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THE GREAT CALIFORNIA EXODUS: A Closer Look

Tom Gray &
Robert Scardamalia

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Executive Summary

For decades after World War II, California was a destination for Americans in search of a better life. In many people's minds, it was the state with more jobs, more space, more sunlight, and more opportunity. They voted with their feet, and California grew spectacularly (its population increased by 137 percent between 1960 and 2010). However, this golden age of migration into the state is over. For the past two decades, California has been *sending* more people to other American states than it receives from them. Since 1990, the state has lost nearly 3.4 million residents through this migration.

This study describes the great ongoing California exodus, using data from the Census, the Internal Revenue Service, the state's Department of Finance, the Bureau of Labor Statistics, the Federal Housing Finance Agency, and other sources. We map in detail where in California the migrants come from, and where they go when they leave the state. We then analyze the data to determine the likely causes of California's decline and the lessons that its decline holds for other states.

The data show a pattern of movement over the past decade from California mainly to states in the western and southern U.S.: Texas, Nevada, and Arizona, in that order, are the top magnet states. Oregon, Washington, Colorado, Idaho, and Utah follow. Rounding out the top ten are two southern states: Georgia and South Carolina.

A finer-grained regional analysis reveals that the main current of migration out of California in the past decade has flowed eastward across the Colorado River, reversing the storied passages of the Dust Bowl era. Southern California had about 55 percent of the state's population in 2000 but accounted for about 65 percent of the net out-migration in the decade that followed. More than 70 percent of the state's net migration to Texas came from California's south.

What has caused California's transformation from a "pull in" to a "push out" state? The data have revealed several crucial drivers. One is chronic economic adversity (in most years, California unemployment is above the national average). Another is density: the Los Angeles and Orange County region now has a population density of 6,999.3 per square mile—well ahead of New York or Chicago. Dense coastal areas are a source of internal migration, as people seek more space in California's interior, as well as migration to other states. A third factor is state and local governments' constant fiscal instability, which sends at least two discouraging messages to businesses and individuals. One is that they cannot count on state and local governments to provide essential services—much less, tax breaks or other incentives. Second, chronically out-of-balance budgets can be seen as tax hikes waiting to happen.

The data also reveal the motives that drive individuals and businesses to leave California. One of these, of course, is work. States with low unemployment rates, such as Texas, are drawing people from California, whose rate is above the national average. Taxation also appears to be a factor, especially as it contributes to the business climate and, in turn, jobs. Most of the destination states favored by Californians have lower taxes. States that have gained the most at California's expense are rated as having better business climates. The data suggest that many cost drivers—taxes, regulations, the high price of housing and commercial real estate, costly electricity, union power, and high labor costs—are prompting businesses to locate outside California, thus helping to drive the exodus.

Population change, along with the migration patterns that shape it, are important indicators of fiscal and political health. Migration choices reveal an important truth: some states understand how to get richer, while others seem to have lost the touch. California is a state in the latter group, but it can be put back on track. All it takes is the political will.

About the Authors

Tom Gray is an award-winning editor, writer, and communications consultant whose work has covered a wide range of fields, including investor relations, personal finance, health care, engineering, leading-edge scientific research, and local, state, and national politics. In a career spanning four decades, he has written for publications such as the *Los Angeles Times*, *City Journal*, and *Investor's Business Daily* (where he also served as senior editor), and has authored three books on online investing published by John Wiley & Sons. As editorial-page editor of the Los Angeles Daily News, Gray won a number of awards for writing and editing including first place awards for editorial writing from the California Newspaper Publishers Association and the Inland Daily Press Association. He also has provided marketing and communications services for business and not-for-profit clients including Deloitte & Touche, ValueOptions Inc., the Kavli Foundation, the Synthetic Biology Institute at the University of California, Berkeley, and the University of California, Santa Barbara. A graduate with distinction from Stanford University, Gray also has master's degrees in English and business administration. He lives in Cambria, California.

Robert Scardamalia is president of RLS Demographics, Inc., a firm specializing in the use and analysis of economic and demographic data for private and public applications, and a data consultant for the Manhattan Institute's Empire Center for New York State Policy. He was formerly director of the Center for Research and Information Analysis in the New York State Department of Economic Development and served as chief demographer of the State of New York and director of the State Data Center. Scardamalia is a professional demographer and has more than 30 years of experience using Census and related data for marketing, business attraction, and public sector program management. He holds a bachelor's degree in sociology from Penn State University and a master's degree in demography from Georgetown University.

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The Great California Exodus: A Closer Look

Tom Gray &
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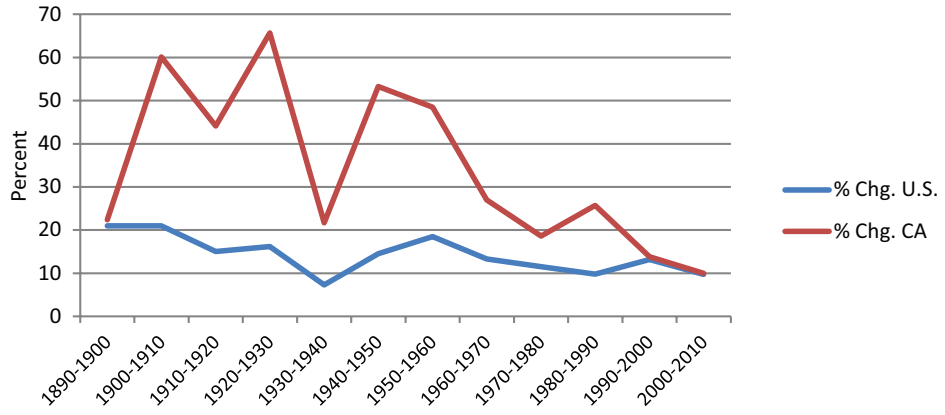
INTRODUCTION

California was once a powerful draw for Americans on the move—a golden land, "west of the west," in Theodore Roosevelt's famous phrase, where everything could be better. But that California is no more. Around 1990, after decades of spectacular postwar growth, California began sending more people to other states than it got in return. Since that shift, its population has continued to grow (at a rate near the national average) only because of foreign immigration and a relatively high birthrate. Immigration from other nations, though, is declining, and it is likely that the state's growth rate may soon fall behind that of the U.S. as a whole. As a magnet of opportunity, the state now pushes out where it once pulled in.

Chart 1: Percent Change in Population by Decade, U.S. and California, 1890–2010



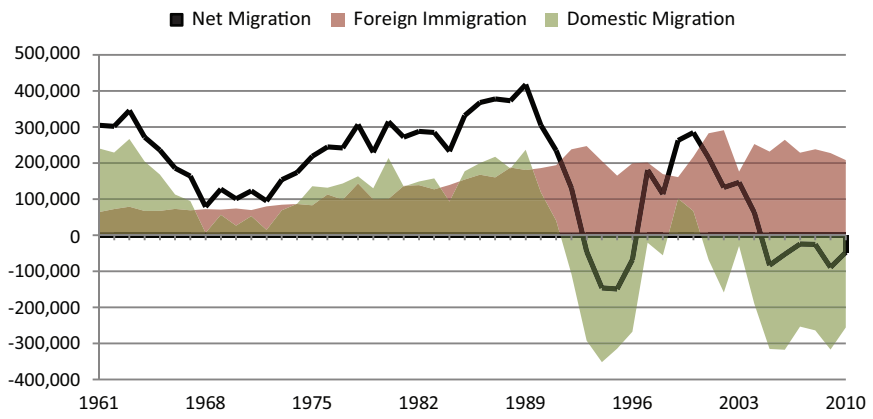
Source: U.S. Bureau of the Census

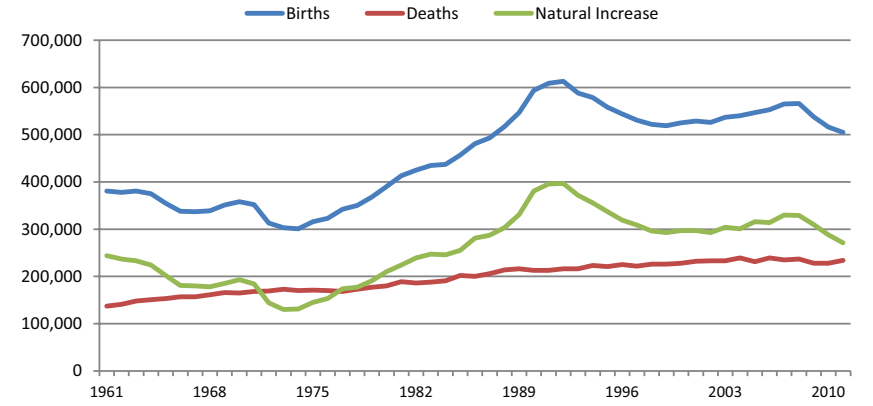
What are the reasons for this exodus, and what do they tell us about how American states thrive or decline? To understand how California the cherished destination turned into California the place to escape, this study examined data from a number of different sources that have tracked the great exodus of the past 20 years. We draw on the most recent data available from the Census, the Internal Revenue Service, the state's Department of Finance, the Bureau of Labor Statistics, the Federal Housing Finance Agency, and other sources. We have been able to use these sources to describe the exodus in unprecedented detail, revealing its drivers and suggesting things that other states can learn from California's continuing decline.

SETTING THE SCENE

California is a far more populous state than it was in 1960, when it was second to New York in population size, with 15,717,204 people. Since then, the state has grown 137 percent, to 37,253,956 in 2010. For comparison, consider New York, which grew by only 15 percent during that same period. On the other hand, Texas has grown faster over these 50 years—by 262 percent. As we'll see below, though, it's significant that Texas's record reflects a recent sprint. Until 2000, its growth matched California's rather than surpassing it.

Chart 2 & 3: Changes in California's Population, 1960–2010





California's domestic migration peaked before 1990 and then fell sharply, offset only in part by foreign immigration. Natural increase (bottom chart) has also declined

Sources: California Dept. of Finance for population, births and deaths except for July 2010 to July 2011 births and deaths; U.S. Dept. of Homeland Security for foreign immigration, 1960-88; U.S. Bureau of the Census for foreign immigration, 1989-2011; birth and death data for July 2010 to July 2011

Table 1: Components of California Population Change, 1960–2011

	State Dept. of Finance Pop. Estimate	12-Mo. Change	Births	Deaths	Natural Increase	Foreign Immigration	Domestic Migration	Net Migration
July 1, 1960	15,863,000							
July 1, 1961	16,412,000	549,000	381,000	137,000	244,000	64,205	240,795	305,000
July 1, 1962	16,951,000	539,000	378,000	141,000	237,000	72,675	229,325	302,000
July 1, 1963	17,530,000	579,000	381,000	148,000	233,000	79,090	266,910	346,000
July 1, 1964	18,026,000	496,000	375,000	151,000	224,000	67,407	204,593	272,000
July 1, 1965	18,464,000	438,000	355,000	153,000	202,000	67,671	168,329	236,000
July 1, 1966	18,831,000	367,000	338,000	157,000	181,000	73,073	112,927	186,000
July 1, 1967	19,175,000	344,000	337,000	157,000	180,000	69,150	94,850	164,000
July 1, 1968	19,432,000	257,000	339,000	161,000	178,000	72,371	6,629	79,000
July 1, 1969	19,745,000	313,000	351,000	166,000	185,000	71,183	56,817	128,000
July 1, 1970	20,039,000	294,000	358,000	165,000	193,000	74,268	26,732	101,000
July 1, 1971	20,346,000	307,000	352,000	168,000	184,000	69,825	53,175	123,000
July 1, 1972	20,585,000	239,000	313,000	169,000	144,000	80,121	14,879	95,000
July 1, 1973	20,869,000	284,000	303,000	173,000	130,000	84,664	69,336	154,000
July 1, 1974	21,174,000	305,000	301,000	170,000	131,000	86,699	87,301	174,000
July 1, 1975	21,538,000	364,000	316,000	171,000	145,000	83,061	135,939	219,000
July 1, 1976	21,936,000	398,000	323,000	170,000	153,000	113,164	131,836	245,000
July 1, 1977	22,352,000	416,000	342,000	168,000	174,000	98,401	143,599	242,000
July 1, 1978	22,836,000	484,000	350,000	173,000	177,000	143,544	163,456	307,000
July 1, 1979	23,257,000	421,000	368,000	177,000	191,000	99,774	130,226	230,000
July 1, 1980	23,782,000	525,000	390,000	180,000	210,000	100,769	214,231	315,000
July 1, 1981	24,278,000	496,000	413,000	189,000	224,000	136,938	135,062	272,000
July 1, 1982	24,805,000	527,000	425,000	186,000	239,000	138,962	149,038	288,000
July 1, 1983	25,337,000	532,000	435,000	188,000	247,000	127,312	157,688	285,000
July 1, 1984	25,816,000	479,000	437,000	191,000	246,000	139,413	93,587	233,000
July 1, 1985	26,403,000	587,000	457,000	202,000	255,000	154,525	177,475	332,000
July 1, 1986	27,052,000	649,000	481,000	200,000	281,000	167,896	200,104	368,000
July 1, 1987	27,717,000	665,000	493,000	206,000	287,000	160,393	217,607	378,000
July 1, 1988	28,393,000	676,000	517,000	214,000	303,000	187,828	185,172	373,000
July 1, 1989	29,142,000	749,000	547,000	216,000	331,000	180,930	237,070	418,000
July 1, 1990	29,828,000	686,000	594,000	213,000	381,000	186,225	118,775	305,000
July 1, 1991	30,459,000	631,000	609,000	213,000	396,000	194,317	40,683	235,000
July 1, 1992	30,987,000	528,000	613,000	216,000	397,000	238,281	-107,281	131,000
July 1, 1993	31,314,000	327,000	588,000	216,000	372,000	247,253	-292,253	-45,000
July 1, 1994	31,524,000	210,000	579,000	223,000	356,000	205,872	-351,872	-146,000
July 1, 1995	31,712,000	188,000	558,000	221,000	337,000	165,315	-314,315	-149,000
July 1, 1996	31,963,000	251,000	544,000	225,000	319,000	199,483	-267,483	-68,000
July 1, 1997	32,453,000	490,000	531,000	222,000	309,000	201,666	-20,666	181,000
July 1, 1998	32,863,000	410,000	522,000	226,000	296,000	169,541	-55,541	114,000
July 1, 1999	33,419,000	556,000	519,000	226,000	293,000	161,245	101,755	263,000
July 1, 2000	34,000,835	581,835	525,000	228,000	297,000	217,576	67,259	284,835

