

**CAUSE: Center for Asian Americans United for Self Empowerment**  
California Center of Asian Pacific American Elected and Appointed Officials  
*October 2, 2004 Political Institute*

**Basic Budget Education**

Stephen Levy, Director and Senior Economist, Center for Continuing Study of the California Economy (CCSCE). CCSCE is a private research organization founded in 1969 to provide an independent assessment of economic and demographic trends in California. Dr. Levy presented an overview of the state budget.

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**Answers to questions after Steve's presentation:**

Q: Regarding waste, are there independent organizations or agencies to look at what is being allocated? I am a UC student and see waste that could be used more efficiently.

A: The CPR is going around the state. This is an attempt at looking at this question of delivering services more efficiently. That is the big question right now and the CPR is the first public step in answering this question.

Q: First, what are your thoughts on the CPR? What parts are valuable and what will not produce any savings? Second, Can the CPR factor in the value of public access? Lastly, I see that the comparison spending on education and Medicaid is lower than the nation - what are some areas where we lead the nation?

A: We are above average in retirement benefits, spending per-prisoner, and on Higher Education. On the CPR, the difficult question is if we can get through the glitzy stuff and find areas of agreement. Online driver's licenses and the online ability to register to vote are a start. There are a lot of technology customer service areas that are no-brainers. Regarding the commissions and blowing up boxes - that is pennies compared to the whole budget - this may just be symbolic. Money is shifting over to local governments - this does not have much to do with P&R. Regarding CalTrans and maintenance - there are some efficiencies here. What folks are worried about regarding the CPR is that we had areas of omission.

Q: Can you discuss the trend of public budgeting via ballot propositions? This November there are many on the ballot - can you discuss your views on the trends of this continuing into the future?

A: No economist thinks you should allocate public money in line items through initiatives. The problem is that we have not figured out a way to pass a balanced state budget that has all of our views on it. If we do not get a handle on the state budget we will have more single issue initiatives.

Q: How much can California expect if Kerry is elected? Any relief?

A: In terms of someone giving money to the state of California because you are a friend of the President - that is limited. That is not an avenue that will get us anywhere. We get a lower share of Social Security and Medicare money than any other state. 2/3 is because who we are. 1/3 is because we are getting screwed by formulas that do not take into account our population growth and the high cost of living in California.

Q: Regarding the 1999-2000 income tax jump and spending increases - why was spending irreversible? Also - high economic growth would solve the problem - what kind of growth are you assuming?

A: When we got the extra money, the state continued to grow. We went into recession and so programs grew. Plus we increased the eligibility to the near-poor, put more money into teacher retention, merit raises, text books, extended the school year by a week, and cut \$4 billion out of the VLF (Vehicle License Fee). People have brought up reversing the spending - reversing the tax cuts and education funding and eligibility increases - but we have long-term growth as well. The baseline assumption is 3% real growth. If we could get this to 4% that would make a substantial difference but that has never happened. When we grow, we also grow in population so other areas need more spending.

Q: I understand that you believe that ballot box budgeting is not a good policy, but what about school funding through propositions?

A: I voted no on 13, no on 98, and will vote no on props on the upcoming ballot that are for really good causes. 98 did not make a huge difference. It sets some limits but did not make any difference in the end. We are spending the same as we did before.

Q: Regarding the energy debacle, I heard we can get money back from Enron - would that help?

A: Since the state never said it right, people are confused. The money related to energy did not affect the budget. The state lent \$9 billion to companies and guaranteed their purchases. That is all over. The rate payers are now paying this. If we do get money back, this will go to the rate payers.

Q: Regarding the prop issue, is there going to be a tipping point where the legislature of government will say that we have to do something?

A: Talk to Mark Baldassare (Public Policy Institute of California) on this one. There are two things running against this trend. 1 - You can vote no at the ballot box and wipe out any effectiveness of ballot box budgeting. The people doing the initiatives might take this as feedback. 2 - Maybe initiatives will get too expensive and the people running them will run out of money. It will take something really substantial to run the tide.

Q: Who has benefited from the increase in health care spending? My guess is that it is the insurance and the pharmaceutical industries, not disbursements to doctors and hospitals.

A: I don't know - my guess is no body. The system is spending more money but enrollment and costs are going up even faster - cannot keep up with caseloads. The villain is the rising costs of healthcare - everyone loses.

Q: How would terrorism affect the California economy?

