



# LIFE IN THE VALLEY ECONOMY

## SILICON VALLEY PROGRESS REPORT 2010

Andrea Alarcon • Louise Auerhahn • Bob Brownstein • Cindy Chavez • Brian Darrow • Jeremy Ray

WORKING PARTNERSHIPS USA



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# FOREWORD

For Silicon Valley, the new century kicked off not with a bang but with an implosion, as the high-tech bust destroyed billions in dot-com wealth and plunged the entire region, tech and non-tech alike, into a deep decline. It wasn't until 2006-07 that Silicon Valley workers began to see a return to normality in job markets and wages. But just then, the national housing bust hit, followed hard on its heels by the financial crisis, erasing all the gains made during the recovery and then some. Working families in Silicon Valley have had a tough decade – to say the least.

Allegedly, the latest recession is over and the national economy is now in recovery. But as our communities and the nation emerge to try to pick up the pieces left by the deepest U.S. recession since 1929, the question from many quarters is: what kind of recovery are we seeing?

Global trade volumes are projected to rebound in 2010<sup>1</sup>, but unemployment for U.S. workers is expected to remain in double digits<sup>2</sup>. Banks are back to record profits<sup>3</sup>, but small businesses cannot get credit<sup>4</sup>. Stock markets are rising<sup>5</sup>, but our communities are being

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devastated by ever-greater state and local budget cuts<sup>6</sup>. The global economy may be coming back to normal, but where is the comeback for Main Street USA?

What is needed for a real recovery? To move the economy in a direction that generates jobs, income and a future for our communities, we need to make conscious choices with these aims in mind. Inaction or adherence to the status quo will trap us in the current downspiraling trend.

Yet inaction and gridlock now seem to be the rule rather than the exception. Growing economic insecurity, shrinking middle class opportunity and rapidly shifting markets have produced a crisis in the country that goes beyond finances: it has impacted the American spirit. People are afraid, as they feel the ground shifting below their feet without knowing the cause. Searching for the source of this economic earthquake, fingers are increasingly being pointed at anyone available: immigrants, China, big government, big business.

We're asking people to stop pointing and take a hard look at the factors underlying this economic shift and what it would take to transform those factors to regrow a strong economy at home. The latest crisis is an opportunity to have these deeper conversations – to rethink how our economy works and set a new course.

Getting to those conversations won't be easy. The response to the current crisis has largely been to dig in even deeper to status quo beliefs and orthodoxies, miring the state and the nation in a perpetual versus-them gridlock.

This is a call for all of us to think and act outside our comfort zones. To make the new economy different, we need to take the best from all sides. A laissez-faire economic approach that provides only those regulations and government supports that are favorable to business does not – as we have now clearly seen – produce either broad opportunity or sustainable growth. On the other hand, government intervention cannot be the solution to all our economic woes; a strong private sector must be a primary driver of growth.

What would it mean to take the best from all sides? For example: everyone in the vicinity of the recently-closed NUMMI auto plant agrees that the 25,000-plus job losses predicted to result from the closing are a devastating blow that must be addressed. But jurisdictional boundaries and conflicting interests threaten to impede any concrete action. What if all of Silicon Valley, the Bay Area and the Central Valley – including the three Boards of Supervisors of the affected counties – could come together around our common interest in restoring these jobs lost, and use all available resources and ideas to develop a plan that will restore manufacturing jobs at NUMMI?

Unless we can climb out of our respective silos to work out ways to deal with the recession's underlying causes, the path to a real recovery will never be built. The state of California, in particular, is crippled by not just a vacuum of leadership, but a vacuum of ideas that can be promoted for the common good. We need leaders and policies that will move us forward to a more stable community through a more stable economy.

I hope that the information and ideas provided in LIVE 2010 can help spur courageous conversations about building a recovery that works for all of us.

**Cindy Chavez**  
Executive Director  
Working Partnerships USA

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# EXECUTIVE SUMMARY

## CHAPTER 1: MAKING A LIVING

The worst U.S. recession in seven decades has taken its toll on Silicon Valley. In what direction is the Valley now headed?

Projections for employment and wage growth in Silicon Valley are discouraging. Even after emerging from the recession, the region may face years of another jobless recovery, solidifying the trend begun in the mid-2000s of economic expansion decoupled from substantial job growth.

