

NEXT TEN

budget visioning for the NEXT TEN years

May 19, 2004
Orange County Business Council
2 Park Plaza, Suite 100
Irvine, California
9:00 am - 11:30 am

Welcome, Introductions, and Project Overview

- Wallace Walrod, Vice President, Orange County Business Council
- 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 the 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 (attached).

Answers to three questions after Steve's presentation:

Question 1: What were your major take-aways?

- Excellent presentation - it is the most comprehensive presentation I have seen - great job!
- Put issues into context - great presentation.
- Long-term budget deficits without reform
- If we continue to do business and think as we have, no significant solutions are possible. We need to think out of the box to solve issues.
- Many budget aspects are controllable. Large economic engine being wasted. Business as usual not acceptable.
- At top level the budget isn't very complex, but to effect real change we must have a deeper understanding.
- Structural reform is needed including Prop. 98, review of entitlements/eligibility
- The long-term structural character of California budget crises.
- On-going budget deficit is averaging \$7 billion a year
- We need to increase higher education spending, determine where/how all the K-12 funds are being spent
- Long-term deficits are compounding and must be addressed. (Can't grow our way out economically.) Will need to cut spending or increase revenues to address problem.
- Local government must build local economies

- Reform of revenue distribution system must be a prelude to a discussion of new revenue
- Not sure

Large group discussion:

- If we keep doing things as we are doing them we'll be in trouble
- We need to approach things from new viewpoint
- Unspoken assumption - we need to address our underlying philosophy/values before we can come to a common understanding
- Most presentations are ?
- We cannot bond our way out of problems
- Excellent presentation- comprehensive
- "Best-ever" presentation
- Obvious regional solutions - transportation and housing
- "State of California not capable of long-range planning"
- Unintended consequences accumulate
- Need to change the system - current system is dominated by interest group pressures
- Yankelovich work - Viewpoint Learning - "informed" electorate a good step
- Content and process are key for long-term
- Don't have key information

What surprised you?

- Surprised to see that K-12 enrollment will decrease
- Projections for declining enrollment in K-12 - wonder if this includes continuing movement to California from both inside of the US (bigger fraction) and outside?
- Projected decline in K-12 enrollment. Tax rate versus US average lower than expected. Number of state employees lower than average. MediCal spending weighted toward the elderly.
- Surprised that California has one of the lowest state employee/per capita populations
- California ranking of number of state employees and total public employment
- That ratio of state employees per population is as low as it is comparatively
- Low comparative number of state employees
- No major surprises other than that ratio of state employees/population is as low as it is (comparatively)
- Changes in school enrollment
- Surprised that higher education costs for student fees much lower compared to other states
- California pays average taxes when including property and income taxes. I thought we were above.
- Re-thinking AB 8 will (*sic*) indicate a willingness to address revenue matters
- Nothing major on changing way government is structured
- "None"
- No real surprises, but it was informative

- No surprises - presented well
- Not many surprises
- None

Large group discussion:

- Structural deficit - ongoing problem
- Long-term implications are key
- Stunned at the number of state employees and that K-12 enrollment is dropping
- Economic growth alone can't solve problem
- State has no standards - role of non-profits - opportunities there
- Comparison to other states on the hidden costs of doing business in California - e.g. housing, etc. - this limits our growth
- Caseloads - rules set by the state but rates differ by county
- California is a donor state - Orange County a donor county - there is an equity issue here
- Long-term structural nature of problem
 - Need "out-of-box" thinking
 - Turn over "property wealth" issue
 - User fees - i.e. infrastructure.

Question 2: Was Steve Levy's presentation consistent with your prior understanding?

- As a local government manager, it matched what I understood.
- Info matched
- Yes - for the most part
- Matched my understanding
- Information matched my basic understanding
- Yes
- Information matched my understanding
- Problem is more serious - must take action now
- Matched my understanding mostly. Now have greater understanding of the elderly "over compensation" of state revenues. Also - surprised that higher education costs for student fees were much lower compared to other states.
- Close, but the detail is very important to understanding the issues
- Some of it

Question 3: What additional information do you need?

- Because K-12 receives so much money and enrollment will decrease, it would be helpful to know where and how the dollars are spent as this will become a focus of debate.
- State universities & CSU - how many students from out of state?
- Percentage of turn-over of residential properties yearly and that impact on state revenues.
- Estimate of number of elderly who would be forced to sell or refinance if Proposition 13 was reformed to include reassessment of their homes.

