



November 16, 2004
William & Flora Hewlett Foundation
Menlo Park, California
12:00 pm - 1:30 pm

Welcome, Introductions, and Project Overview

- Nick Bollman, President and CEO, California Center for Regional Leadership
- Noel Perry, Founder and Managing Director, Baccharis Capital Inc.

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.

Budget Basics Presentation Q&A

Q: Common wisdom is that we spend more for prisons than education - please explain.

A: The total spending is the same but there are more enrollees in higher ed than there are prisoners - same amount of money - equal but not really equal.

Q: Regarding retirement costs, does the amount contributed have anything to do with our PURS system?

A: Yes. When systems were put in place there was a broad feeling that people in the public sector had traded their gold ring and big salaries. Now the private sector is cutting back on health care benefits. The question is if we should be more.

Q: Does Prop 13 restrict tax from going directly to schools?

A: The only way to tax yourself and keep the money is through parcel tax. Anything related to property tax the state just says thank you and lowers the pot.

Q: Do we generate similar revenue as other states? Also - are our corporations paying the same as other states?

A: Our corporations pay a higher amount but businesses pay lower property taxes - have to look at combined state/local tax burden. The gap is from Prop 13 - where longer time homeowners do not pay as much as a similar homeowner in another state.

Q: Who gets the 11 billion in corporation tax breaks?

A: Do not know the origin of this number and therefore do not have a precise answer. We all get an enormous amount of tax breaks through Prop 13 and raising exemptions on our kids. Every tax break was put there for a reason - to encourage the economy.

Q: When you look at the structural deficit - it is illusionary not discretionary. How much is Constitutionally directed and what is discretionary? Also - regarding the ERAF shift, we passed Prop 1A - how will this exacerbate the problem?

A: What is discretionary is illusory. Look at Prop 98 - the Governor and Legislature and school community agreed to suspend it. Mandated to have services in the MediCal program but some of these services are optional. Discretion on upside - we put extra money in K-12 when we had it. Discretion issue lets all of us off the hook. Budget our values - we have a lot of discretion.

Q: How much confidence can localities have with thinking Prop 1A?

A: Prop 1A was the state promising to never again take money from local governments. And if they do it will immediately be given back.

Q: Regarding Indian gaming, is there a limit to the money Californians will spend in casinos? Is this a possible revenue source in the future?

A: Any state that builds revenue around Native American gaming has lost priorities. Regarding your questions -- can't imagine - why wouldn't Nevada be much larger if this were the case? Look at the lottery - tickets bring in a billion a year to education - there is not a big demand for this. There are other tribes for the Governor to make deals with.

Q: Regarding revenue generating areas, we are over in some (corporate tax) and under in others (higher ed). Where are we? What does this gap look like?

A: On a global scale, we have an above average take on income, sales, corporate, etc. but a below average take of property tax. Overall we pay only a small amount more for services than other states.