

# NEXT TEN

budget visioning for the NEXT TEN years

June 2, 2004  
Commonwealth Club of California  
San Francisco, California  
8:00 am - 11:00 am

## Welcome, Introductions, and Project Overview

- Dr. Gloria Duffy, President and CEO, Commonwealth Club of California. "It is a propitious time to talk about reform, including governance reform. We are all part of a constituency that believes there is a need for fundamental change... Trade-offs need to be addressed. Policymakers are getting information from a confused public."
- Nick Bollman, President and CEO, California Center for Regional Leadership
- Noel Perry, Founder and Managing Director, Baccharis Capital Inc. "There is no ten year plan for California. The end result of the Next Ten project will be to build interest in the budget and move toward common ground."
- John Cohen, Facilitator

## Why did participants decide to come today? Selected answers from the audience

- I have a selfish reason for coming today. I feel a need to inform myself better about the state budget.
- It is time to start working on the state's problems because there's something wrong up there and it affects local government. I want to get a big picture of the situation and figure out how to get to reform.
- A crisis is a terrible thing to waste.
- I am here in part because it is my sense that California is under-performing in many ways. We are stuck making short-term choices that are undermining a broader vision for California. How do we turn it around? We should use this opportunity of the crisis. A crisis is the best opportunity to fix structural problems.
- We are trying to drive a car with a bunch of handles and no steering wheel."

## 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?*

*What surprised you?*

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

- Steve provided a very insightful presentation. We should consider doing an infomercial on TV.
- No, as I've been hearing the State talk about redevelopment funds & "local" property tax as being state funds.
- Money does not equal results.
- It's too bad there isn't a way to condense the presentation. Steve did a great job!
- No - in watching public education affordability go down, I had assumed it was due to a lower priority in the state budget.
- The talk explored new areas and reinforced previous thoughts with quantifiable facts. It will help my thought process going forward in understanding that local revenues will be vulnerable until the structural deficits are addressed.
- I thought that the tax rates in CA were much higher relative to other states - both income tax and fees - according to Steve, this is not the case.
- I also thought that CA had much higher numbers of state employees.
- I do not completely "buy" the notion that caseloads have simply grown more expensive.
- It did, however, it did not include enough information on the impacts of Prop. 42. This has been one of the critical issues this past year.
- Transportation funding creates more economic activity than almost anything and needs further discussion.
- In general yes. It seems that in order to meet needs of California residents & communities budget cuts can, at best, be part of solution. Revenue has to increase or services will fall below national averages.
- I am very informed and it was an excellent summary of the wide range of issues.

*Question 3: What additional information do you need?*

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- How has federal funding changed since 1998? Less? Same? If we want to increase funding from Federal levels, how do we do that?
- Do Californian's pay inordinately higher sales taxes?
- Presentation - very good overall - very informative. Perhaps use an overall/big picture "framing device" visual to help us understand how all the pieces come together and put us in the mess we're in - maybe even keep returning to it throughout the presentation.
- What was useful - layout of facts, especially comparisons to other states
- What more info - additional detail on Prop. 13. - more time on impacts. Data on how effectively we're spending money.
- More in-depth explanation as to how the money is allocated, who are the decision makers, root causes on inequities, which are reflected in the budget.
- Statistical breakdown on home/corporate ownership related to Prop. 13.
- I would like to see more info on the importance of having a more stable revenue source (like property taxes) restored as the main source and modifying or eliminating Prop. 13 impacts on state revenue.

- If the League of California Cities is able to negotiate a trade with the Governor, i.e. get support for local ballot initiative for two year commitment from local government to help balance the budget, where will the state be financially then?
- How do we move the legislature to begin a statewide replacement program? Say begin about 3% savings?
- Realistically, what would it take to amend Prop. 13 to reassess commercial properties? We could begin with a threshold - square footage, etc.
- We pay 13% more than U.S. average in state tax - but we make 22% more income - we're not a high-tax state - we're a stupid tax state!
- Tax rich and internet sales. Reform Prop. 13. Increase jobs in renewable energy opportunities.
- More dialogue, small/large groups. More info about political/ideological positions held by policymakers versus what the realistic issues are. Make sure all issues considered "taboo" have light shined on them.