July 1, 2001	34,512,742	511,907	529,000	232,000	297,000	282,794	-67,887	214,907
July 1, 2002	34,938,290	425,548	526,000	233,000	293,000	291,191	-158,643	132,548
July 1, 2003	35,388,928	450,638	537,000	233,000	304,000	176,361	-29,723	146,638
July 1, 2004	35,752,765	363,837	540,000	239,000	301,000	252,889	-190,052	62,837
July 1, 2005	35,985,582	232,817	547,000	231,000	316,000	232,006	-315,189	-83,183
July 1, 2006	36,246,822	261,240	553,000	239,000	314,000	264,677	-317,437	-52,760
July 1, 2007	36,552,529	305,707	565,000	235,000	330,000	228,941	-253,234	-24,293
July 1, 2008	36,856,222	303,693	566,000	237,000	329,000	238,433	-263,740	-25,307
July 1, 2009	37,077,204	220,982	538,000	228,000	310,000	227,870	-316,888	-89,018
July 1, 2010	37,318,000	240,796	516,000	228,000	288,000	208,446	-255,650	-47,204
July 1, 2011	37,579,000	261,000	505,000	234,000	271,000	164,445	-174,445	-10,000

Sources: California Dept. of Finance for population, births, and deaths except for July 2010 to July 2011 births and deaths
U.S. Dept of Homeland Security for foreign immigration based on fiscal year data for 1960 through 1988.
U.S. Bureau of the Census for foreign immigration 1989 through 2011. Birth and death data for July 2010 to July 2011

Since the watershed year of 1990, California's growth rate has slowed, and is now near the average for the United States as a whole. Moreover, the nature of Californian growth has changed. From 1960 to 1990, more than half of its population increase—54 percent, according to state Department of Finance estimates—was due to migration from other states or foreign countries. In this heyday of California's desirability to migrants, net domestic migration from within the U.S. alone totaled more than 4.2 million, or 30 percent of the overall growth. So in 30 years, California took in enough American migrants to populate the entire state of Missouri.

But then, as we have described, the appeal of California withered. Since 1990, domestic migration to California has flipped to a deficit. In the last two decades, the state lost nearly 3.4 million residents through migration to other states. In other words, it lost about four-fifths of what it had gained through domestic migration in the previous 30 years. Foreign immigration filled the gap only partially. Inflows from overseas peaked at 291,191 in 2002 and sank to just 164,445 in 2011. Meanwhile, net domestic out-migration has averaged 225,000 a year over the past ten years.

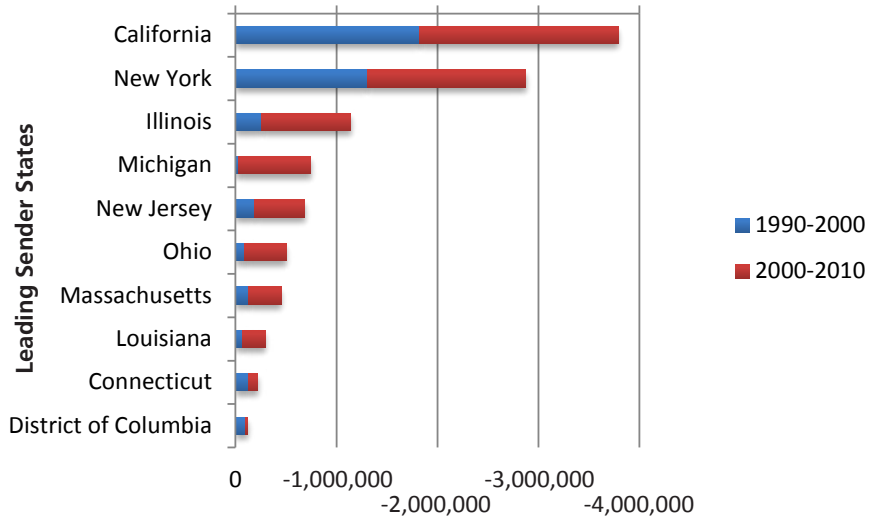
In 2005, foreign immigration ceased to make up for the drop in domestic migration to California. Since that year, California's annual net migration has been negative—more people leave the state than come to live in it. Natural increase in the resident population—births minus deaths—cushions the blow of this out-migration, but that, too, is falling. It peaked at 397,000 in 1992 and had dropped to 271,000 by 2011. With continued low levels of fertility and the aging of the baby boomers, natural increase will continue to decline and, in some areas, may already have shifted to a natural decrease. If all these trends continue, California may find itself in a situation similar to that of New York and the states of the midwestern Rust Belt in the last century, which have seen populations stagnate for decades, or even fall.

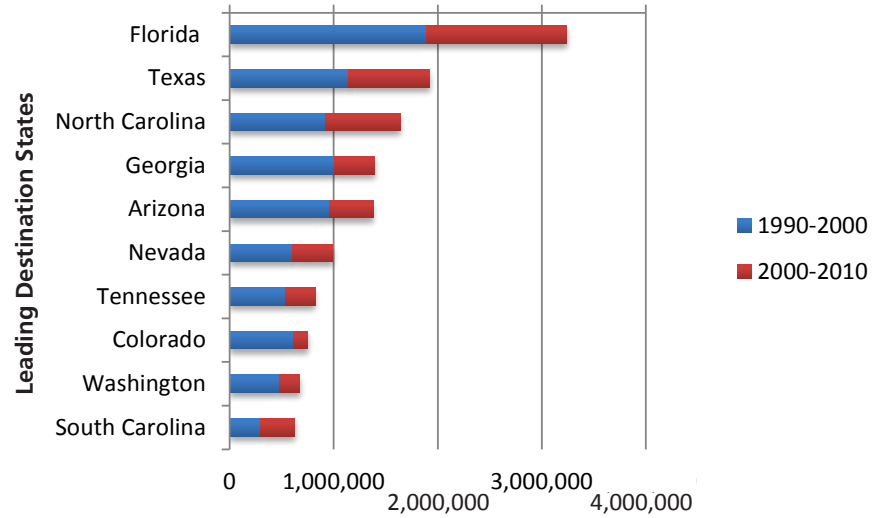
Who were the big winners in the migration game when California was losing? The answer is the same for both decades since 1990—the Sun Belt giants Florida and Texas, followed by other fast-growing southern and western states. Migration overall declined somewhat from the 1990s to the 2000s, possibly reflecting the more troubled economy of the second decade, especially at its end.

The states with the largest net in-migrations generally had their biggest gains in the 1990s, though they all continued to attract Americans in the 2000s. Among the big losers, California (like number-two loser New York) shed residents at a consistently high pace for the whole 20 years. Most other big "sender states," such as Illinois, New Jersey, Ohio, and especially Michigan, saw their out-migration accelerate in the 2000s.

In the period we studied, California's out-migration was also high as a percentage of its population—6.11

Charts 4 & 5: Domestic Migration in the U.S., 1990–2010





From 1990 to 2010, California had the highest domestic out-migration in the U.S., with big losses in both decades. Most other big sender states were in Northeast or Upper Midwest. Leading destinations such as Florida (bottom chart) had their biggest gains in the 1990s.

Source: U.S. Bureau of the Census

percent in the 1990s and 5.8 percent in the 2000s. Just a handful of states had less success at keeping their residents. In the 2000s, for instance, only New York (8.27 percent), Michigan (7.12 percent), Illinois (7.09 percent), and New Jersey (5.86 percent) had higher out-migration rates. As that list suggests, California's migration patterns now have more in common with large northeastern and Rust Belt states than with other Sun Belt or western states.

California is still contributing to the population boom of the southwestern U.S. but now seems to do so mainly by sending residents to neighboring states. The fastest-growing state in the nation, Nevada, is

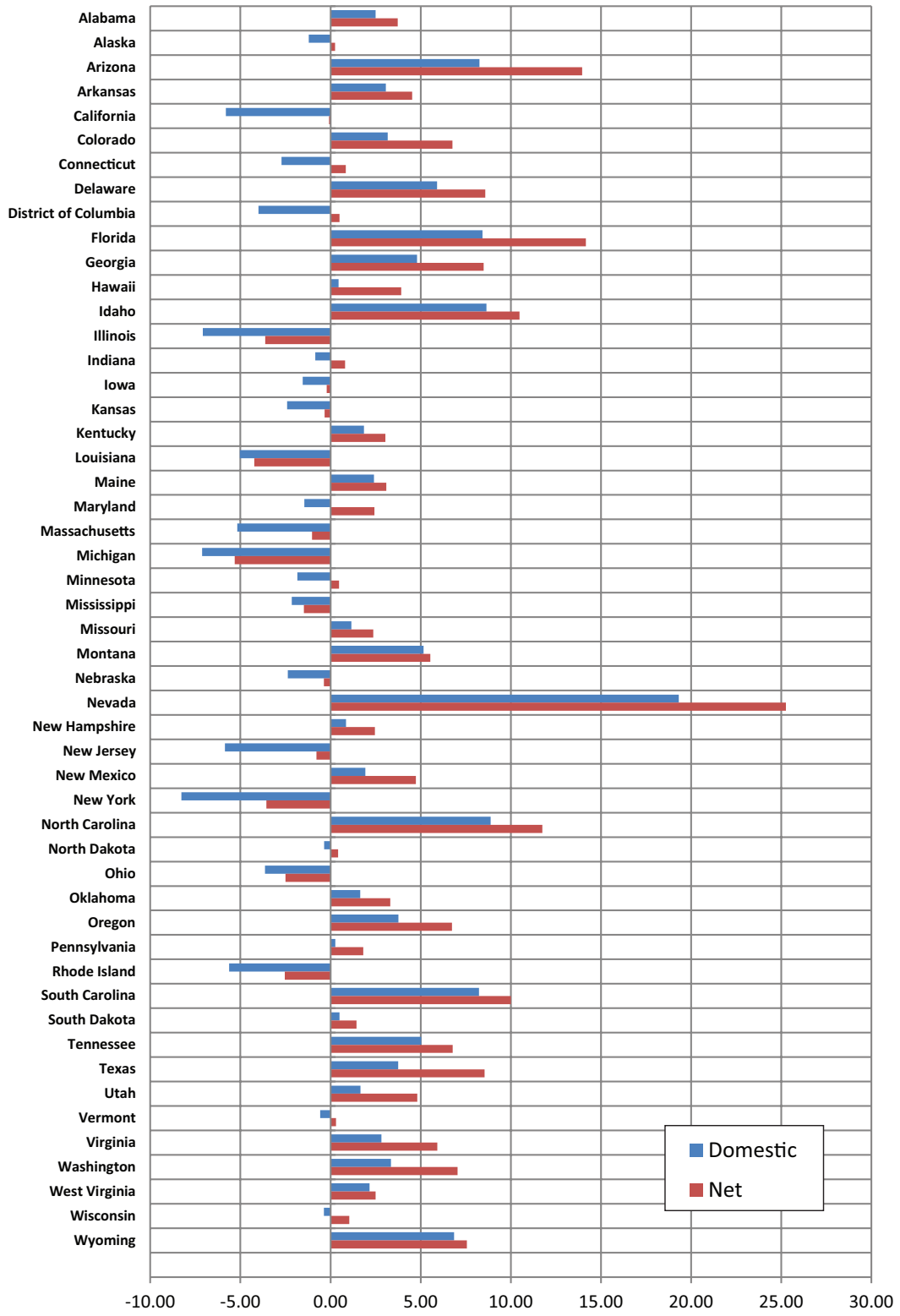
Table 2: Components of Migration, U.S. States, 1990–2010