The weak labor market coupled with an increase in the proportion of low-wage jobs has placed increasing strain on household budgets, amplifying the “middle-class squeeze.” Low-wage jobs further impose a public cost as the already-stretched social safety net must also support families who work full-time but do not earn enough to make ends meet; for instance, a “working poor” parent with two children earning \$10/hour is eligible for public assistance with children’s healthcare and food at a taxpayer cost of \$15,572. If current trends continue, lower living standards will impact a broad swath of Silicon Valley’s households, from the poorest all the way through highly educated professionals.

Furthermore, the recession threatens to impose lasting damage to the financial health of working families and small businesses, a phenomenon known as “economic scarring.” For example, evidence demonstrates that an incident of job and income loss for a parent can have a long-term negative impact on their children’s educational achievement.<sup>13</sup>

Projections are not destiny – they are extrapolations from current conditions. Employment projections for the Valley make clear that the status quo is unlikely to push the economy back on track towards shared prosperity. New ideas and collaborations will be needed to rebuild an economy strong enough to generate the jobs and incomes needed to maintain a strong middle class.

### KEY FINDINGS

- **Jobs Lost:** Silicon Valley lost 84,500 jobs in the recent recession, as local unemployment reached a 60-year high. The worst losses were in the construction industry where employment fell 35%.
- **Job Projections:** Employment is not projected to regain its pre-recession level until Q2 of 2013.
- **Declining Wages:** In 2009, average weekly earnings for Silicon Valley workers showed no growth – falling behind earnings in the state, and suggesting a small drop in real household incomes for 2009.
- **Low-Wage Work:** An estimated 32% of all employed workers are paid \$15/hr or less, an inadequate wage to cover the basic cost of living for a family of four with both parents working.
- **Long-Term Job Loss:** Net job growth over the past ten years was sharply negative, with two recessions and weak growth in between averaging out to a net annual employment decline of -1.8%.
- **Self-Sufficiency:** Taking into account all income sources, 22% of Santa Clara County households fall below the basic self-sufficiency standard, meaning their income is too low to cover the basic costs of living. The large majority (86%) are “working poor”.
- **Elder Economic Security:** Nearly half of all Santa Clara County seniors (48.4%) are economically insecure, with incomes too low to meet their basic needs without assistance.
- **Hardships:** In 2009, local food banks and charities saw 20 to 40% more people seeking emergency assistance. 12,377 Silicon Valley adults and youth were homeless at some point during the year, with job loss the number one reported reason for homelessness.

## CHAPTER 2: SEEKING SECURITY

Over the past three decades, a transformation of the nature of work in the United States, coupled with changes in public policy, has resulted in a dramatic shift of risk: away from corporations and other large-scale institutions, and onto individual families. Secure middle-class jobs that can support the average family are disappearing, and the few jobs that the local economy is beginning to add to replace them are low-paying and often temporary. To make matters worse, with unemployment in the double digits, even these dead-end

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jobs are hard to find. As of spring 2010, 40% of middle class Americans reported that they were struggling to remain in the middle class.<sup>14</sup>

Middle class financial and asset instability have been brought to the forefront of national attention with the advent of the housing and foreclosure crisis. Homeownership is a hallmark of the American Dream, and owning one's own home has long been viewed as key to ensuring family stability and financial security. But in the past two years, millions of American families have seen that dream disappear as their homes have been lost to foreclosure.

American households' total net worth declined by 16% in 2008 and 21% in 2009.<sup>15</sup> This decline in household wealth not only increases insecurity for individuals and families, but threatens to curtail economic growth: lacking assets, households have less capacity to spend or invest.

## KEY FINDINGS

- **Housing Market:** In the past two and a half years, the median value of homes in the San Jose metro area has fallen by 24.2%. Moderately priced homes were the hardest hit; homeowners in the lowest-priced housing tier have, on average, lost all of their home's appreciation since 2000.
- **Foreclosures:** Foreclosures in Santa Clara County have broken records every year for the past four years, with 15,118 notices of default filed in 2009, an increase of 481% compared to 2006.
- **Bankruptcies:** Personal bankruptcies in Northern California were at an all-time high in 2009, up 160% since 2007.
- **Unemployment:** Long-term unemployment in California has more than doubled since 2007; in 2009, an unprecedented 35% of all unemployed workers were out of work for more than six months.
- **Underemployment:** A total of 228,122 people—one out of every five Silicon Valley workers—were underemployed in 2009, an 89% increase since 2007.
- **Labor Force Utilization:** A smaller percentage of Californians were working in 2009 than at any time since 1977.
- **Public Cost of Low-Wage Work:** In Santa Clara County, a worker with two children who earns \$10/hour is eligible for public assistance worth \$15,572 annually due to inadequate income, despite having a full-time job.
- **Labor Unions:** California workers who are represented by a union are 50% more likely to have employer-provided health insurance and 96% more likely to have a retirement plan than non-union workers, but total union membership declined in 2009.
- **Public Assistance:** As of January 2010, more than one out of every seven Santa Clara County residents receives some form of public assistance. During the recession the number of people receiving food stamps has jumped 53%.