### 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:

- We elect legislators to make decisions and set the budget. We must hold them accountable. First we need to address governance issues with a collective vision.
- Reduce overall spending - spend smarter and more efficiently
- Revisit Prop. 13, 98 and others
- Regarding Prop. 13, adjust the rate on all property, including commercial property, at which assessments can go up each year (2%)
- Invest in the future of kids

#### Group B:

- Mix of revenues and savings
  - o Incentives for districts to save money
  - o Revenues beyond income and sales taxes
  - o Look at commercial property tax
  - o More local authority to raise revenues
  - o Restructure state agencies and eliminate duplication
  - o Return to historic tax rate levels
  - o Delink Prop. 98 from revenue growth
  - o Shine light on all taboo subjects (Prop. 13, taxes, state solutions, constitutional control in state hands, gas tax based on mileage, restore VLF)
  - o Promote new industries
  - o Cut prison spending

- Wealth tax
  - Cut federal military spending and give that money to the states
- No "Taboos"
- K-12 is key
- Increase flexibility **and** accountability

#### Group C:

- Revenues: VLF, Prop. 13, Gas tax, California Performance Review - find cuts/fraud that could be collected, raise taxes to high wage earners, make sure corporations are paying their fair share of taxes
- Expenditures: Pension/benefit plans to be revisited, Prison reform to reflect our vision of the future
- Other: Invest in alternative markets and new economies (e.g. green economies), training our workforce for the next wave of growth, California take a lead in identifying niche for new growth, longer term budget planning - who is engaged?, term limit reform, where is our vision for the future?
- Look at education as a training vehicle for well paying jobs
  - Corporate training of U.S. state education system
  - Community colleges as vehicle for bridging this gap
- What are the social/economic/environmental impacts of the budget decisions we make?

#### Group D:

- Lower corrections spending
- Deal must include new revenue
  - Increase tax on high earners
  - Split roll
  - Increase rate and rate growth
  - Dial back tax cuts
- Privatization of state health - public/private partnership
- Cut K-12 waste
- Multi-year planning
- Loosening of federal purse
- Reorganize and combine state agencies - take a closer look at other states and countries
- If there is a correlation between budget items and lobbyists, change something

#### Group E:

- "Spending cuts are unacceptable. We are at bare bones in local government". Concern that this stance makes this a bi-polar discussion, which is perhaps not productive. This is what politicians do. Group agreed to focus on what are possibilities.
- Structural issues that impact the budget
  - Term limits
  - Vote threshold
  - Redistricting (local and state)
  - Initiative process

- Could create a Corporate Responsibility Tax at 1-2% of business income. Companies would have the choice of fulfilling this obligation with volunteer time or pay the tax.
- Higher Education fees
  - o Our level of fees are low compared to other states
  - o Open for debate regarding increasing fees
  - o Agree that keeping quality high is important
  - o One idea: increase fees at UC, keeping Community College fees low, and keep financial aid high
  - o Enrollment growth issue
    - Keeping up with enrollment growth is needed. Noted that there is a quality difference between Community Colleges vs. UCs.
- Revenues
  - o Increase taxes on wealthiest
  - o Increase legalized gambling and increase taxes on gambling
    - Why keep it in Las Vegas?

#### Group F:

- Prop. 13 needs major modification. Ideas include: increasing taxes on corporations and businesses, repealing, repealing and amending for services, and conducting a study to determine who the beneficiaries are.
- Governance issues: one-sided ideologues, safe districts, 2/3 vote, initiative, keep terms short. Electorate has ceded democracy. Equity has been left out of decisions.
- Revenues: Recapture tax not paid when old homeowners sell house, increase real estate tax, and increase income taxes on the wealthy, back taxes when one dies.
- How effectively are we spending money?
- Should we outsource? Does it solve the problem?
- Need 5-10 big ideas