	Number						Rate					
	1990s			2000s			1990s			2000s		
	Foreign	Domestic	Net	Foreign	Domestic	Net	Foreign	Domestic	Net	Foreign	Domestic	Net
Alabama	17,105	194,784	211,888	54,666	111,040	165,707	0.42	4.82	5.24	1.23	2.50	3.73
Alaska	9,711	-14,840	-5,130	9,130	-7,591	1,539	1.77	-2.70	-0.93	1.46	-1.21	0.25
Arizona	123,875	956,477	1,080,352	292,440	423,710	716,149	3.38	26.10	29.47	5.70	8.26	13.96
Arkansas	12,530	217,307	229,837	39,203	81,971	121,175	0.53	9.24	9.78	1.47	3.07	4.53
California	2,470,423	-1,821,377	649,045	1,939,185	-1,965,599	-26,414	8.29	-6.11	2.18	5.73	-5.80	-0.08
Colorado	77,392	614,850	692,243	154,584	136,288	290,872	2.35	18.66	21.01	3.59	3.17	6.76
Connecticut	82,326	-128,933	-46,607	121,451	-92,519	28,932	2.50	-3.92	-1.42	3.57	-2.72	0.85
Delaware	10,631	64,204	74,835	21,028	46,255	67,283	1.60	9.64	11.23	2.68	5.90	8.59
District of Columbia	32,540	-96,022	-63,483	25,723	-22,851	2,873	5.36	-15.82	-10.46	4.50	-3.99	0.50
Florida	710,196	1,894,932	2,605,128	916,738	1,346,296	2,263,035	5.49	14.65	20.14	5.74	8.42	14.16
Georgia	126,846	1,004,907	1,131,753	302,500	393,074	695,575	1.96	15.51	17.47	3.69	4.80	8.50
Hawaii	58,312	-67,715	-9,402	42,074	5,437	47,511	5.26	-6.11	-0.85	3.47	0.45	3.92
Idaho	20,212	170,647	190,859	23,751	111,940	135,691	2.01	16.95	18.96	1.84	8.65	10.49
Illinois	425,051	-258,444	166,607	430,627	-880,248	-449,621	3.72	-2.26	1.46	3.47	-7.09	-3.62
Indiana	35,467	180,196	215,662	100,168	-51,332	48,837	0.64	3.25	3.89	1.65	-0.84	0.80
Iowa	24,607	25,259	49,867	38,692	-45,009	-6,317	0.89	0.91	1.80	1.32	-1.54	-0.22
Kansas	32,763	35,036	67,798	56,138	-64,864	-8,726	1.32	1.41	2.74	2.09	-2.41	-0.32
Kentucky	18,998	170,531	189,529	47,786	74,980	122,767	0.52	4.63	5.14	1.18	1.85	3.04
Louisiana	28,451	-67,297	-38,846	35,668	-224,845	-189,177	0.67	-1.59	-0.92	0.80	-5.03	-4.23
Maine	4,503	11,155	15,658	8,704	30,690	39,394	0.37	0.91	1.28	0.68	2.41	3.09
Maryland	146,943	34,280	181,223	205,768	-76,806	128,961	3.07	0.72	3.79	3.88	-1.45	2.43
Massachusetts	165,688	-124,215	41,473	263,435	-328,695	-65,260	2.75	-2.06	0.69	4.15	-5.18	-1.03
Michigan	114,112	-31,842	82,270	180,082	-708,110	-528,027	1.23	-0.34	0.89	1.81	-7.12	-5.31
Minnesota	63,660	193,091	256,750	113,817	-90,653	23,164	1.45	4.41	5.87	2.31	-1.84	0.47
Mississippi	8,077	106,864	114,941	19,054	-61,106	-42,052	0.31	4.15	4.46	0.67	-2.15	-1.48
Missouri	43,731	215,415	259,145	68,026	64,900	132,926	0.85	4.21	5.06	1.22	1.16	2.38
Montana	3,011	63,959	66,970	3,310	46,605	49,915	0.38	8.00	8.38	0.37	5.17	5.53
Nebraska	17,691	30,581	48,272	34,277	-40,540	-6,263	1.12	1.94	3.06	2.00	-2.37	-0.37

Nevada	64,167	604,163	668,330	118,782	385,983	504,765	5.34	50.28	55.62	5.94	19.32	25.26
New Hampshire	8,354	56,080	64,434	19,689	10,658	30,347	0.75	5.06	5.81	1.59	0.86	2.46
New Jersey	414,113	-189,067	225,045	427,489	-492,878	-65,390	5.34	-2.44	2.90	5.08	-5.86	-0.78
New Mexico	42,051	108,486	150,537	50,942	35,235	86,177	2.78	7.16	9.94	2.80	1.94	4.74
New York	1,193,783	-1,303,173	-109,390	895,150	-1,570,310	-675,160	6.64	-7.24	-0.61	4.72	-8.27	-3.56
North Carolina	74,085	924,292	998,377	230,920	714,548	945,468	1.12	13.94	15.05	2.87	8.88	11.75
North Dakota	5,893	-28,561	-22,668	4,981	-2,274	2,707	0.92	-4.47	-3.55	0.78	-0.35	0.42
Ohio	61,412	-88,084	-26,673	129,215	-412,728	-283,513	0.57	-0.81	-0.25	1.14	-3.64	-2.50
Oklahoma	32,875	121,995	154,870	57,560	56,879	114,438	1.05	3.88	4.92	1.67	1.65	3.32
Oregon	74,645	348,243	422,888	101,814	128,821	230,635	2.63	12.25	14.88	2.98	3.77	6.74
Pennsylvania	127,779	-17,688	110,091	190,322	32,201	222,523	1.08	-0.15	0.93	1.55	0.26	1.81
Rhode Island	18,394	-11,551	6,842	32,325	-58,947	-26,622	1.83	-1.15	0.68	3.08	-5.62	-2.54
South Carolina	22,687	291,783	314,470	71,471	330,099	401,570	0.65	8.37	9.02	1.78	8.23	10.01
South Dakota	5,521	15,417	20,939	7,067	3,764	10,832	0.79	2.22	3.01	0.94	0.50	1.43
Tennessee	36,127	533,754	569,880	98,590	286,499	385,088	0.74	10.94	11.68	1.73	5.04	6.77
Texas	795,951	1,143,856	1,939,807	998,690	781,542	1,780,232	4.69	6.73	11.42	4.79	3.75	8.54
Utah	35,816	177,548	213,364	70,371	37,098	107,469	2.08	10.31	12.38	3.15	1.66	4.81
Vermont	5,609	16,970	22,579	5,308	-3,487	1,821	1.00	3.02	4.01	0.87	-0.57	0.30
Virginia	163,644	299,495	463,139	219,986	199,650	419,635	2.64	4.84	7.48	3.11	2.82	5.93
Washington	164,962	478,786	643,748	217,347	197,800	415,147	3.39	9.84	13.23	3.69	3.36	7.04
West Virginia	3,842	-2,955	887	6,040	39,059	45,099	0.21	-0.16	0.05	0.33	2.16	2.49
Wisconsin	29,697	200,239	229,936	75,399	-19,910	55,489	0.61	4.09	4.70	1.41	-0.37	1.03
Wyoming	2,257	8,831	11,089	3,559	33,802	37,360	0.50	1.95	2.44	0.72	6.85	7.57

Source: U.S. Bureau of the Census, RLS Demographics

Chart 6: Net Domestic Migration Rates in the 2000s



Southern and Western states—led by Nevada, the Carolinas, Idaho, Arizona and Florida—had the top domestic and net migration rates in the 2000s. California was the exception to this regional trend.

Source: U.S. Bureau of the Census

also the one with its population centers nearest those of California: Las Vegas and Reno are, respectively, just a half-day's drive from Los Angeles or San Francisco. Arizona is another fast-growing destination state in the California neighborhood.

PART I: WHERE CALIFORNIANS ARE MOVING: IRS DATA

When Californians leave, where do they go? The answer helps point us toward the all-important issue of why people are leaving—and what this says about the state's future.

To identify favored "target states" for out-migration, the most useful tool is the annual data from the Internal Revenue Service showing how many filers of income-tax returns have moved between two years. Our analysis of these data reveals in some detail the starting points and destinations of those who have left California. It also allows us to make some reasonable inferences about their motives.

This IRS information is not a perfect tool. It leaves out students, low-income persons, the elderly, and others who may not file income-tax returns, and it does not track moves associated with first-time or final filings. For these reasons, it does not produce as high a total for net migration from California as the Census figures do. But the IRS records show migration between specific states, metropolitan areas, and counties (see Appendix). In this study, we have taken advantage of this feature of the data to map the California exodus in detail.

We analyzed IRS migration data on year-to-year periods starting with 2000–01 and ending with 2009–10 (ten years in all). We looked first at migration between California and other states, to see which states are most popular as destinations for Californians and which states continue to send a significant number of residents to the Golden State. Second, we took a finer-grained look at population movements in different regions of the state, to examine more precisely where inside California the migrants came from.

A. Migration from and to California

The IRS data show a pattern of movement over the past decade from California mainly to states in the western and southern United States. Texas, Nevada, and Arizona, in that order, are the top magnet states on the basis of the net migration (measured by tax exemptions) that they drew from California between 2000 to 2010. Oregon, Washington, Colorado, Idaho, and Utah follow. Rounding out the top ten are two southern states, Georgia and South Carolina. On the other hand, the top ten sender states—those that lost more residents to California than they gained—are all in the Northeast or Midwest. New York, Illinois, and New Jersey are the largest in this category, though their deficits with California are far smaller than California's deficits with its leading destination states.

The IRS data also put a dollar figure on migration patterns. Along with totals for the number of individuals moving between states, the IRS adds up the income reported in the tax returns of migrants. The agency's data reveal just how much wealth California is losing as a result of its people's exodus. This is not only a measure of economic damage but also of political and fiscal consequences because the state government depends heavily on personal income tax for its revenue.

The data show aggregate income moving into and out of California in roughly the same pattern that people do. There are some differences because some migrants are wealthier than others, so the movement of dollars does not precisely track that of individuals. For example, while Texas took in the largest number of former Californians between 2000 and 2010, it was Nevada that received the largest share of formerly Californian income: some $5.67 billion in income shifted from California to the Silver State during that decade. Arizona had the next biggest gain at California's expense, at $4.96 billion, followed by Texas, at $4.07 billion, and Oregon close behind, at $3.85 billion. The lower ranking for Texas is due to Californians moving to Texas having lower annual income per capita ($23,150) than did Texans going to California ($26,640). In the

Table 3: Net Migration Between California and Other States, 2000–10

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	Total 2000-2010	Rank
ALABAMA	-411	-515	-815	-924	-1,652	-1,543	-1,275	-920	-1,064	-642	-9,761	21
ALASKA	34	-326	63	-95	-307	-86	-17	-236	-739	-678	-2,387	32
ARIZONA	-9,866	-15,156	-15,616	-24,620	-45,265	-49,026	-31,408	-15,533	-3,821	-1,622	-211,933	2
ARKANSAS	-1,333	-1,756	-1,800	-2,237	-3,613	-4,332	-3,446	-2,519	-1,485	-1,309	-23,830	16
COLORADO	-5,555	-4,834	-1,498	-2,284	-7,192	-10,661	-11,297	-7,991	-6,431	-4,379	-62,122	6
CONNECTICUT	914	50	-115	520	515	871	742	878	626	687	5,688	43
DELAWARE	106	-87	-192	-67	-135	46	-9	171	46	50	-71	38
DISTRICT OF COLUMBIA	279	46	-125	-222	-154	15	-25	71	-289	-582	-986	34
FLORIDA	-2,178	-6,133	-6,223	-7,965	-9,769	-5,762	-1,928	2,079	2,653	451	-34,775	11
GEORGIA	-2,349	-3,318	-2,694	-3,989	-6,346	-8,572	-7,467	-2,847	-1,505	-487	-39,574	9
HAWAII	949	-550	-1,077	-1,452	-2,065	-1,646	-21	-45	610	-221	-5,518	27
IDAHO	-2,324	-3,186	-3,303	-5,353	-9,003	-11,906	-8,830	-5,192	-2,947	-2,230	-54,274	7
ILLINOIS	5,939	3,219	2,927	2,744	1,287	1,415	1,172	2,298	2,177	2,803	25,981	49
INDIANA	96	-280	-682	-325	-1,347	-1,879	-1,369	-434	-128	79	-6,269	26
IOWA	-131	-532	-611	-881	-864	-1,000	-818	-611	-1,251	-539	-7,238	24
KANSAS	50	-336	-691	-618	-1,010	-1,484	-1,659	-926	-954	-942	-8,570	22
KENTUCKY	38	-651	-589	-764	-1,266	-1,322	-1,138	-712	-402	-526	-7,332	23
LOUISIANA	599	-323	-114	-403	-649	2,662	-982	-1,145	-1,173	-1,382	-2,910	30
MAINE	-62	-238	-196	-321	-274	-49	-20	55	216	75	-814	35
MARYLAND	201	-1,202	-863	-616	-659	135	308	703	-26	-833	-2,852	31
MASSACHUSETTS	2,446	1,212	1,251	2,404	2,663	3,062	2,846	2,498	1,325	1,443	21,150	47
MICHIGAN	2,237	863	282	1,418	1,237	2,226	2,931	4,218	2,818	2,396	20,626	46
MINNESOTA	73	-76	401	433	-294	-66	55	508	764	695	2,493	41
MISSISSIPPI	-1	-65	-248	-431	-502	115	-860	-455	49	122	-2,276	33
MISSOURI	-712	-1,427	-1,770	-2,219	-3,722	-3,649	-3,260	-1,119	-742	-612	-19,232	18
MONTANA	-560	-696	-1,077	-1,652	-2,137	-2,237	-1,647	-1,350	-933	-600	-12,889	19
NEBRASKA	-359	-575	-737	-557	-484	-608	-1,077	-704	-1,010	-859	-6,970	25
NEVADA	-20,369	-21,971	-20,296	-30,374	-31,610	-30,925	-24,743	-12,094	-3,918	-2,031	-198,331	3
NEW HAMPSHIRE	-73	-214	-14	77	133	74	190	99	164	154	590	40
NEW JERSEY	4,353	924	980	2,193	2,762	3,041	2,557	2,988	1,907	1,151	22,856	48
NEW MEXICO	-181	-1,490	-1,348	-2,179	-3,472	-5,052	-5,369	-2,846	-2,501	-1,581	-26,019	14
NEW YORK	5,873	3,437	2,171	2,641	3,842	3,779	3,467	3,303	817	2,104	31,434	50
NORTH CAROLINA	-1,907	-2,560	-2,531	-3,433	-5,138	-6,965	-6,893	-4,659	-2,770	-1,782	-38,638	10
NORTH DAKOTA	236	13	3	-267	11	-114	-92	-98	-129	-149	-586	36
OHIO	2,741	423	456	828	462	706	1,921	1,119	731	1,150	10,537	45
OKLAHOMA	-775	-2,120	-1,063	-1,775	-2,931	-4,371	-4,168	-2,788	-3,121	-2,152	-25,264	15
OREGON	-7,254	-10,973	-9,963	-11,072	-18,159	-21,667	-16,549	-12,577	-7,560	-5,708	-121,482	4
PENNSYLVANIA	2,661	-186	-166	375	533	1,214	1,051	1,886	1,060	529	8,957	44
RHODE ISLAND	-89	-282	-377	-158	-2	74	94	155	174	101	-310	37
SOUTH CAROLINA	-183	-1,056	-961	-1,345	-1,431	-1,788	-1,885	-1,093	-679	-500	-10,921	20