## CHAPTER 3: STAYING HEALTHY

Trends in children's health coverage have been encouraging in recent years for Santa Clara County, as local policy has helped expand access to quality public health insurance programs. However, funding limitations at the federal, state, and local level continue to threaten the ongoing sustainability of these programs, especially in light of the economic difficulties in the last two years which have greatly increased the demand for publicly supported children's health coverage. Recently passed comprehensive national health reform will provide some additional funding for children's health programs, but if California enacts the Governor's proposed cuts to children's health coverage, it will lose access to this funding.

Although the most recent data on adult health insurance in Santa Clara County show overall rates holding steady, declining trends in employer sponsored coverage are cause for alarm. Nationally, the rise in health care costs and insurance premiums in recent years has caused employers to shift more costs to employees or drop coverage altogether. More people have become uninsured and face obstacles to obtaining coverage in the private market due to prohibitive costs or pre-existing conditions.

The recently passed national health care reform package will begin to address these issues by expanding Medi-Cal, requiring individuals to hold health insurance, and offering subsidies to make it affordable. However, most of these provisions do not take effect until 2014, making it critical that Santa Clara County maintain its health care safety net to "bridge the gap" of the next four years. Beyond health insurance, further steps are needed to make health care services accessible to all, and to address broader community health issues such as childhood obesity.

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## KEY FINDINGS

- **Children's Health Insurance:** Through the efforts of the Santa Clara County Children's Health Initiative, enrollment in children's public health programs grew for the ninth consecutive year, from 142,345 kids in 2008 to 149,049 in 2009. The loss of state and private funding for these programs threatens coverage for more than 39,120 children in the county.
- **Adult Health Insurance:** The number of uninsured adults in California jumped from 5.3 million in 2007 to 6.8 million in 2009.
- **Health Care Costs:** The annual cost to workers for job-based family health premiums has increased 130% since 2000.
- **Health Care Reform:** Beginning in 2014, federal health care reform will cover approximately 80% of California's 6.5 million uninsured residents.
- **Childhood Obesity:** More than 1 in 4 children in Santa Clara County are either overweight or obese.
- **Adult Obesity:** Overweight and obesity rates have climbed steadily among adults in Santa Clara County since 2000; as of 2009, nearly 55% of residents ages 18 and older are considered overweight or obese.
- **Impact of Budget Cuts:** Approximately 126,437 low-income adults in Santa Clara County, including seniors and disabled residents, lost their dental benefits when funding for the Denti-Cal program was cut.
- **Access to Care:** The total hours that Valley Medical Center's emergency room was forced to divert ambulances to other hospitals increased 58%, from 603 total hours in 2008 up to 954 hours in 2009.

## CHAPTER 4: BUILDING A COMMUNITY

The collapse of the housing bubble has wreaked havoc on the national and local economy. In Santa Clara County, homeowners have collectively lost \$76 billion in home equity since the bubble burst, leading to a massive drop-off in consumer spending. Plummeting home values have not been uniformly harmful; reduced prices combined with federal tax credits and historically low interest rates increased affordability for first-time home buyers to its highest level in many years. Still, the current state of the market indicates that Santa Clara County's housing slump is likely to continue in the years ahead.

Transportation infrastructure and access is also integral to community livability. The economic downturn has come with serious repercussions for transportation in Santa Clara County. Recession-induced declines in ridership combined with plummeting sales tax revenue and millions in diverted state transit funding have left local public transit in dire financial straits, forcing major service cuts and increased fares. If the Santa Clara Valley Transportation Authority (VTA) is forced to continue to rely on an eroding sales tax base for the vast majority of its operating revenue, the future of public transit in Santa Clara County may be in serious jeopardy.

A final factor affecting community livability is public safety. Several key measures of public safety in Santa Clara County have shown marked improvement in recent years: rates of violent crime, property crime, severe traffic collisions, domestic violence and child abuse all declined in 2008.

