in the County is rising faster than the national average and is well-above the level achieved in 2007. Santa Barbara is also outperforming Sonoma County – its most appropriate benchmark county – on this measure.

Public Finances:

Grade: D
Trend: ↓

Although the County is professionally managed and has very little debt and a strong bond rating, its overall finances are seriously imbalanced largely as a result of policy choices made by earlier Boards of Supervisors: Economically-sensitive revenues are growing slowly while expenses have vastly outpaced population growth and long-term liabilities have risen astronomically. The current path is unsustainable and will result in a diminished quality of life for County residents in the years ahead as our elected officials make service and personnel cuts to pay the bills that have been incurred over the past decade.

Our largest municipalities are also professionally managed, but they are arguably in even worse shape. Although some economically-sensitive revenues are on the rebound, many, if not all, of our cities face some combination of massive deferred maintenance obligations, structural budget deficits, and/or exploding pension costs in the near-term. Many city managers have already expressed strong concern over the health of their municipal finances.

Number of Firms:

Grade: C-
Trend: —

Although the most recent data are now several years old, the County added virtually no firms from 2007-2012, which trailed the mediocre performance of the nation as a whole.

Labor Mix:

Grade: D
Trend: ↓

The County has fewer 21st Century economy jobs in – those tied to modern professional services -- than it did in 2005, and such jobs represent a smaller share of the labor force than they did in 2005. This relative decline has occurred notwithstanding the presence of UCSB, SBCC, and the Goleta Entrepreneurial Magnet and the fact that much of Silicon Valley has effectively turned anti-growth. Santa Barbara is also underperforming Sonoma County on this measure.

Median Value of Owner-Occupied Property:

Grade: D-
Trend: ↑

The median value of owner-occupied property remains well-below pre-Great Recession levels.

Housing Units per Resident:

Grade: D
Trend: ↓

The County has too little housing and the shortage is getting worse rather than better. This increases the (already high) cost-of-living in the County, causes traffic congestion, and serves as a barrier to job creation. Santa Barbara is substantially underperforming Sonoma County on this measure.

Ratio of Median Household Income to Median Rent:

Grade: D
Trend: ↓

Income growth in the County, although strong, has not matched increases in median rents (exacerbated by a lack of housing supply). As a result, the County is increasingly unaffordable, and there is little indication that this trend will be reversed given the lack of both new 21st Century jobs and housing units. Santa Barbara is underperforming Sonoma County on this measure.

Income Dedicated to Rent:

Grade: D+
Trend: ↑

Santa Barbara also trails the national average on this measure of affordability, although the trend in the County is slightly positive.

Taking Steps to Address our Economic Weaknesses

In 2017, the Supervisors, city councils, business community, and NGOs and philanthropists must all begin taking steps to address these weaknesses.

In particular, the Supervisors and city councils must tackle and solve the twin problems of spiraling pension contributions and retiree healthcare costs. If they do not, our governments will lack the resources required to pay their bills, invest in critical public goods, and meet increasing demand for their services. Instead of investing in our future, we will continue paying for our past.

Working in partnership with the County and city governments, the business community and philanthropists must do their part as well to spur and deliver needed development, housing, and jobs while contributing to other efforts to reduce chronically-high poverty in our community.

If we do not come together as a community to take these steps, our quality of life (which many communities in this County largely take for granted) will suffer in other ways as well: vacant storefronts will remain so; our college graduates and many of our best and brightest will continue leave the County to live in communities where good jobs and affordable housing are more plentiful; taxes will increase; and crime will become an increasing concern across the County.

These outcomes are all avoidable. But only if we start acting today.

Appendix A: Santa Barbara County Statistics and Explanatory Notes

Data Notes:

Our data are the most currently available, but they do not necessarily reflect the most current economic conditions in every category/measure. Aside from unemployment and labor force participation, there are limited data available for 2016. With regard to most measures, our most recent data are from 2015 Census or local government budget data. Nonetheless, we are confident that these data paint an accurate picture, particularly because independent reporting and analysis on various budgetary and economic development issues over the past few months corroborate several of our trend analyses.

Where possible, we have compared the three years preceding the Great Recession (2005 – 2007) to the most recent three-year period where we have complete data.[1] We believe that comparing three-year windows provides a more accurate picture of economic health than focusing on one month or one year.

With regard to public finances, it is worth noting that there were significant gaps in the publicly available budget data, particularly at the municipal level. For example, there was often a lack of transparency on pension costs, debt levels, and debt servicing requirements. In addition, the same data were not always presented from year-to-year. Lastly, it was not always possible to find archived budget data for the years leading up to the Great Recession. Nonetheless, we were able to compile sufficient data to assess the relative health of municipal finances across some key measures, particularly because the City Managers in Santa Maria and Lompoc were clear and candid in their budget transmittal letters about the state of their municipal finances.