SOUTH DAKOTA	-51	-183	-107	-346	-230	-405	-410	-429	-439	-408	-3,008	29
TENNESSEE	-1,051	-1,713	-1,921	-2,678	-4,152	-4,535	-5,637	-2,639	-2,281	-867	-27,474	13
TEXAS	-6,462	-12,672	-8,865	-11,990	-23,270	-41,164	-50,647	-32,406	-22,672	-14,963	-225,111	1
UTAH	-464	-1,046	-579	-2,914	-6,671	-9,709	-11,362	-8,327	-3,304	-1,258	-45,634	8
VERMONT	17	-190	-119	-39	-32	12	128	109	24	70	-20	39
VIRGINIA	-1,133	-1,959	-3,757	-3,675	-3,365	-3,209	-2,240	-520	-1,776	-823	-22,457	17
WASHINGTON	-2,547	-4,987	-2,470	-7,554	-14,211	-16,986	-13,099	-11,890	-10,234	-4,741	-88,719	5
WEST VIRGINIA	90	0	-213	-15	-153	-263	-152	-59	-19	-93	-5,020	28
WISCONSIN	-51	-4,143	-303	-75	-442	-354	67	399	58	574	2,602	42
WYOMING	-48	2,729	-328	-514	-617	-756	-747	-820	-982	-255	-31,718	12

Source: Internal Revenue Service, RLS Demographics

Table 4: Components of Migration Between California and Other States

	EXEMPTIONS			AGGREGATE INCOME ($ THOUSANDS)			INCOME PER EXEMPTION ($ THOUSANDS)	
	In-Flows	Out-Flows	Net Flows	In-Flows	Out-Flows	Net Flows	In-Flows	Out-Flows
ALABAMA	24,950	34,711	-9,761	513,933	718,913	-204,980	20.60	20.71
ALASKA	24,350	26,737	-2,387	475,444	509,296	-33,852	19.53	19.05
ARIZONA	259,470	471,403	-211,933	5,807,252	10,768,757	-4,961,505	22.38	22.84
ARKANSAS	26,015	49,845	-23,830	429,338	807,013	-377,675	16.50	16.19
COLORADO	143,817	205,939	-62,122	3,935,057	5,936,667	-2,001,610	27.36	28.83
CONNECTICUT	38,117	32,429	5,688	1,778,757	1,488,856	289,901	46.67	45.91
DELAWARE	6,706	6,777	-71	209,526	200,230	9,296	31.24	29.55
DISTRICT OF COLUMBIA	15,025	16,011	-986	766,330	701,395	64,935	51.00	43.81
FLORIDA	184,202	218,977	-34,775	5,050,373	6,533,763	-1,483,390	27.42	29.84
GEORGIA	92,320	131,894	-39,574	2,426,852	3,137,118	-710,266	26.29	23.79
HAWAII	88,869	94,387	-5,518	1,928,117	2,607,823	-679,706	21.70	27.63
IDAHO	41,721	95,995	-54,274	813,310	2,125,830	-1,312,520	19.49	22.15
ILLINOIS	160,842	134,861	25,981	5,746,470	4,103,982	1,642,488	35.73	30.43
INDIANA	49,509	55,778	-6,269	1,218,602	1,238,580	-19,978	24.61	22.21
IOWA	27,444	34,682	-7,238	577,904	687,961	-110,057	21.06	19.84
KANSAS	37,482	46,052	-8,570	851,645	871,057	-19,412	22.72	18.91
KENTUCKY	24,360	31,692	-7,332	548,229	677,174	-128,945	22.51	21.37
LOUISIANA	38,898	41,808	-2,910	777,780	807,858	-30,078	20.00	19.32
MAINE	11,127	11,941	-814	253,857	338,684	-84,827	22.81	28.36
MARYLAND	64,829	67,681	-2,852	2,172,073	2,068,440	103,633	33.50	30.56
MASSACHUSETTS	95,953	74,803	21,150	4,126,792	3,164,224	962,568	43.01	42.30
MICHIGAN	87,580	66,954	20,626	2,609,397	1,752,120	857,277	29.79	26.17
MINNESOTA	56,787	54,294	2,493	1,844,074	1,628,425	215,649	32.47	29.99
MISSISSIPPI	21,129	23,405	-2,276	384,040	419,810	-35,770	18.18	17.94
MISSOURI	58,568	77,800	-19,232	1,519,984	1,775,264	-255,280	25.95	22.82
MONTANA	20,814	33,703	-12,889	404,992	898,224	-493,232	19.46	26.65
NEBRASKA	23,826	30,796	-6,970	487,185	560,792	-73,607	20.45	18.21

NEVADA	229,655	427,986	-198,331	4,704,122	10,377,646	-5,673,524	20.48	24.25
NEW HAMPSHIRE	14,099	13,509	590	481,835	471,410	10,425	34.18	34.90
NEW JERSEY	89,960	67,104	22,856	3,908,818	2,724,187	1,184,631	43.45	40.60
NEW MEXICO	44,868	70,887	-26,019	997,179	1,658,934	-661,755	22.22	23.40
NEW YORK	195,308	163,874	31,434	8,651,810	6,810,804	1,841,006	44.30	41.56
NORTH CAROLINA	90,844	129,482	-38,638	2,072,621	3,193,868	-1,121,247	22.82	24.67
NORTH DAKOTA	7,348	7,934	-586	141,057	153,159	-12,102	19.20	19.30
OHIO	84,156	73,619	10,537	2,636,982	1,980,870	656,112	31.33	26.91
OKLAHOMA	42,653	67,917	-25,264	751,115	1,093,742	-342,627	17.61	16.10
OREGON	147,263	268,745	-121,482	3,214,047	7,059,232	-3,845,185	21.83	26.27
PENNSYLVANIA	84,696	75,739	8,957	2,963,080	2,494,833	468,247	34.98	32.94
RHODE ISLAND	12,022	12,332	-310	334,823	338,936	-4,113	27.85	27.48
SOUTH CAROLINA	29,941	40,862	-10,921	664,099	969,865	-305,766	22.18	23.74
SOUTH DAKOTA	9,050	12,058	-3,008	202,353	280,915	-78,562	22.36	23.30
TENNESSEE	44,467	71,941	-27,474	1,030,113	1,786,950	-756,837	23.17	24.84
TEXAS	326,803	551,914	-225,111	8,705,983	12,774,074	-4,068,091	26.64	23.15
UTAH	88,467	134,101	-45,634	1,675,164	2,689,001	-1,013,837	18.94	20.05
VERMONT	6,647	6,667	-20	172,105	203,978	-31,873	25.89	30.60
VIRGINIA	129,177	151,634	-22,457	3,811,718	4,284,238	-472,520	29.51	28.25
WASHINGTON	240,659	329,378	-88,719	6,473,300	9,345,337	-2,872,037	26.90	28.37
WEST VIRGINIA	5,985	11,005	-5,020	127,453	239,681	-112,228	21.30	21.78
WISCONSIN	44,370	41,768	2,602	1,245,362	1,025,621	219,741	28.07	24.56
WYOMING	11,102	42,820	-31,718	227,833	1,154,279	-926,446	20.52	26.96
TOTALS	3,704,250	4,944,631	-1,240,381	102,850,285	129,639,816	-26,789,531	27.77	26.22

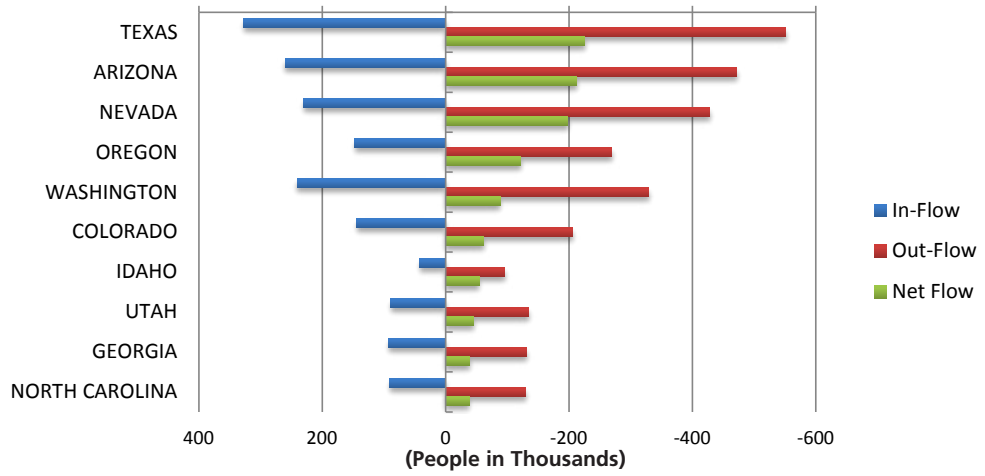
Components of Migration Between California and Other States—In-Flows, Out-Flows and Net Flows for Exemptions (Individuals) and Aggregate Income; 2000–10
Source: Internal Revenue Service, RLS Demographics

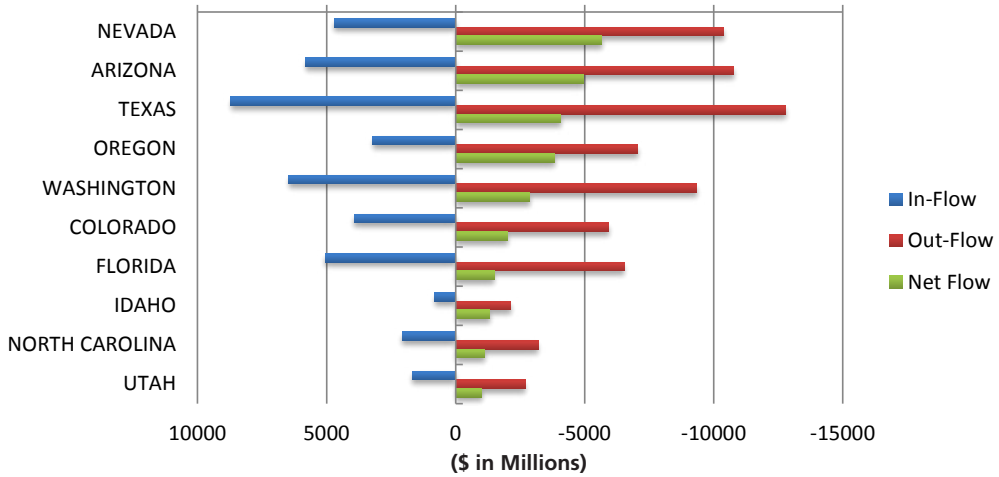
other three states, that income difference is either much narrower or tilted the other way. Inbound and outbound incomes were less than $500 apart in Arizona. In Oregon and Nevada, newcomers from California had incomes about $4,000 higher than those going the opposite way.

The best explanation for these patterns is that relatively affluent retirees (or owners of vacation homes) move from California to Oregon and Nevada, while Texas gets more young families looking for economic opportunity. Arizona has a mix of both types of ex-California migrant. Another type of IRS data, exemptions per return, supports this explanation. Returns of Californians bound for Texas average 2.21 exemptions, compared with 1.89 for those who went to Oregon, 1.98 for Nevada, and 2.07 for Arizona. The ratios for returns of those moving to California were uniformly lower, ranging from 1.75 for those coming from Oregon to 1.88 for people leaving Texas. Those heading to the Golden State, in other words, tend to have fewer children than those who are leaving, or no children at all, or are singles.

Family needs are not the only influence on decisions that ex-Californians make about where to go. The data also show that simple proximity has an important role. Over the period we studied, the three states adjoining California—Arizona, Nevada, and Oregon—received nearly 24 percent of its migrants (a total of 1,168,134). Migrants to the next tier of states—Washington, Idaho, Utah, and New Mexico—brought the total to 1,798,496, or nearly 36 percent of those who left California for any other

Chart 7 & 8: California Lost People and Money to Other States 2000–10





California lost at least 200,000 residents to each of three states—Texas, Arizona, and Nevada—in the past decade. Just one of those states, Nevada, accounted for a loss of more than $5.6 billion in income.

Source: Internal Revenue Service, RLS Demographics

part of the United States. Inflows from these seven states totaled 992,093, for a net out-migration of 806,403. So about 65 percent of California's overall migration deficit involves nearby states.