- Equity issue: Of those protected by Prop. 13 (primarily elderly) what is the equity issue in terms of their income versus new neighbors income?
- Alternative scenarios to the way we are managing:
 - Corrections; Prop. 13; healthcare; energy resources (solar industry); vehicle license fees; good and objective information about cost and contributions of undocumented workers
 - Areas for review: three-strikes law; Prop. 13 provisions; single or all payer healthcare; restructure of vehicle license fees; growth of alternative renewable solar power industry
- More info on property tax and user fees
- Taxes are only one factor of personal expenditure, housing costs another. How does California compare in some other areas like energy cost expenditures (mild winters)?
- Best practices/models in other states that have similar characteristics.
- Cost of doing business as it affects high paying job attraction - what can be done on the policy side to raise quality of life/high paying jobs? Comparison of California with New York and other high cost of business states that we are losing jobs to in terms of business representation, funding of services, revenue sources, etc.
- More detail on salaries and benefits.
- More information compared to other states.
- Per capita tax percentage versus United States - not just percentage of income
- California tax rates on investment income versus United States (what are the major impediments to capital formation in California?)
- California tax on disposable income versus United States average. Cost of regulation, workers compensation, etc. make California more costly - food, housing, and transportation are all more costly here.
- Review budget figures for 2002-2003 and proposed budgets for 2005 and 2006.
- Caseload per population history for prisons needed like education caseload.
- Other costs in state not discussed (i.e. litigation, health care, environment). Would like specifics on parts of the budget that are controllable. Budget deficit versus other states.
- More specific answer regarding percentage of the budget that is truly discretionary (10%? 20%? What it is?).
- Flexibility regarding competitive outsourcing government services.
- Add major data conclusions and recommendations on changing way state does business.
- Discuss AB 8 inequities as a way to deal with problems of Prop. 13.
- The link between state and local finances could be strengthened in Steve's bit.
- Must understand purpose of presentation - what do you want to accomplish with the presentation?
- Any problem solving effort must start with underlying values, philosophy, and vision.
- To effect real change must start from a more sophisticated level than that which created the problem.
- The presentation addresses only content. It eventually needs to address context and process.
- Is a ten year look a fiscal tool or tool for change in how the government does business? Add element that gets to structure.

- Presentation was very good, but at end the real problem seems intractable. Some closing focus on possible solutions may help.
- Modeling of projected growth and its input on budget deficit - would help to understand the point about not "growing" out of the problem. Population projections would also help - as well as demographics on aging.

Large group discussion:

- Regarding decreasing education spending
- Higher education and increasing enrollment - how to meet this challenge?
- Regarding illegal immigrants - without this labor - what would be the impact on business? (i.e. - increased wages?)
- How can we do long-range planning with term-limits?
- Do we need a more "centrist" legislature? E.g. open primaries - Orange County Business Council supports open primaries.
- "Initiative" process
- Redistricting issue
- More detail on discretion issue
- Comparative data helpful - compare employee payroll/pension cost to large states with similar cost of living.
- How do we restructure government over the long-term?

Options:

- Broaden sales tax base to services with a lower rate to generate a targeted overall increase in revenue
- Reform three-strikes and rehabilitation elements of corrections to lower costs

Trade-Offs Discussion: Ideas for closing the \$7 billion dollar gap

As we know, the state of California currently has a structural (on-going) deficit of \$7 billion per year.

Q: What specific set of options (revenue increases, spending cuts) would you recommend the state pursue to balance the budget?

Group A:

- Tax/fee increases to pay for infrastructure and education
- Efficiency/reduce waste
- Regulations as barriers
- Discretion in spending at local level
- Prevailing wage
- Public-private partnerships
- One-time money used for one-time purposes
- Corrections
- Pensions - public employee
- Mandate across the board cuts to build trust
- Non-resident status

- Needs testing for UC tuition and Medi-Cal

Group B:

- Fee increase higher education (a form of tax)
- Healthcare services - we have seen cuts there - non-profits pick-up some of this - increase services
- What specific revenue will cover what expenses?
- Increase long-term spending in healthcare due to increase in aging population
- Increase efficiencies needed - difficulty to measure reimbursement changes (delta)
- Increase fees - what is our ultimate objective? (e.g. increase overall revenue, tax rates, level of income)
- "Out of box" thinking to lower costs: online education
- Drivers of economic growth - education, infrastructure - to cut here we hurt ourselves
- Increasing fees in graduate school hurts us - we need increase in Masters of Science in the labor force
- How are we spending education money? Look here...
- Two viewpoints:
 - o Start with the idea that our ultimate goal is a high quality of life. If we increase taxes, what will I get? (Example: Will my kid get a spot in the UC system?). I may support increased taxes if I can see a direct benefit.
 - o There is a finite amount of money available for education and higher education. Administrators need to figure out how to best allocate those funds.
- People are disengaged - feel less of a connection - we must engage them
- Restructure government - tax credits from state to local level - in increase economic growth increase income and taxes
- Federal money - have delegation better
- Increase taxes generally
- Increase tax on wealthy - not enough data (off shoring business)
- Property tax issue
 - o Fiscalization of land use a big problem - agree there is a need for reform
 - o Equity issue
 - o Stabilization of revenue
- Use taxes

Group C:

- Raise revenues:
 - o More outsourcing on competitive basis
 - Prison
 - Education
- Redundancy - education services
- Difficult to have conversation without political information
- Comparison with other states - not that important - how efficient are we?
- Local level - salaries are looked at first
- At state level it is different - unions come up with way of displaying data - will help us understand
- California always benchmarks for other states

- Look at best practices and models on how we can do it better
- The best government governs less
- Funding drives services
- Cannot reduce spending at state level
- With accountability - definite need - oversight does not work at state level if not expert and immersed
- White hot anger undirected - i.e. limited understanding - need transparency and accountability
- Link local revenues to local need
- How can you trust when no (*sic*) transparency?
- With government people feel disempowered (unlike consumer choices we can make)
- Governance issues bump into budget issues