Unemployment and Poverty Rate:

Data:

Santa Barbara County	2005 – 2007	2013 – 2015
Average Unemployment Rate	4.2%	6.2%[2]
Average Poverty Rate	13.8%	16.1%[3]

Notes:

Santa Barbara has not come close to recovering from the Great Recession. Indeed, we would need two more years of substantially lower unemployment and poverty rates (better than what we achieved in 2016, including our roughly 4.9% annual unemployment rate) in order to begin closing the gap on the three years preceding the Great Recession.

Sources:

http://www.labormarketinfo.edd.ca.gov/county/sbarb.html

[1] We would note that a comparison to 1998-2000 would be even more unfavorable than our current analysis in many cases.
[2] 5.3% (2015), 6.1% (2014), 7.2% (2013). If we used 2016 YTD numbers plus 2015 and 2014, the three-year average unemployment rate would be 5.4% -- still considerably higher than the average unemployment rate from 2005-2007.
[3] 15.7% (2015), 16.6% (2014), 16.0% (2013).

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_1YR_DP03&prodType=table

Median Household Income:

Data:[4]

	US Median Household Income	SB Co Median Household Income
2007	$50,740	$58,401
2015	$53,889	$63,625
% change	+6.2%	+8.9%

Notes:

Santa Barbara County has out-performed the country as a whole by a substantial margin.

Source:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_07_3YR_DP3YR3&prodType=table

Public Finances: Santa Barbara County

Data:

Santa Barbara County Budget	Average FY ’05 (7/1/04) – FY ’07 (6/30/07)	Average FY ’13 (7/1/12) – FY ’15 (6/30/15)	Increase or Decrease
Licenses, Permits, and Franchises (LPF)	$16.8m	$17.0m avg[5]	+$.2m or +1.1% (aggregate)
Retail Sales Tax	$7.9m	Actual: $7.2m avg[6] Adjusted (est): $8.4m avg[7]	+$.5m (adj) or +6.3% (adj) (aggregate)
Annual Expenses	$650.6m	$843.8m avg[8]	+$193.2m or +29.7% (aggregate)
Ratio of Spending Increases to Population Growth	Avg Pop: 396.0k	Avg Pop: 440.4k[9]	+29.7% : +11.2% 2.7 : 1
Debt	$84.7m	$71.3m avg[10]	-$13.4m or -15.8% (aggregate)
Annual Debt Service	$12.8m	$3.2m avg[11]	-$9.6m or

[4] Data for 2005-2007 were not readily available, so we compared 2007 to 2015, rather than two three-year windows.
[5] FY ’13 ($17.0m), ’14 ($17.2m), and ’15 ($16.9m).
[6] FY ’13 ($6.9m), ’14 ($6.9m), and ‘15 ($7.8m).
[7] The formula for allocating sales taxes between Goleta and the County changed in FY ’12. The County estimates that this allocation change resulted in a $1.2m decrease in yearly sales tax revenues for the County. We added $1.2m to current sales tax receipts in order to compare present amounts to sales tax receipts in 2005-2007.
[8] FY ’13 ($807.8m), ’14 ($840.6m), and ‘15 ($882.9m).
[9] FY ’13 (435.7k), ’14 (440.7k), and ’15 (444.8k).
[10] FY ’13 ($73.6m), ’14 ($73.6m), and ‘15 ($66.7m).

			-75% (aggregate)
Debt Service as % of annual expenses	2.0%	.03%	-1.7%
Bond Rating		AA+ (upgraded in2010)	N/A
Pension Contributions	$50.0m	$107.0m avg[12]	+$57m +114% (aggregate)
Pension Contributions as % of annual expenses	7.7%	12.7%	+5%
Pension obligations – funded %	<86%	75.9% avg[13] 71% today	-14%+
Deferred maintenance	N/A	$332.2m avg[14]	N/A
Deferred maintenance as % of annual expenses	N/A	39.3%	N/A

Notes:

Retail sales tax is the best measure of one type of economic activity – consumption – in the County. The County considers this to be the most "economically-sensitive" form of revenue. If the local economy were strong, we would expect to see substantial gains in retail sales tax revenue. A reasonable benchmark for assessing the significance of the County's increased sales tax receipts is U.S. consumer spending:

- Co. Avg. Retail Sales Tax Receipts - Aggregate Increase (2005-2007) to (2013-2015): +6.3%
- U.S. Consumer Spending – Aggregate Increase (2005 – 2007) to (2013-2015)[15]: +11.4%

Using this benchmark, the growth in County sales tax receipts is not particularly strong.