How much of this movement was related to jobs, and how much to other factors? The IRS does not ask people why they are moving (nor, we suspect, would most citizens wish it to). So we must extrapolate to find a reason that smaller states such as Arizona and, especially, Nevada have grown so much at California's expense. Retirement may be part of the explanation. Arizona and Nevada are logical nearby retirement destinations, and more Californians are likely to be familiar with them than with more distant retirement meccas such as Florida. Nevada is especially near and has the lower tax burden of the two. Lower taxes, lower costs, and proximity to old haunts can create a powerful incentive. For example, a Bay Area resident who moves to the Reno area will pay lower sales taxes and

Table 5: Out-Flows from California by Region, 2000–10

Destination State	Total Out-Flows (Exemptions)	Central - North	Central - South	East Bay Area	LA-Orange Counties	Mid-Coastal	North Country	Riverside-San Bdno. Counties	Sacramento	San Diego Area	Santa Clara	San Francisco Area	Wine Country
Alabama	12,392	109	40	550	6,031	203		1,510	297	3,309	291	52	
Alaska	13,712	1,320	1,177	585	3,248	754	73	2,075	1,346	2,362	388	234	150
Arizona	449,927	21,975	17,308	21,379	154,123	36,033	3,908	75,816	11,033	74,667	18,466	10,167	5,052
Arkansas	20,202	368	398	405	11,252	1,618		2,807	537	2,635	182		
Colorado	166,514	5,133	5,560	10,872	60,805	13,927	516	20,310	5,076	24,710	10,946	7,303	1,356
Connecticut	24,467			2,781	9,613	706		1,231	193	5,181	1,892	2,849	21
Delaware	3,547	245		385	1,500			81	77	799	369	91	
District of Columbia	14,991	187	42	1,812	4,961	917		618	482	2,184	903	2,771	114
Florida	165,649	2,379	3,637	10,345	62,704	7,814		16,421	4,483	41,170	8,140	7,805	751
Georgia	85,236	1,164	981	6,675	39,652	3,484		9,907	2,936	13,162	4,106	3,112	57
Hawaii	88,384	4,832	2,407	6,246	22,442	9,681	712	8,250	2,789	18,856	4,178	6,260	1,731
Idaho	59,273	5,526	2,421	3,665	16,292	4,169	1,275	8,995	3,731	7,977	2,952	881	1,389
Illinois	101,364	2,920	1,965	7,906	38,889	4,662	31	8,293	1,897	19,637	6,459	8,300	405
Indiana	25,360	180	234	1,073	12,535	234		3,076	645	5,567	1,295	521	
Iowa	11,572		164	671	6,072	25		862	172	2,593	864	149	
Kansas	23,515	224	410	1,077	10,955	719		4,236	656	4,215	755	237	31
Kentucky	11,185		51	537	4,715	52		2,483	345	2,512	308	182	
Louisiana	18,304	45	33	1,374	8,104	161		1,964	424	5,196	374	629	
Maine	3,800			258	1,183	45		80		1,730	180	324	
Maryland	50,983	574	1,025	4,235	17,000	4,255		3,522	1,073	12,860	3,360	2,976	103
Massachusetts	62,254	559	185	7,012	21,395	2,025		2,339	993	10,718	6,619	10,083	326
Michigan	37,711	112	357	3,089	16,191	697		3,481	597	8,747	2,550	1,890	
Minnesota	30,251	164	1,429	2,327	11,830	814		2,154	1,365	5,862	2,081	1,968	257
Mississippi	6,770	364	50		2,311	384		437	148	3,076			
Missouri	36,016	201	228	2,057	14,436	778		5,618	1,621	8,571	1,308	1,198	
Montana	12,228	46	18	322	4,120	1,419	12	1,874	496	3,253	377	138	153
Nebraska	15,393	220	312	681	7,076	1,581		1,791	372	2,732	500	128	
Nevada	407,669	40,917	17,445	26,240	151,395	25,157	8,456	49,450	13,462	38,184	18,206	13,828	4,929
New Hampshire	6,332			387	2,493	55		289	23	1,882	752	451	

New Jersey	49,124	436		5,141	22,128	370		1,006	459	9,507	5,981	4,096	
New Mexico	47,513	1,047	1,381	2,701	18,020	2,892	67	7,464	1,198	8,629	2,175	1,578	361
New York	129,407	794	432	11,028	57,258	2,868	12	5,916	1,640	17,544	8,667	22,625	623
North Carolina	83,160	1,294	1,359	4,928	28,601	3,267	41	12,483	2,407	20,120	5,417	2,921	322
North Dakota	1,842	67			393	948		28		406			
Ohio	39,537	480	607	2,653	17,479	735		3,586	1,038	9,311	1,936	1,692	20
Oklahoma	30,694	1,163	1,997	1,270	11,571	975		5,543	1,458	5,644	861	186	26
Oregon	216,694	15,591	7,859	19,222	52,098	16,849	15,313	19,184	11,907	22,786	15,966	12,868	7,051
Pennsylvania	43,469		37	3,709	18,150	743		2,309	557	10,712	3,466	3,765	21
Rhode Island	8,277		118	351	2,137	1,190		315	86	3,391	290	399	
South Carolina	20,351	123	428	237	7,287	171		3,122	428	8,087	303	165	
South Dakota	2,902	21	21	23	1,283	30		620		879	25		
Tennessee	37,624	142	378	1,832	17,424	1,287		5,563	1,184	7,692	1,254	827	41
Texas	447,606	19,139	16,651	27,859	171,457	25,019	290	62,162	12,773	70,020	27,139	12,473	2,624
Utah	111,268	6,408	4,865	6,257	41,413	7,465	621	18,270	5,150	12,885	4,728	2,252	954
Vermont	1,453			112	486					466	166	223	
Virginia	106,926	1,126	3,041	5,407	29,332	9,576		8,904	1,993	38,625	4,902	3,841	179
Washington	274,059	16,846	13,107	22,280	77,465	17,731	4,326	29,174	13,017	43,066	17,768	14,945	4,334
West Virginia	159				113					46			
Wisconsin	19,294	98	445	1,578	7,617	209		1,400	569	5,103	1,050	1,207	18
Wyoming	3,693	26	119		1,152	1,038		391	42	925			
Total	3,640,053	154,565	110,722	241,534	1,306,187	215,732	35,653	427,410	113,175	630,191	200,895	170,590	33,399
Regional Population (2000)		2,619,927	2,107,547	2,402,443	12,397,876	2,017,858	956,154	3,276,461	1,230,501	2,971,525	1,687,415	1,734,750	585,078
Out-Flow Rate (Statewide=10.71%)		5.90%	5.25%	10.05%	10.54%	10.69%	3.73%	13.04%	9.20%	21.21%	11.91%	9.83%	5.71%

Source: Internal Revenue Service, RLS Demographics

Table 6: Net Migration to and from California by Region, 2000–10

Destination State	Total Net Migration (Exemptions)	Central-North	Central-South	East Bay Area	LA-Orange Counties	Mid-Coastal	North Country	Riverside-San Bdno. Counties	Sacramento	San Diego Area	Santa Clara County	San Francisco Area	Wine Country
Alabama	-4,913	-16	-40	-145	-2,517	-154	0	-903	-111	-1,143	57	59	0
Alaska	-2,879	-126	-294	-128	-717	-145	56	-257	-632	-480	-63	17	-110
Arizona	-230,553	-10,710	-5,391	-11,760	-91,779	-20,109	-1,561	-37,843	-4,194	-30,551	-10,177	-3,746	-2,732
Arkansas	-14,041	-247	-357	-297	-7,943	-1,588	0	-1,898	-335	-1,346	-66	36	0
Colorado	-67,630	-2,088	-1,728	-4,354	-28,925	-6,292	-275	-8,014	-1,355	-7,169	-5,079	-2,002	-349
Connecticut	2,982	0	0	-134	474	216	0	264	355	1,177	329	194	107
Delaware	-63	-119	0	-67	-26	40	0	20	26	35	-24	52	0
District of Columbia	-2,276	-78	-42	-381	-733	-347	0	-149	-150	-295	-66	46	-81
Florida	-40,165	-428	-841	-3,418	-16,127	-2,253	0	-4,858	-1,342	-7,102	-2,189	-1,671	64
Georgia	-35,119	-795	-713	-2,757	-18,012	-2,335	0	-4,353	-1,250	-4,058	-844	-14	12
Hawaii	-13,719	-764	-5	-1,222	-4,310	-3,200	-206	-922	-184	-355	-481	-1,544	-526
Idaho	-43,433	-4,702	-1,877	-2,784	-11,937	-3,446	-1,119	-6,651	-2,659	-4,814	-1,772	-498	-1,174
Illinois	16,585	257	169	1,669	5,398	82	44	1,346	645	2,457	2,411	1,660	447
Indiana	-4,108	-155	-131	200	-3,539	233	0	-670	-264	-547	387	364	14
Iowa	-3,468	0	-107	-236	-2,260	4	0	-452	-35	-427	-99	144	0
Kansas	-6,898	-39	-188	-185	-4,263	-452	0	-1,566	-71	-803	378	322	-31
Kentucky	-2,418	0	-51	-120	-1,055	59	0	-599	-91	-744	150	33	0
Louisiana	-1,724	60	48	350	-1,330	72	0	-425	100	-1,022	334	89	0
Maine	47	0	0	-7	-185	-26	0	40	21	289	-48	-37	0
Maryland	-6,461	-15	-301	-638	-1,727	-2,286	0	-185	-98	-1,198	-29	50	-34
Massachusetts	12,365	265	79	694	4,269	210	0	641	357	2,177	1,362	2,200	111
Michigan	15,129	237	66	1,275	4,690	827	0	1,184	1,020	2,507	1,670	1,533	120
Minnesota	1,796	129	-223	334	-181	173	0	208	-63	577	399	415	28
Mississippi	-727	313	465	18	-1,111	-227	0	-54	-62	-129	60	0	0
Missouri	-8,823	-29	-65	-153	-3,691	-133	0	-2,593	-746	-2,119	219	471	16
Montana	-6,816	-46	30	-174	-2,393	-472	8	-1,394	-327	-1,628	-257	-10	-153
Nebraska	-5,403	75	-206	-90	-3,155	-1,203	0	-677	157	-499	25	155	15
Nevada	-215,089	-20,483	-5,582	-16,765	-93,263	-14,253	-2,616	-19,468	-3,612	-15,900	-12,219	-8,287	-2,641
New Hampshire	246	0	0	37	167	-25	0	-12	13	124	-3	-55	0

New Jersey	15,240	-40	0	1,454	5,692	737	0	2,309	344	1,758	1,621	1,288	77
New Mexico	-24,107	-437	-520	-1,300	-10,295	-1,671	-67	-4,355	-390	-3,252	-1,048	-619	-153
New York	14,741	-175	161	563	8,572	-80	-12	1,754	913	2,499	1,690	-1,103	-41
North Carolina	-33,582	-842	-179	-2,422	-14,232	-842	-41	-5,158	-1,175	-5,512	-2,000	-868	-311
North Dakota	-410	-67	46	0	65	-337	0	-28	0	-89	0	0	0
Ohio	7,049	-207	-6	467	3,281	241	0	339	309	493	1,052	1,031	49
Oklahoma	-12,644	-454	-933	-526	-5,477	-197	0	-2,634	-575	-1,811	-139	114	-12
Oregon	-122,690	-9,967	-4,286	-12,045	-29,572	-11,614	-8,370	-8,968	-5,365	-9,793	-9,938	-7,565	-5,207
Pennsylvania	5,530	67	44	206	1,769	351	0	-72	284	556	1,396	870	59
Rhode Island	-1,252	0	-118	24	154	-1,190	0	0	29	-241	-10	100	0
South Carolina	-8,042	97	-288	-53	-3,480	-79	0	-1,719	-395	-2,163	38	0	0
South Dakota	-1,415	-21	-21	-23	-645	-30	0	-296	45	-411	-13	0	0
Tennessee	-16,740	-100	-125	-671	-8,966	-472	0	-2,671	-433	-2,995	-233	-33	-41
Texas	-221,509	-10,172	-7,727	-11,181	-96,306	-14,616	-186	-35,099	-6,034	-24,671	-10,956	-3,038	-1,523
Utah	-47,858	-2,760	-1,891	-2,125	-20,546	-3,758	-173	-9,247	-1,706	-3,767	-1,412	-38	-435
Vermont	133	0	0	60	62	0	0	0	0	-45	27	29	0
Virginia	-24,315	-568	3	-1,445	-7,480	-4,184	0	-2,135	-632	-6,994	-796	-10	-74
Washington	-96,150	-6,115	-4,442	-9,349	-30,825	-5,836	-1,472	-8,068	-4,339	-10,760	-7,857	-5,086	-2,001
West Virginia	205	0	0	16	56	0	0	0	0	62	35	36	0
Wisconsin	124	-8	-109	-17	-645	26	0	97	76	57	365	300	-18
Wyoming	-1,785	-26	-101	0	-751	-386	0	-250	-42	-278	0	49	0
Total	-1,237,053	-71,299	-37,777	-79,605	-495,750	-100,967	-15,990	-166,441	-33,973	-140,343	-53,813	-24,567	-16,528
Net Mig. Rate (Statewide=3.64%)		-2.72%	-1.79%	-3.31%	-4.00%	-5.00%	-1.67%	-5.08%	-2.76%	-4.72%	-3.19%	-1.42%	-2.82%

Source: Internal Revenue Service, RLS Demographics

no state income tax at all, while still living less than four hours by car from San Francisco. Las Vegas is almost as convenient to Los Angeles—less than a five-hour drive. Arizona, another low-tax state, also has popular retirement destinations. Oregon's attractive retirement options are farther from California's main population centers, and Oregon's income-tax burden is similar to California's. These factors may help explain the greater pull of Arizona and Nevada. (Then too, a Californian could perceive that their second residence could have implications for their tax bill and consider their address in another state as their principal residence. The real effect of this is impossible to know but it may be a factor especially in the Nevada region around Lake Tahoe, which is even closer to San Francisco than Reno.)

B. Migration from the "Californias"

California is a huge, diverse state, divided along a number of real and figurative fault lines. Coastal and inland regions differ in their politics and economic foundations. The North has historically been at odds with the South over political power and water. California is the most urbanized state in the nation, yet it has vast rural regions and deserts that are remote from its cities in attitude as well as distance. So generalizing about migration from California as a whole won't reveal much about the motives of those who choose to leave. For this study, therefore, we have grouped the state's counties into 12 distinct "Californias" to give a clearer picture of the exodus. These regions, from south to north, are:

- San Diego Area: San Diego and Imperial Counties
- Los Angeles and Orange Counties
- San Bernardino and Riverside Counties
- Mid-coastal: the coastal region from Ventura to Santa Cruz County, including San Benito County
- Central-South: the San Joaquin Valley from Kern County in the South to Madera County in the north, including Inyo County east of the Sierra Nevada
- Santa Clara County, including San Jose and the heart of Silicon Valley
- San Francisco Area: the city/county of San Francisco with Marin and San Mateo Counties
- East Bay: Alameda and Contra Costa Counties
- Central-North: the Central Valley and Mother Lode from Merced County in the South to Yuba, Sierra, and Colusa Counties in the North; excludes Sacramento County
- Sacramento County
- Wine Country: Napa and Sonoma Counties
- North Country: coastal regions from Mendocino County northward to the Oregon border; northern Sacramento Valley eastward to the Nevada border

The 2000–10 IRS data for these regions show, again, the effect of proximity: Oregon is the most popular destination for those leaving the North Country, as is Nevada for the adjacent Central-North region. The data also reveal patterns of migration within California. For example, San Bernardino and Riverside Counties have seen heavy in-migration in recent years, much of it people leaving the congested Los Angeles–Orange County coastal region. But that movement away from the coast doesn't stop at the state line. San Bernardino and Riverside Counties have also been a source of considerable migration to points outside California: 13.04 percent of their 2000 population left the state in the 2000s. This was greater than the statewide average out-migration of 10.71 percent. When in-migration from other states is taken into account, the two counties still had net out-migration of 5.08 percent, the highest in California and well above the state average of 3.64 percent. Likewise, the San Diego area was a major source of out-migration, with an outflow rate of 21.21 percent and a net out-migration rate of 4.72 percent. For both these California regions, Texas and Arizona were the leading destinations for migrants. Los Angeles and Orange Counties also accounted for a large share of the state's exodus.