## KEY FINDINGS

- **Rents:** Average rents in Santa Clara County fell to their lowest level in three years, dropping 11.5% from \$1,675 in fourth quarter 2008 to \$1,482 in fourth quarter 2009.
- **Home Sale Prices:** Median prices for existing single family homes continued their downward slide, dropping 21% from \$668,000 in 2008 to \$530,000 in 2009, the lowest median price since 2001.
- **Housing Affordability:** Paralleling the drop in home prices, affordability for first-time homebuyers increased in 2009, with 56% of potential first-time buyers now able to afford the average entry-level home, up from just 27% in 2007.
- **Transit Ridership:** Transit ridership in Santa Clara County plummeted 6.5% in the first half of fiscal year 2010, as rising unemployment combined with fare increases and service cuts reversed a four-year upward trend.

- **Transit Service:** Bus and light rail service was cut 8% in January 2010, dropping transit service to its lowest level this decade.
- **Crime Rate:** After six consecutive years of growth and a nearly 50% total increase from 2000 to 2006, property crime in Santa Clara County decreased 17% from 2006 to 2008, dropping to 1,271 crimes per 100,000 residents.
- **Domestic Violence:** In 2008, domestic violence-related calls for assistance in Santa Clara County declined for the sixth straight year, marking an overall decrease of 29% since 2002.

## CHAPTER 5: PURSUING THE DREAM

Education is one of the keys to economic security. Silicon Valley residents overall enjoy a high level of education relative to much of the state. However, a substantial portion of the population has little or no formal education beyond high school and is largely shut out of most well-paying careers.

As the state's economy grows and changes, demand has grown for not just a highly educated workforce, but a workforce with very specific and rapidly changing skills. However, the state and local educational systems lack adequate resources to make higher education accessible, and those resources that do exist are often not targeted to support the students who most need them.

With California already fifth from the bottom in state school spending per student, state budget cuts dealt significant blows to K-12 education last year. Worse is expected in the upcoming year's budget. Even harsher blows being dealt to California's public higher education system – once considered the best in the world – are threatening to eliminate access to higher education for large portions of today's students. In the face of ongoing budget cuts, California's colleges and universities are cutting classes, raising tuition and turning students away in unprecedented numbers.

If this trend is not quickly reversed, its economic impacts will be felt for decades to come. Not only will today's students shut out of college be more likely to struggle financially throughout their lives, but lower levels of education among the next generation would present a significant barrier to the Valley's future as a world capital of innovation.

### KEY FINDINGS

- **High School Graduation Rate:** The high school graduation rate has been falling steadily for five years, from a 93% graduation rate in 2003 down to 82% in 2008.
- **College-Going Rate:** The college-going rate plunges, with just 36.5% of Santa Clara County's graduating high school class of 2008 going directly on to college. Compared to the Class of 2007's college-going rate of 52.5%, this is an unprecedented drop and by far the lowest rate in the past two decades.
- **Access to College:** The extraordinarily low rate of college enrollment is due almost entirely to graduates' plummeting enrollment at community colleges, which went from receiving 19.5% of all Santa Clara County graduating seniors in 2007 to just 7.0% in 2008. In 2010, not only do community colleges face further budget squeezes, but the CSU system anticipates state funding cuts will force it to turn away 45,000 eligible applicants.
- **Cost of College:** In 2009-10, the California State University system increased student fees by 28.9%. University of California fees rose 16.1%. Since 2003, the cost of attending a UC, CSU or community college has more than doubled.
- **Educational Attainment:** Silicon Valley residents are more highly educated than the state or national average; nevertheless, the majority of adults (age 25+) lack a four-year college degree.
- **Ethnic Disparities in Education:** Wide disparities persist in educational attainment by ethnicity; 64% of Latino adults and 42% of Vietnamese adults have at most a high school diploma.
- **Value of a College Degree:** Santa Clara County workers with a bachelor's degree earn three times as much as workers without a high school diploma.
- **Career Opportunities:** For 2006-2016, 58% of projected annual job openings in Santa Clara County require no formal education beyond high school. More than half these lower-skilled job openings pay less than a living wage.

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Working Partnerships USA is a public policy and research institute that builds partnerships with community groups, labor unions, and faith based organizations dedicated to improving the lives of working families in Silicon Valley. By combining the skills of research and policy development, advocacy, and organizing under one roof, we create innovative, practical solutions to problems facing working people and the middle class. Working Partnerships was founded in 1995 as a nonprofit organization.