Revenues from LPFs reflect new economic activity in the County associated with development (*e.g.*, building and zoning permits). This category also includes oil and gas processing facility permits and cable, electric, and gas franchise fees (which are based on gross revenues – consumption). A reasonable benchmark for assessing the significance of increased revenues from these sources is U.S. new construction spending:

- Co. Avg. LPF Receipts – Aggregate Increase (2005-2007) to (2013-2015): +1.1%
- U.S. Construction Spending – Aggregate Increase (2005-2007) to (2013-2015):
  - Residential: [16] -7.6%
  - Non-residential:[17] +7.7%
  - Combined: +7.3%

Using this benchmark, the growth in County LPF revenues is weak.

Sources:

[11] FY '13 ($3.6m), '14 ($3.4m), and '15 ($2.6m).
[12] FY '13 ($99.7m), '14 ($108.1m), and '15 ($113m).
[13] FY '13 (72.4%), '14 (76.9%), and '15 (78.4%).
[14] FY '13 ($341.7m), '14 ($323.9m), and '15 ($334m).
[15] $9.621 (2005), $9.938 (2006), $10.069 (2007), $10.662 (2013), $10,912 (2014), $11.255 (2015).
[16] Residential Construction: $5.608 (2005), $6.083 (2006), $7,222 (2007), $5.836 (2013), $5.067 (2014), and $6.564 (2015).
[17] Non-Residential: $228.5 (2005), $249.3 (2006), $281.9 (2007), $264.8 (2013), $271.1 (2014), and $282.3 (2015).

County Finances:

https://www.countyofsb.org/budgetbook.sbc

Population:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_07_1YR_B01003&prodType=table

Consumer Spending:

http://www.tradingeconomics.com/united-states/consumer-spending

Construction Spending:

https://www.census.gov/construction/c30/historical_data.html

Public Finances: 3 Largest Municipalities

Data:

Santa Barbara

Revenue Source	Average '05 – '07	Average '13 – '15	% Change
Sales and Use Tax	$19.9m	$21.3m	+7%
Business Licenses	$2.1m	$2.5m	+19%
Franchise Fees	$2.5m	$3.8m	+52%

Ratio of Spending Increase ($289.5m to $344m) to Population Growth (89k to 91.8k) from 2007 to 2015: 6 : 1.

The City does not specify its total pension contributions each year. Rather, it simply notes that they are increasing and constitute one source of pressure on the City's revenues. But there is one relevant line item in the budget that touches on these increases: Post-Employment Benefit Fund Expense:

2005 – 2007: 0
2014: $3.9m
2015: $1.6m

The City estimates that it has an infrastructure improvement backlog (*i.e.*, deferred maintenance) of over $400m, and that number may now be over $500m.

Santa Maria

The Budget Message that accompanies Santa Maria's two-year budget ('16 – '18) is very well-organized and provides much of the data required for our analysis. In sum, Santa Maria is experiencing reasonable growth in economically-sensitive revenue sources and has, in many cases, returned to pre-Great Recession revenue levels. However, its overall General Fund revenues have not returned to pre-Great Recession levels, and it faces a structural budget deficit in its General Fund (expenditure growth is outstripping revenue growth). The primary cause of this structural deficit is the explosive growth in pension contributions (36% over 3 years) caused by the dismal performance of CalPERS (which we would note has only gotten worse since Santa Maria released its last budget). The City Manager has noted that this trajectory is unsustainable and will result in severe service and/or personnel cuts. He has also argued that the City's debt service levels associated with capital projects could soon be too high as well. Lastly, the City's ratio of spending growth ($136.9m to $159m) to population growth (99.6k to 105.1k) from 2010 to 2015 was: 2.9 : 1.

Lompoc

Although the data do not go back to the years preceding the Great Recession, Lompoc is experiencing very solid growth in economically-sensitive revenues:

Revenue	**'11 – '13**	**'13 – '15**	**'15 – '17**	**% Change**
Sales and Use Tax	$5.2	$6.2	$8.9	+71%
Business License	$.64	$.65	$.75	+17%
Bldg. Permits	$.11	$.41	$.79	+618%

Despite this revenue growth, the City has a structural budget deficit. The primary cause of this deficit is explosive growth in pension contributions (23% over 3 years), notwithstanding reforms negotiated in conjunction with the '13 – '15 budget cycle. With CalPERS in an even worse position now, the outlook for Lompoc is even worse than the City Manager forecast in the last budget – a budget in which he noted the City could not meet present service levels without substantial revenue increases. Put more simply, Lompoc faces budget cuts that will affect the quality of life in the City.