This means that the main current of migration out of California in the past decade has flowed eastward across the Colorado River, reversing the storied passages of the Dust Bowl era. The three regions that make up Southern California—Los Angeles/Orange, Riverside/San Bernardino, and San Diego—had about 55 percent of the state's population in 2000 but accounted for about 65 percent of the net out-migration in the decade that followed. More than

70 percent of the state's net migration to Texas came from these areas; 69 percent of migration to Arizona and 60 percent of the net flow to Nevada was from Southern California.

In contrast, regions to the north were more stable. San Francisco, East Bay, and Santa Clara County had net out-migration rates of 1.42 percent, 3.31 percent, and 3.19 percent, respectively, all below the state average. Nevada received the highest net migration from all three areas, but northern migrants' destinations were more diverse than other Californians'. Washington was the most popular destination state for those leaving San Francisco and its suburbs, while Texas led as a target from the East Bay and Santa Clara County. People in the coastal and interior regions of Northern California were also more inclined than Southern Californians to stay put. In the North Country region, the net migration rate was 1.67 percent, and more than half this flow went to neighboring Oregon. In the mid-state and Sierra Nevada regions (Central-North, Central-South, Sacramento, and the Wine Country), all counties had net migration rates below the state average. The only region outside Southern California with above-average net migration was the mid-coastal area, which at its southern end includes the Los Angeles suburbs in Ventura County.

PART II: WHY CALIFORNIANS ARE MOVING: ANALYZING THE DATA

People pull up stakes for many reasons, from jobs to family ties to climate. It is impossible to know for certain what motivates any individual decision to leave the state. But millions of individual decisions do form broad social patterns that are clearly related to economic changes. More often than not, people move because there is a better opportunity elsewhere. For an individual, the motivator is often a job. For a company, it is a chance to set up shop where conditions are more conducive to making a profit. The target could be a place with lower taxes and fees, friendlier regulation, better access to markets, or a labor pool with the right skills at the right price. Even retirees' moves can be indirectly tied to jobs, as when they migrate to be near children who have taken jobs in another state. The push and pull of individual decisions will cause large-scale trends and patterns whose causes and consequences can be analyzed.

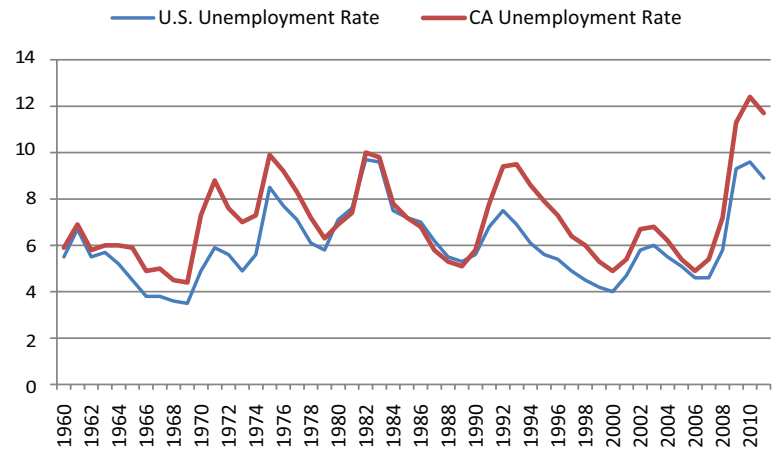
A. ECONOMIC ADVERSITY

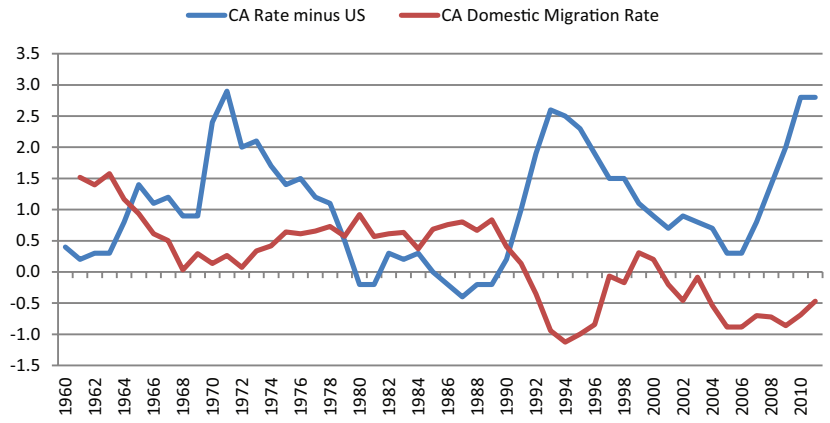
In this study, we have engaged in such an analysis to identify the economic and political triggers of the California exodus that began about two decades ago. Clearly, something happened around that time to change California from a "pull" to a "push" state. What was it? There is no simple answer to that question. But we do know that several trends converged around that time to sap the state's economic vitality.

One was the recession of 1990. The state's unemployment rate, which had tracked the U.S. rate closely through most of the 1980s, surpassed the national average after 1990. By 1993, in fact, the California rate was 2.6 percentage points above the country's overall rate. Whenever California's unemployment is higher than the U.S. rate, migration into the state tends to fall and out-migration rises. In most years since 1960, California's unemployment rate has been above the national average. When that gap narrows or closes (and in the few cases when California actually has a lower jobless rate), in-migration has been high. In contrast, when the gap opens, out-migration soars.

The early 1990s were the most dramatic demonstration we know of this effect. In those years, California had a sharp and prolonged recession while the rest of the nation was going through a relatively mild and brief downturn. The state's hard fall was due in part to its dependence on the defense sector, which had thrived during the Reagan-era arms buildup of the 1980s, and then shriveled with the end of the Cold War. In 1995, the state's Legislative Analyst's Office noted that California's number of aerospace jobs had shrunk from 337,000 in 1990 to 191,000 in 1994. As is to be expected in a recession, construction also took a dive. The number of new residential building permits, which had peaked at nearly 315,000 in 1986, was under 85,000 in 1993 and didn't exceed 100,000 again until 1997. To put that peak-to-trough drop of 230,000 in perspective, it was greater than

Chart 9 & 10: Unemployment in the U.S. and California, 1960–2010





In most years, California unemployment has been above U.S. rates.
Until the 2000s, net migration to California rose when that gap closed or narrowed.

Sources: U.S. Bureau of Labor Statistics; California Dept. of Finance. Migration as percentage of population calculated from state DOF annual migration totals based on population for prior year.

the total number of permits issued in any year of the 2000s building boom.

Taxes were also on the rise during the early 1990s, though political signals may have had more impact at the time than the actual dollar amounts. According to Tax Foundation data, the overall state and local tax burden in California rose from 10.0 percent of income in 1988 to 10.6 percent in 1992. California's increase was not much more than that of the U.S. as a whole (which saw a rise from 9.7 percent to 10.1 percent), but it sent some troubling signals to job-producing businesses. One was that the state government, which had powered through the 1980s without resorting to any broad-based tax hikes, suddenly seemed unable to pay its bills. Another was that the tax revolt that had started with Proposition 13 in 1978 seemed to be out of gas. When the new Republican governor, Pete Wilson, signed off on a $7 billion tax increase in 1991, it was a sign that California's political leaders had abandoned any notion of trying to spur growth through tax cuts. Wilson's revenue enhancers were temporary, and, coincidentally or not, the state recovered briskly after they expired in

the mid-1990s. But as the state later learned in the 2000s, its fiscal distress was far from over.

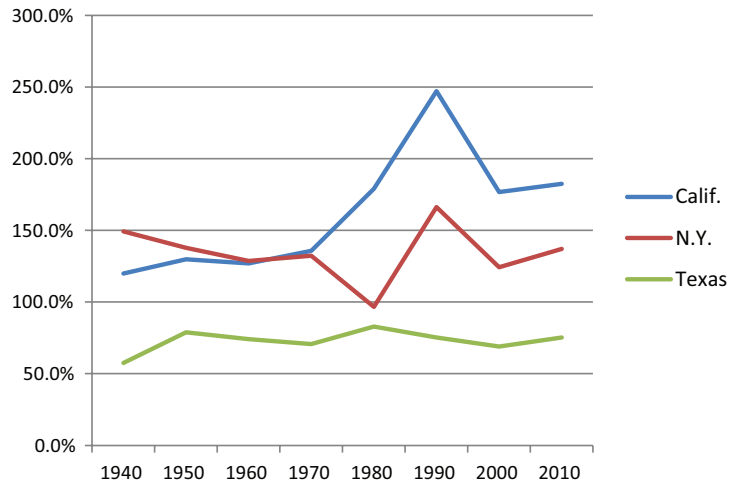
Another factor that may have hurt California's economic competitiveness at the end of the 1980s was that decade's dramatic spike in real-estate prices. Home values increased in most states during the 1980s, but in California they rose far more. According to Census data, the state's median home values were consistently above national averages in 1940, 1950, 1960, and 1970 but never by more than 36 percent. By 1980, they were 79 percent higher. By 1990, they were 147 percent higher. This was a boon to those Californians who wanted to cash out on their expensive homes and move to cheaper locales. But for employers looking to fill positions in California, it added to the cost of labor there in comparison with other states. The Texas median home price in 1990, for instance, was less than one-third of California's.

Looking back on the population surge of the 1980s, it's easy to see why housing prices soared. They were obeying the law of supply and demand, with a boost from the sharp reduction in property taxes brought about by Proposition 13 (then, as now, property taxes were capped at 1 percent of a home's purchase price, plus an adjustment of no more than 2 percent per year). During the 1980s, the state gained 6,092,257 residents, and builders struggled to keep up by adding 1,903,841 housing units, or fewer than one for every three new Californians; in the previous decade, the ratio had been one-to-1.6. Added to sheer demand for housing was the fact that California was growing short on buildable land. This was due both to geography and policy. The most desirable parts of the state are near the coast, where land use was becoming increasingly restrictive. Cities and counties imposed growth controls, and more and more land was placed off-limits as permanent public open space or preserved farmland. We recognize that many factors go into the price of homes, so it is impossible to determine how much of the California premium was due to building restrictions, land-use rules, land scarcity, demand for housing, or tax policy. We can only note that all these factors played a role and that their combined effect was to make housing far more costly in California than in most other states.

B. The Density Factor

As California saw its economy struggle, it was also becoming a more crowded state. At some point late in the last century, people moving to California could no longer assume that they would have more living

Chart II: California, New York, and Texas Median Home Values as Percentage of U.S. Inflation-Adjusted Average, 1940–2010



Sources: U.S. Bureau of the Census; Federal Housing Finance Agency

space and less congestion. Despite stereotypes about suburban sprawl, California's development since at least the 1980s has followed the "smart growth" model of closely packed residential clusters separated by open space. As a result, California had the densest urbanized areas in the nation by 2010. According to the Census, the Los Angeles and Orange County region had a population density of 6,999.3 per square mile—well ahead of famously dense metro areas such as New York and Chicago. In fact, the Los Angeles and Orange County area was first in density among the 200 largest urban areas in the United States. The San Francisco/Oakland area came in second, at 6,266.4; San Jose was third, at 5,820.3. The New York–New Jersey area followed, at 5,318.9, By way of comparison, the Chicago urban area ranks 25th, with a density of 3,524, and Houston is 37th, at 2,978.5. Of the 50 densest large urban areas in the country, 20 are in California.

This crowding takes its toll. California's great coastal cities may still be exciting places to live, but they are no longer convenient—at least not by the standards of the 1960s and 1970s, when the freeways were new and not yet clogged. The crowding of coastal California was well under way by 1990, reflected not just in housing costs but also by a major migration within the state to roomier (if hotter) inland counties. In part because of this population shift, California is, in some ways, two distinct states: a coastal zone with an entertainment and technology-driven economy and liberal politics; and a more conservative inland region that makes its money from agriculture and, in and near Kern County, oil. One of the big migration stories of the past two decades has been eastward movement into those inland counties, where much of the farmland has given way to homes. Table 2 shows how this internal migration affected counties during the first decade of the 2000s. Among the state's larger counties, those with the highest out-migration rates (Los Angeles, San Francisco, Alameda, Santa Clara, San Mateo, Monterey, and Orange) are all on or near the coast. Large inland counties such as Kern, Riverside, and Placer had double-digit rates of net in-migration. The same factors that drive this eastward movement, such as the desire for more space and affordable homes, might also be driving much of the migration from California to more spacious neighboring states.