A: FEMA is for this. The lesson from Florida is that for ordinary folks FEMA and insurance covers their costs. We are concerned about ports and worries for our families but the damage costs would work out. Look at New York or Germany or England in WWII - if your area gets bombed there is a loss.

Q: Regarding the legalization of immigrants - they access services but their tax revenue is not captured. 1986 Immigrant and Refugee Community Organization study on the new additional revenues that would be captured with legalization.

A: Rand and the Urban Institute have also done studies on the costs of undocumented immigrants. 3 points. 1) Being poor sucks. Poverty is hard on the state and local finance. 2) Generally legalization has to increase the tax pot. It brings people into the system that were not there before. You could collect more money legally. 3) Poor young immigrants pay more to the federal government than they get back in services and pay school districts. The answer is to get money from the federal government.

Q: If there are young illegal immigrants they pay more to the federal government - they pay sales tax too.

A: He was talking about patrol tax only. That is the largest tax paid by the majority of people - social security and Medicare. In local area sales tax dominates income tax for everyone that is poor. Legalization would affect some local taxes, would affect the California UI system. We would get some additional revenue to get federal revenue - should say immigration is national problem and you need to pay for it.

Q: As we protect the California economy - what could be the impact to Asian Americans from a historical reference - trade relationships, etc.?

A: Port of Long Beach hired 3k people and will need to hire 3-10k more. This is port of entry for groups from Asian nations. Commerce around this is central to economic vitality of the region.

Q: We spend more of the budget on education but are low compared to the rest of the country? Also - we operate a lean government but spend with the national average. This translates to me as a tax increase - should consider rolling back Prop 13 on commercial property.

### *What were your major take-aways?*

- California did a lot of borrowing to fill the budget gaps.
- Our spending on government itself (personnel) and on other areas like education is in line with the nation, but we are still running a big deficit gap. We spend more than we should on prisons and need a better way to generate a consistent revenue source - perhaps modifying Prop 13.
- California spends a lot in Education, Healthcare, etc.
- A clear understanding of an overall budget situation
- Budget problems are monumental and there are no simple solutions (no taxes vs. no service cuts.
- Gained a clearer picture of the California budget.
- A lot! I didn't have an idea of where we stood as compared to other states.
- I was able to learn a precise overview of the budget picture - tying together many of the bits and pieces of information I have (there's also new information).
- The deficit is a continuing problem that economic growth will not fix.
- A better understanding of the California budget. Very good!
- The budget is already covering the essentials only. California's spending is conservative or on par with the national average or that of other states?
- I learned a lot and I wish there was an easy way to provide this information to more people, especially to immigrant Americans and those with poor English skills.
- Long-term budget problem with few options
- Tax as % of income is constant
- Based on the data, California is already efficient in spending.

### *What surprised you?*

- I was surprised to learn that a large part of the tax burden does fall on low-income people.
- Surprised that education spending is our highest category of spending but we are still behind the national average (that means to me that we do not spend "too much").
- Small percentage of the budget goes to pay for state employees
- Our low employee per population ratio compared to other states
- There are three areas of discretionary funding that can be touched.
- There are no easy solutions.
- I was not aware that California had so few state employees compared to other states.
- California has fewer state employees than I had thought.
- We have fewer state employees than I thought, yet the Governor is still slashing jobs.
- I was surprised by the fact that the majority of the budget was spent on only a handful of services.
- Medicaid spending - I thought we spent a lot.
- Poor roads
- Education cost is high but below national average.
- Surprised by the amount of money given to K-12, and the continual decline in our school quality.

### *What additional information do you need?*

- How does California compare to other states in filling budget holes?
- What additional revenues would be generated by modifying Prop 13 to more frequently assess commercial?
- Would like to see how other states (that have a large economy) have solved their budget woes.
- Type of economic growth (or things in addition to economic growth alone) that will keep California going.
- What is main trigger for increase in budget? (i.e., increased number of people requiring services; salary increases; insurance increase, etc.)
- What are some good resources to watch the state's spending?
- Would like to know what options/alternatives to remedy/fix the budget shortfall.
- Your website should show solutions. What would the graphs look like if a) tax increases b) pension reform c) etc.
- Can your website provide updates or at least the current presentation?
- Possible long-term plans to fix the budget problems. Innovative ideas or strategies.
- Budget options?
- Solution - long-term?
- What are other states doing?
- While we have the fewest government employees per capita, how does California salaries compare to the US?