The City's ratio of spending growth ($50.8m to $67.5m) to population growth (42.2k to 44.1k) from 2011 to 2015 was: 7.3 : 1.

Notes:

Although they may be experiencing greater gains in economically-sensitive revenues than the County, our 3 largest municipalities are arguably in worse overall economic shape. Not only has municipal spending substantially outpaced population growth, but our three largest cities are racking up substantial deferred maintenance obligations, facing structural deficits, and/or suffering from exploding pension costs that are going to get worse, rather than better. The Santa Maria and Lompoc City Managers have diplomatically stated that the financial situation of their cities is increasingly dire, but the time to raise the alarm is now. The ripple effects associated with CalPERS' dismal investment performance and reduced target return rate will soon reach our municipalities, and the service and personnel reductions required to meet each city's increased pension costs could be severe in the years ahead.

Sources:

Santa Barbara:

http://www.santabarbaraca.gov/gov/depts/finance/budget/archives/default.asp

Santa Maria:

http://www.cityofsantamaria.org/city-government/departments/city-manager/city-budget

Lompoc:

http://www1.cityoflompoc.com/ManagementServices/Finance/budget13-15/Budget_13-15.pdf

CalPERS:

https://www.nytimes.com/2016/12/21/business/dealbook/california-calpers-pension-fund-investment.html

Number of firms:

Data:

	SB co. Number of Firms	US Number of Firms
2007	39,834	27.1m
2012 (latest year with available data)	39,952	27.6m

Notes:

The U.S. added 1.8% firms during this period. Santa Barbara County added .3%. This suggests substantially lower economic vitality than the country as a whole in the years immediately following the Great Recession.

Source:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2012_00CSA01&prodType=table

Labor Mix:

Data:

21st Century Jobs	2005	2006	2007	2014	2015	2016 (thru Oct)
Information	4.1	4	3.9	4.4	4.4	4.5
Financial	8.6	8.7	8.2	6.5	6.4	6.5
Professional	21.4	20.7	20.7	22.7	22.4	22.0
Sub-Total	34.1k	33.4	32.8	33.6	33.2	33
Total Jobs	188.1	187.8	189.9	197.6	201.4	208.8
% 21st Century	18.1%	17.8%	17.3%	17%	16.5%	15.7%

Notes:

Insofar as the 21st Century has been marked by a shift to information technology and other professional services jobs, Santa Barbara County is moving in the wrong direction, notwithstanding the presence of UCSB, SBCC, and the Goleta Entrepreneurial Magnet. Even with Silicon Valley adopting an anti-growth posture, the County had more of these jobs in 2005 than it does today. The relative decline in such high-paying jobs reflects a lack of vitality and diversity in the County labor force and adds to concerns over the lack of growth in economically-sensitive County revenue sources (see above) as well as a cost-of-living in the County that is increasingly unaffordable for many (see below). Similar concerns about the lack of vitality in the County labor force have been echoed by the Santa Barbara County Association of Governments (SBCAG), the EVT, regional Chambers of Commerce, and the UCSB Economic Forecast Project.

Source:

http://www.labormarketinfo.edd.ca.gov/county/sbarb.html#URLF

Median Value Owner-Occupied Property:

Data:

	SB Avg Med Value	US Avg Med Value
2005 – 2007	$657.9k	$182.3
2013 - 2015[18]	$487.2k	$183.2
Increase/(Decrease)	(25.9%)	0

Notes:

Not only has the housing market recovery in Santa Barbara County substantially trailed the national recovery, but median home prices are still nowhere near pre-Great Recession levels.

Source:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_1YR_B25077&prodType=table

Housing Units per Resident:

County and Data	2007	2015
Santa Barbara		
Population	404,200	444,800
Housing Units	151,400	155,200
Units per Resident	.37	.35
U.S.		
Population	298.8m	321.4m
Housing Units	126.2	133.4
Units per Resident	.42	.42

Notes:

As many local economists, SBCAG, and the EVT have asserted, the data suggest that Santa Barbara County does not have enough housing, and the problem is getting worse rather than better. This drives-up the cost-of-living in the County, increases traffic congestion (commuters from outside the County), and serves as a barrier to job creation.

Sources:

[18] SB: $437,700 (2013), $476,400 (2014), $547,600 (2015). U.S. $173,900 (2013), $181,200 (2014), $194,500 (2015).