Table 7: California Counties: Components of Migration 2000–10

	Foreign Immigration	Domestic Migration	Net Migration Number	Net Migration Rate	Domestic Migration Rate
California State	1,669,436	-1,434,082	235,354	0.7%	-4.2%
Alameda	105,147	-158,876	-53,729	-3.7%	-11.0%
Alpine	14	-117	-103	-8.6%	-9.7%
Amador	176	3,658	3,834	10.9%	10.4%
Butte	2,139	12,498	14,637	7.2%	6.1%
Calaveras	243	5,063	5,306	13.1%	12.5%
Colusa	1,056	-654	402	2.1%	-3.5%
Contra Costa	42,271	-6,879	35,392	3.7%	-0.7%
Del Norte	209	399	608	2.2%	1.5%
El Dorado	2,563	14,514	17,077	10.8%	9.2%
Fresno	29,447	1,248	30,695	3.8%	0.2%
Glenn	688	-1,039	-351	-1.3%	-3.9%
Humboldt	871	4,210	5,081	4.0%	3.3%
Imperial	16,597	-4,700	11,897	8.3%	-3.3%
Inyo	205	279	484	2.7%	1.5%
Kern	21,933	69,620	91,553	13.8%	10.5%

Kings	3,641	2,353	5,994	4.6%	1.8%
Lake	817	6,260	7,077	12.1%	10.7%
Lassen	151	-123	28	0.1%	-0.4%
Los Angeles	504,960	-1,126,185	-621,225	-6.5%	-11.8%
Madera	3,207	9,205	12,412	10.0%	7.4%
Marin	5,948	-10,117	-4,169	-1.7%	-4.1%
Mariposa	110	1,242	1,352	7.9%	7.3%
Mendocino	1,429	-2,925	-1,496	-1.7%	-3.4%
Merced	9,461	6,926	16,387	7.8%	3.3%
Modoc	97	247	344	3.6%	2.6%
Mono	192	-89	103	0.8%	-0.7%
Monterey	19,975	-56,729	-36,754	-9.1%	-14.1%
Napa	4,927	2,947	7,874	6.3%	2.4%
Nevada	566	7,061	7,627	8.3%	7.7%
Orange	150,997	-257,366	-106,369	-3.7%	-9.0%
Placer	4,861	80,254	85,115	33.8%	31.9%
Plumas	122	-412	-290	-1.4%	-2.0%
Riverside	59,202	408,762	467,964	30.1%	26.2%
Sacramento	50,671	30,286	80,957	6.6%	2.5%
San Benito	1,898	-6,208	-4,310	-8.0%	-11.6%
San Bernardino	54,167	63,814	117,981	6.9%	3.7%
San Diego	129,924	-114,342	15,582	0.6%	-4.0%
San Francisco	91,486	-90,034	1,452	0.2%	-11.6%
San Joaquin	29,738	26,646	56,384	9.9%	4.7%
San Luis Obispo	3,968	12,376	16,344	6.6%	5.0%
San Mateo	47,546	-89,646	-42,100	-5.9%	-12.7%
Santa Barbara	13,004	-20,028	-7,024	-1.8%	-5.0%
Santa Clara	135,798	-214,696	-78,898	-4.7%	-12.7%
Santa Cruz	9,107	-19,875	-10,768	-4.2%	-7.8%
Shasta	1,198	10,488	11,686	7.1%	6.4%
Sierra	31	-308	-277	-7.7%	-8.5%
Siskiyou	430	689	1,119	2.5%	1.6%
Solano	18,255	-31,208	-12,953	-3.3%	-7.9%
Sonoma	11,415	-7,463	3,952	0.9%	-1.6%
Stanislaus	16,336	3,632	19,968	4.4%	0.8%
Sutter	7,473	1,148	8,621	10.9%	1.4%
Tehama	642	5,603	6,245	11.2%	10.0%
Trinity	40	1,245	1,285	9.9%	9.6%
Tulare	12,854	9,248	22,102	6.0%	2.5%
Tuolumne	314	1,410	1,724	3.2%	2.6%
Ventura	30,353	-31,882	-1,529	-0.2%	-4.2%
Yolo	7,193	10,715	17,908	10.5%	6.3%
Yuba	1,373	3,773	5,146	8.5%	6.3%

Source: California Dept. of Finance annual population estimates with components of change.

C. The Fiscal Distress Effect

During the late 1990s, thanks to the rise of the dot.com economy, California was thriving again and its government operated with a surplus. The state saw good times in the following decade as well. Massive trade through its harbor helped revive Los Angeles, big new things in technology kept the Bay Area (home of Google and Apple) humming, and homebuilders were back in business everywhere. By mid-decade, the jobless gap with the U.S. average was almost closed.

Despite this upturn, though, people did not flock to California as they had in the past. Instead, the exodus that started around the 1990 recession resumed and showed no signs of stopping. In the 2000s, net domestic out-migration actually rose as the economy grew, peaking at 317,437 in the fiscal year ending June 30, 2006. The exodus rate remained high—still more than 300,000—as the national economy weakened in 2009 and migration in general slowed down. In California's history, an economic boom had usually been followed by an influx of migrants. What had happened to break that connection?

The public sector's fiscal instability may have been the culprit. This was not a new problem, but it became more severe and obvious after the turn of the century. California's volatile tax structure (it depends heavily on corporate profits and income from capital gains) and its inability to restrain spending in high-revenue years made the state government increasingly vulnerable to a recessionary shock. In the early 2000s, that shock arrived.

Even before that blow, the state went through a chaotic period of power shortages and rate spikes due to a botched deregulation scheme. Political upheaval—2003 marked the first and only recall of a sitting governor—muddled the outlook further. By 2003, California's Standard & Poor's bond rating was BBB, the worst in the nation, and it was patching together budgets through short-term borrowing and accounting tricks. When recovery arrived in the middle of the decade, it did not resolve the structural imbalances between revenues and spending. So the state was again deep in the red as recession set in later in the decade, and a number of its cities were heading toward bankruptcy. As of 2012, it once again had the lowest S&P rating in the nation: A-, one step above BBB.

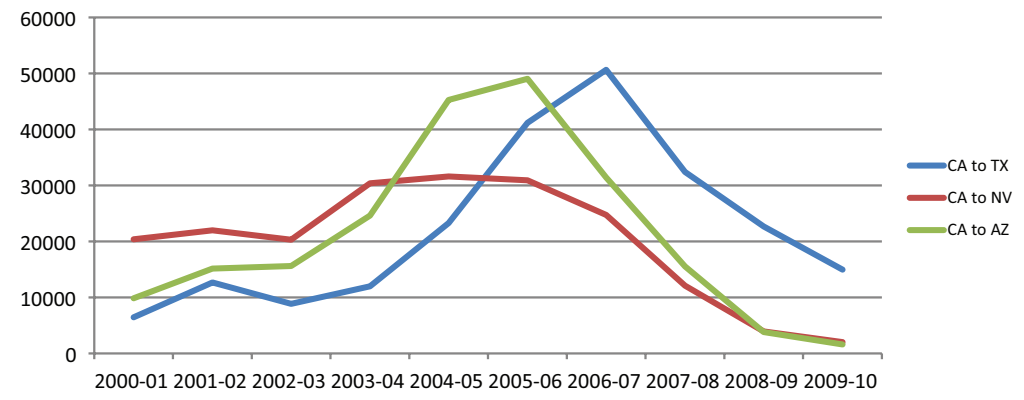
Fiscal distress in government sends at least two discouraging messages to businesses and individuals. One is that they cannot count on state and local governments to provide essential services—much less, tax breaks or other incentives. Second, chronically out-of-balance budgets can be seen as tax hikes waiting to happen, with businesses and their owners the likeliest targets to tap for new revenue. For example, the state government's fiscal troubles have led to an initiative, Proposition 30, on the ballot this November, which asks the state's voters to approve increases in sales and income taxes. In contrast, a fiscally competent state inspires confidence that it can sustain its services without unpleasant tax surprises. Even when that state's tax burden is on the high side, it's at least predictable. Businesses there can forecast their costs with some confidence. California, as its credit status indicates, is now the biggest gamble among the states. It has been that way for most of the past decade. To the degree that fiscal distress sends businesses elsewhere, it does the same with jobs and helps explain the migration data.

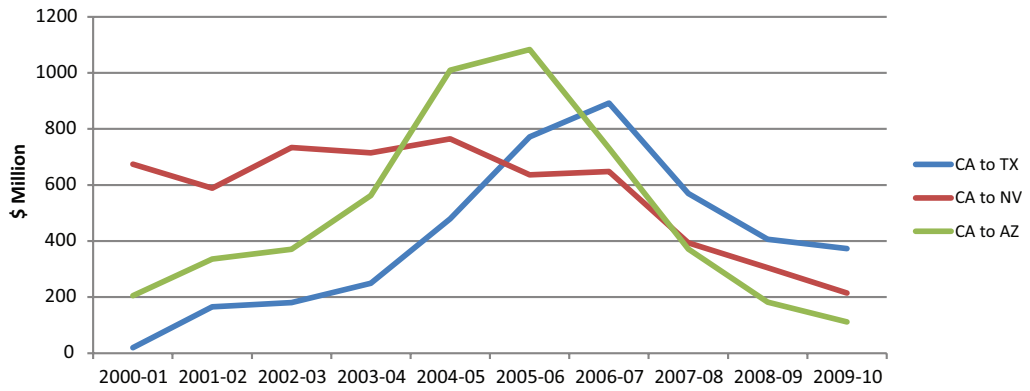
INDIVIDUALS' REASONS TO LEAVE CALIFORNIA

1. Jobs

A closer look at movement to and from the top three destination states for Californians—Texas, Nevada, and Arizona—shows the impact of the 2008–09 recession on migration in general. People simply did not move as much because there were fewer jobs to attract them. But even with the recession impelling people to stay put, Texas had a relatively strong pull on Californians. Texas's net inflow from California between 2009 and 2010 was 14,963. That's small compared with the population of either state but is impressive in the context of a major economic downturn. According to the IRS data, the

Chart I2 & I3: California Migration to Texas, Nevada, and Arizona 2000–I0





During the first decade of the 2000s, Texas took the lead as the primary target for Californians —and their money—leaving the Golden State.

Source: Internal Revenue Service, RLS Demographics

next biggest beneficiary in that period for net migration from California was Oregon, at 5,708 net gain, followed by the state of Washington, at 4,741. Arizona and Nevada, the two most popular destination states at the start of the decade, netted only 3,653 between them from California in the decade's last year. This is consistent with our hypothesis that these states are destinations for retiring Californians, as the economic crisis put retirement plans on hold for many who suffered losses in real estate or the stock market.

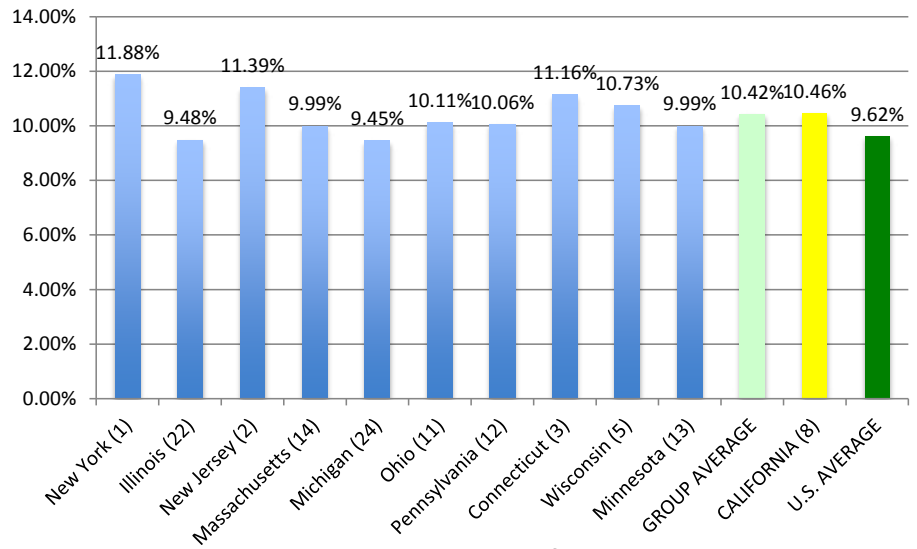
Much of the explanation for individual decisions to leave California can be found by considering the changing status of Texas in the data. At the turn of the century, Texas lagged behind Nevada, Arizona, and Oregon as a destination for Californians. In 2010, it had moved to the top of the list. Why did that happen? Unlike nearby states, Texas is not an obvious destination for Californian migrants. Most of its population centers are some 1,000 miles away from the big California metro areas.

What it has had, for the past few years, is an economy that, compared with California's, is booming. This is a quite recent development. In fact, California and Texas had comparable unemployment rates through 2006 (in the summer and fall of that year, both rates bottomed, at just under 5 percent). But starting in 2007—well before the recession—California's jobless rate started climbing and eventually

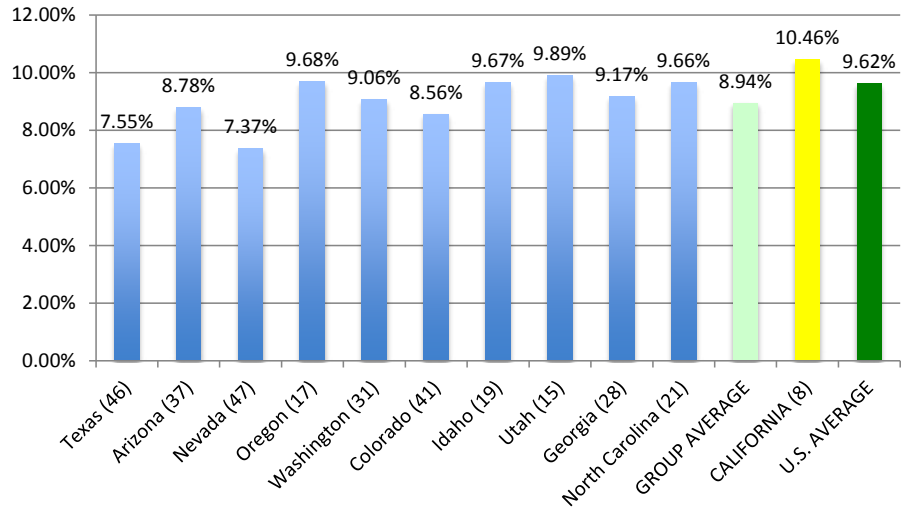
left Texas far behind. By July 2010, the gap was 4.3 percentage points: 8.1 percent for Texas and 12.4 percent for California. It is not surprising, then, that Texas kept pulling Californians by the tens of thousands as the decade waned, while nearer destination states saw the earlier wave of Californians slow to a trickle.