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_5YR_B25001&prodType=table

Median Household Income to Median Rent Ratio:

Data:

Santa Barbara County	Median HH Income	Median Rent	Ratio
2015	$63,625	$1,369	46.5:1
2007	$58,401	$1,205	48.4:1

Notes:

This ratio measures both the rate of increase in income vs. rental costs as well as housing affordability in the County. Although the County has achieved strong income growth, that growth has been more than offset by increases in rent (partly attributable to the lack of housing noted above). In 2015, the ratio at the national level was 58:1 ($53,889/$928). This is further evidence of insufficient income growth to offset high rental prices (exacerbated by a lack of housing supply).

Sources:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_5YR_DP04&prodType=table

Income Dedicated to Rent

Data:

Santa Barbara County	Percentage of Renters for whom Gross Rent Exceeds 35% of Household Income
2015	47.4%
2007	48.1%

Notes:

This statistic measures rental affordability based on the percentage of household income that a renter must dedicate to rent. The higher the percentage, the less affordable the community. The national average is 42.7%. Santa Barbara County is not as far below the national average on this measure as it is on the ratio of income to rent (another affordability measure), and it has improved slightly over the 8-year window.

Sources:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_5YR_DP04&prodType=table

Appendix B: Comparing Santa Barbara County to Sonoma County

In addition to comparing Santa Barbara County's current economic conditions to those preceding the Great Recession as well as national trends, we can also assess the County's relative economic health by comparing economic conditions here to those in other similar counties in California – coastal counties without a large metropolitan area. As the County government recognizes, there are at least three coastal counties that serve as useful benchmarks for assessing Santa Barbara's economic health: San Luis Obispo, Marin, and Sonoma.

Today, each of these counties has a ***sharply*** lower unemployment rate than Santa Barbara County:

County	October 2016 Unemployment Rate	November 2016 Unemployment Rate
Marin	3.3%	3.0%
Sonoma	3.9%	3.7%
San Luis Obispo	4.1%	3.8%
Santa Barbara	4.6%	4.7%

Of these counties, the one most like Santa Barbara by total population and labor force, is Sonoma County. Interestingly, Sonoma County had the same unemployment rate as Santa Barbara from 2005-2007: 4.2%. This makes it a particularly useful benchmark for assessing Santa Barbara County's performance over the past 9 years. Unfortunately, a careful comparison with Sonoma underscores just how poor Santa Barbara County's economic performance has been since the Great Recession:

- Although it has not returned to pre-Great Recession levels, Sonoma County's current unemployment rate is 1.0% lower than Santa Barbara's, and its average unemployment rate from 2013-2015 was .5% lower.
- Although it has not returned to pre-Great Recession levels, Sonoma County's current poverty rate is 4.6% lower than Santa Barbara's, and its average poverty rate from 2013-2015 was 4.3% lower.
- Although its trend is also negative, Sonoma has retained a higher percentage of 21st Century jobs than Santa Barbara.
- Sonoma has a substantially higher percentage of housing units per resident than Santa Barbara.
- Although its median rent has risen substantially since the Great Recession, the rate of increase in Sonoma is still less than that in Santa Barbara, and its median rent is lower as well.
- Although its median household income is slightly higher than Santa Barbara's, Sonoma's has not increased as substantially as Santa Barbara's since the Great Recession – the lone bright spot for Santa Barbara in this comparison.

This brief comparison demonstrates that although Sonoma County, like Santa Barbara County, has not returned to the level of economic health and vitality it achieved before the Great Recession, its recovery has been stronger and broader than Santa Barbara's. This strengthens our conclusion that Santa Barbara County is far from economically healthy and does not merit a passing grade from our Economic Wellness Model.

Selected Sonoma County Statistics

Data:

Sonoma County	**2005 – 2007**	**2013 – 2015**
Average Unemployment Rate	4.2%	5.7%
Average Poverty Rate	9.4%	11.8%
Sonoma County	**October '07**	**October '16**
Total Jobs	199,400	209,800
IT, Financial & Prof & Business	35,800	34,700
Percentage high-paying	18.0%	16.5%

Sonoma County	**2007**	**2015**
Population	464,400	502,100
Housing Units	197,400	207,900
Units per Resident	.43	.41

Sonoma County	**Median Rent**	**Percentage of Renters for which Gross Rent Exceeds 35% of Household Income**
2015	$1,320	46.6%
2007	$1,171	40%

Notes:

Although we did not engage in an exhaustive examination of Sonoma County's finances, we were able to obtain data on a number of economic measures that demonstrate that Sonoma has enjoyed a much stronger recovery from the Great Recession than Santa Barbara, despite entering the Great Recession in very similar economic shape.

Sources:

The sources are the same as those identified above for similar data obtained for Santa Barbara County.