Texas is not the only east-of-the-divide state to attract more Californians as the decade wore on. Its

Chart 14 & 15: Average State and Local Tax Burdens, 2000–09



Top 10 Sender States to California



Top 10 Destination States for Californians

Here are average state and local tax burdens for 2000–09, as a share of income, in the top 10 sender states to California (top chart) and the top 10 destination states (lower in the 2000–10 decade). They are shown left to right by the size of their net migration to or from California. Tax burden ranks (with 1 the largest) are in parentheses.

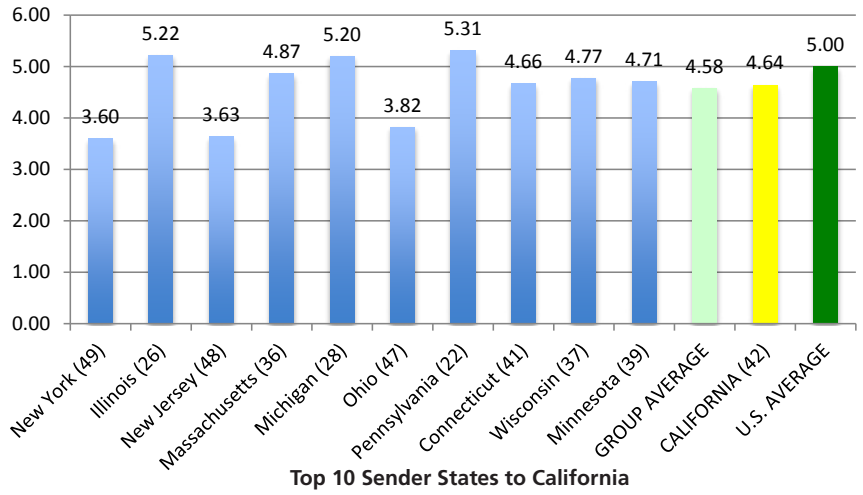
Sources: Tax Foundation, Internal Revenue Service

smaller neighbor Oklahoma was a minor target state in 2000–01, with net migration from California totaling only 775. Ten years later, it was the sixth-most popular target. It netted 2,152 from California in 2009–10, amid the sluggish migration of the recession. Oklahoma's job market was stronger than California's throughout the decade, but the jobless gap between the two states was much wider in 2010 (5.5 percent) than it had been ten years earlier (1.9 percent).

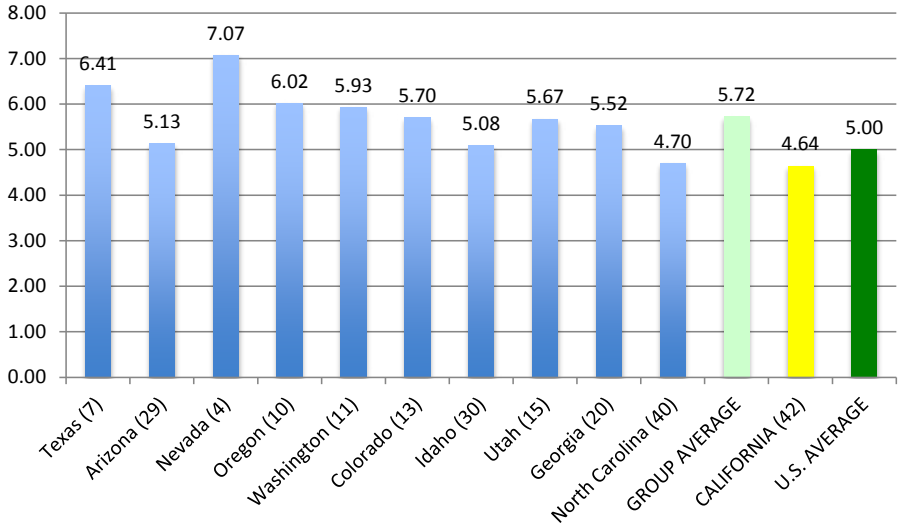
2. Taxes

Most of the destination states favored by Californians have lower taxes. Even Oregon, with income-tax rates

Chart 16 & 17: State Business Tax Climate Index, FY 2006



Top 10 Sender States to California



Top 10 Destination States for Californians

These charts show the top 10 sender states to California (upper) and top 10 destination states (lower) with scores on the Tax Foundation's State Business Tax Climate Index for fiscal year 2006. Higher scores indicate a tax environment considered more business-friendly, with 5.00 the U.S. average. State ranks (with 1 the highest) are in parentheses.

Sources: Tax Foundation, Internal Revenue Service

like those of California, has a more business-friendly tax code. On the other side of the migration ledger, the states that are still net senders of people to California range from near the middle of the tax scale to the very top. As a general rule, Californians have tended to flee high taxes for low ones.

Whether this is why they move is a matter of debate. With so many factors possibly influencing the decision to migrate, it's impossible to tease out how much the tax burden matters in each individual's case. But, as we have noted, individual decisions in the aggregate add up to suggestive patterns. California remains a destination for people moving from high-tax states even as it loses thousands of people every year to low-tax states. This is a highly suggestive pattern.

Even as individual motives are varied and idiosyncratic, we must also note that not all migration is driven by such household choices. Businesses affect migration patterns by their choice of where to relocate or expand. Theirs is largely an economic decision, based on costs as well as access to suppliers and customers. We can say with some confidence that business decisions to leave California are sensitive to its tax code because taxes are a large component of business costs, and no competent business owner will ignore them. Taxes are a significant factor in business migration along with the cost of labor, the skills of the workforce, utility costs, and the time and expense of getting permits.

To explore the tax-migration link, we looked at two types of tax ratings in the destination states for Californian out-migration and the states from which new migrants came to California in 2000–10. One rating is based on the overall state and local tax burden, computed by the Tax Foundation as a percentage of personal income. The other is the Tax Foundation's State Business Tax Climate Index. This is given as a score for which the U.S. average is 5.00. The higher the index score, the better the climate. To match these data sets as much as possible to the full-decade migration totals, we averaged tax-burden figures and state ranks for 2000–09 (the latest available), and we chose the State Business Tax Climate Index at mid-decade, for the fiscal year ending in 2006. The top ten target states attracted a net total—the difference between total inflows and outflows—of 1,085,818 Californians over the decade. Texas attracted the most, at 225,111. The top ten source states sent a net total of 152,324 to California, with New York sending the most, at 31,434.

One pattern stands out in these data. With few exceptions, the states that have gained the most at California's expense (in income as well as people) have decidedly lower tax burdens and better business-tax climates. California's ranking on both scales is near the high-tax, poor business-climate end, and it scores near the average of the sender states, most of which share its poor marks. The major destination states, on average, do better than California in the rankings, with lower tax burdens and higher business-climate scores.

We have also found another clue suggesting that taxes make a difference in migration: California's net out-migration to the top destination states was far larger than what it received from the sender states. In other words, with its higher-than-average tax burden, California is competitive only with a few other high-tax states, such as New York and New Jersey. And its burden is too close to the top to leave it any real advantage. The much greater advantage lies with low-tax states such as Texas, which can offer more substantial savings.

3. Other Costs

Employers may be especially sensitive to California's tax bite because the state's other business expenses are so high. One 2005 study, by the Los Angeles–based Milken Institute, ranked California fourth-highest in the nation on a broad cost-of-doing-business index. (The Milken Institute's last survey of this type, in 2007, used slightly different methodology but put California almost as high, at sixth.) Among other factors, California's 2005 electricity-cost index was 168.0, on a scale in which 100 was the U.S. average. Industrial rents were 36.8 percent above the national average, and office rents were 36.3 percent higher. The state's tax-burden

index was not as outsize—111.1—but combined with the other factors, it helped push the state to an overall cost index of 124.2.

This index, like other gauges of business cost, leaves out the impact of California's regulations. These are important factors, even if their impact is hard to measure precisely: quantifying the cost of delays, paperwork, and uncertainty due to unfriendly laws and bureaucrats is not an exact science. Business-climate surveys by such publications as Forbes and Chief Executive consistently rank California near the bottom in the regulation category.

Then, too, most of the states gaining population at California's expense do not require workers to join a union when their workplace is represented by one. Of the ten top destination states, seven (Texas, Arizona, Utah, Idaho, Nevada, Georgia, and North Carolina) have right-to-work laws that explicitly ban the compulsory union shop.

In sum, we can identify a number of cost drivers—taxes, regulations, the high price of housing and commercial real estate, costly electricity, union power, and high labor costs—that offer incentives to businesses to locate outside California, thus helping to drive the exodus.

Time will tell if the century's second decade continues the migration trend of the previous ten years. What seems unlikely to change, though, is California's poor position relative to other states in the competition for jobs and business expansion. The Tax Foundation's latest (2012) State Business Tax Climate Index ranks California less favorably than 47 other states. In 2011, the Milken Institute ranked 200 U.S metropolitan areas according to their growth in jobs and wages, and only one California metro area, Bakersfield, made the top 50 (at 46th). The Milken survey also suggests that the past decade's destination states haven't lost their appeal. Of the 50 highest-ranked metro areas, 22 were in the top ten destination states, with 11 in Texas alone. Only eight of the top 50 areas were in the top ten sender states. The two biggest senders of migrants to California—New York and Illinois—had no high-growth cities at all.

Another unchanging aspect of the situation is California's perilous public-sector fiscal health. As we noted above, it currently ranks last on this score among states, as measured by its S&P credit rating. In fact, California was the only state in 2012 with an A rating, six notches below the top rating of AAA. Interestingly, of the ten states that sent the most people to California in the past decade, eight are high-tax jurisdictions—and the only two that are not, Illinois and Michigan, had low credit ratings. (Illinois is rated A+ because of one of the nation's worst burdens of unfunded pension obligations, and Michigan's rating declined during the 2000s from AAA to AA- as the auto industry struggled and shed employment.)

CONCLUSION: WHY MIGRATION MATTERS

In and of themselves, raw population statistics are not of much significance. A small nation (or U.S. state) can be rich in per-capita terms, which is what matters to its residents. And a large one can be poor. When a U.S. state's population growth slows or stops entirely, it suffers some direct but limited losses. Its share of the electoral college and the House of Representatives shrinks, and it loses some bragging rights. Otherwise, many people don't feel the impact of migration within the United States.

But population change, along with the migration patterns that shape it, are important indicators of fiscal and political health. Migration choices reveal an important truth: some states understand how to get richer, while others seem to have lost the touch. People will follow economic opportunity. The theme is clear in the data: states that provide the most opportunity draw the most people.

California has an opportunity deficit that shows up in its employment data and its migration statistics. We can understand the nature of that deficit clearly when we compare the Golden State with those that lure its residents away. In such a comparison, as we have seen, one fact leaps out: living and doing business in California are more expensive than in the states that

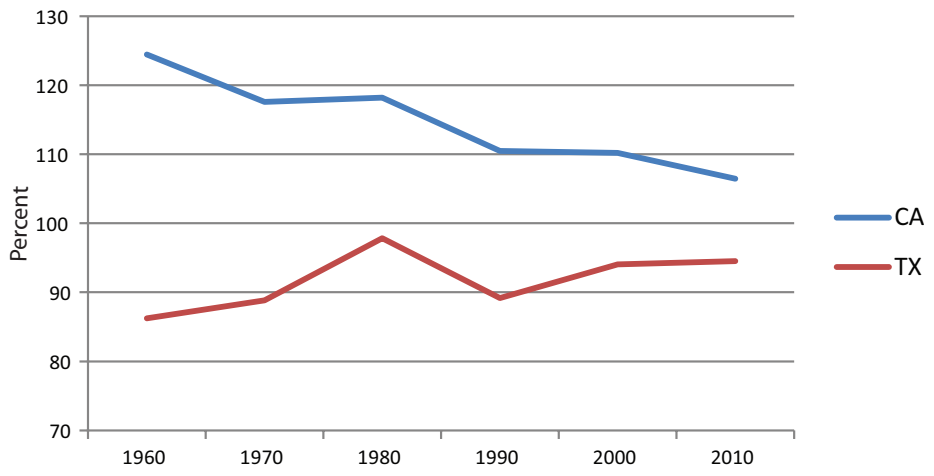
draw Californians to migrate. Taxes are not the only reason for this, but we have highlighted their effect because taxes—unlike rents, home prices, wages, or electric bills—can be changed through sheer political willpower.

California has cut taxes in the past, most dramatically with 1978's Proposition 13, and when it has done so, prosperity has followed. Ballot propositions this November aim to do the reverse, raising taxes on business owners while the state is still struggling to hold its own against more aggressive, confident rivals. The results will send a strong signal, whichever way they go: the state's voters will be deciding to continue on the path of high taxes and high costs—or to make a break with the recent trend of decline.

In the meantime, California's leaders are not powerless to stem the state's declining appeal. For example, they certainly can do something about the instability of public-sector finances, which is likely one of the key factors pushing businesses and people toward other states. They can also rethink regulations that hold back business expansion and cost employers time and money. And though there is no changing the fact that California is more crowded than it used to be and is no longer as cheap a place to live as it once was, policies can make the state more livable. One reason that land is costly now is that much of it is placed off-limits to development. Spending on transportation projects where they are really needed—in congested cities—can ease life on freeways that now resemble parking lots.

California's economy remains diverse and dynamic; it has not yet gone the way of Detroit. It still produces plenty of wealth that can be tapped by state and local governments. Tapping that private wealth more wisely and frugally can go far to keep more of it from leaving.

Chart 18: California and Texas per Capita Income as % of U.S. Average, 1960–2010



Source: National Bureau of Economic Research

APPENDIX: How IRS Data Is Used to Analyze Migration

The IRS/Census processing of tax-return data involves the matching of returns between two tax filing years. The returns are matched on the primary tax-filer ID (Social Security number). When a match is found, the return is coded to the appropriate address—or addresses, in the case of a migrant return. The IRS then looks at the number of individuals represented in the return, via the number of exemptions claimed. In most cases, the exemptions will be the taxpayers and dependent children. Hence, counting by exemptions provides an accurate count of the number of people who have moved. The IRS data provide a count of the number of returns (with, in each return, the number of exemptions) that have changed address between one year and the next.

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