

NEXT TEN

budget visioning for the NEXT TEN years

June 24, 2004
CarrAmerica Conference Center
Pleasanton, California
8:00 am - 11:00 am

Welcome, Introductions, and Project Overview

- Tom O'Malley, President, Tri-Valley Business Council
- Leticia Miranda, Program Officer, California Center for Regional Leadership
- Jon Cohen, Facilitator

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 (attached).

Answers to questions after Steve's presentation:

What were your major take-aways from the presentation?

- Great presentation. I have a new appreciation for the complexity of the state budget.
- Some of the general "presumptions" about where quick fixes can emerge were dismissed based on the data/facts presented.
- Revenue increases and reductions in costs will be needed to balance the budget.
- Budget assumptions include fairly good economic growth.
- Findings/suggestions of the California Constitutional Review Commission on state revenue and expenditure outlook.
- I learned about the extent that the reduction of vehicle fees really impacted revenues.
- I appreciated the pie chart breakdowns of the spending areas. Interesting to see amounts going to different uses.
- California state general fund spending as percentage of total personal income in the range of U.S. average.
- It was a mistake to increase spending 35 percent in that two year period from 1999-2001.
- UC and CSU retain their fee revenue vs. Community Colleges.
- Most Californians have little or no comprehension of our state budget.
- New wave of students headed toward higher education is an important planning consideration with high impact particularly if we want to retain lower cost basis for higher education.
- There is too great of a disconnect between program requirements which have known costs and the revenue source which is subject to higher variability.
- Realization that there are no "easy fixes" to the budget.
- We need political will and courage from legislators to get "unstuck."
- I learned the difficulty of cutting the budget.
- I learned better about subtleties of the budget numbers.
- I better understand how the state general fund is spent.

- We have a serious structural budget problem without a popular solution.
- Strategic, long-term reform.
- Didn't build reserves during boom years
- Not a lot of wiggle room without pain
- State spending is increasing faster than we can raise prices.
- Discretionary budget amount is abysmal.
- Felt presentation assumed a basis of knowledge - as member of a new non-profit the cost flows, etc. are new and I really felt puzzled at points (especially on slides 24, 31, and 32).
- I found the charts extremely helpful.
- Very interesting presentation - lots of data but easy to follow.
- The state retirement structure is too rich. Needs to be studied.
- Let me explain suggestion for state revenue:
 - o The state owns a lot of discretionary property that is not publicly used (open space preserves, ranches). Some the state buys, some is given to the state. The state does not know what it owns - and agencies don't have management plans nor budgets on most of it. By selling these lands to private sector with easements on them to protect the values desired by state or donors, revenue is generated; property returns to tax roles; knowledgeable stewards returned to operate the lands with enterprise and resources focus; land health is not compromised; state workforce can be somewhat reduced or used more efficiently. Specific land agencies (fish and game, parks, etc.) - there may also be state buffer land attached to infrastructure (e.g. prisons) that could be ranched to maintain land health and cover management costs.
- We must raise taxes and figure out a way forward.
- Revenue should be increased to shore up the budget - with a strong discipline on spending.
- Tuition fees should increase but only in line with quality upgrades at the UC/Cal State/CC level.
- No new programs without identified budget revenues.
- Central issue appears to be the need to reform financing of education and re-evaluate Prop 13.
- State retirement benefits level must be addresses now before they reach a problem stage in a decade.
- Public will, not numbers - crunching is necessary
- Can we afford tax cuts in the short-term?
- State equalizes per pupil spending to supplement local property taxes. Most media coverage is on the "inequality" of state education funding and this explains it.
- While state general fund spending percentage of personal income and state and local taxes percentage of income seem to fluctuate but are generally stable or return to average, it seems state mandated expenses on private industry is increasing at alarming rates, Prop 65, HR costs, health, workers compensation.
- Term limits at the state legislature may be a bad idea because we have largely inexperienced elected officials representing us.

What surprised you?

- Per pupil spending comparisons with other states.
- Significance of school enrollment projections for future budgets.
- Use of educational funds for teacher salaries - high percentage vs. other states.

- The comparison of data to other states was somewhat surprising and basically suggests that California is in a mess with "friends."
- How "lean" state employment is compared to other states.
- Surprised at the low number of state employees per state comparisons - does not lead to significant budget reduction opportunities.
- Surprised at how low California ranks in number of state and number of government employees per capita.
- Number of state employees per 10k population vs. other states.
- Where we stand nationally was surprising in some areas - education, healthcare, taxes.
- Retirement fund expenditure compared to other states vs. educational spending compared to other states.
- California Medicaid spending is less than United States (surprisingly).
- Cost and size of corrections segment of budget.
- Key determinants of \$20 billion (35 percent) increase in state general fund expenditures in late 90s unrelated to energy and transportation funding - very surprising.
- Less flexibility than I thought (know federal \$'s come with attachments but did not realize how little room there is, regarding cut without cuts that hurt a lot of people.

What additional information do you need?

- What are longer term/strategic implications of making decisions today?
- What is California competitive position vis a vis other states or countries?
- Include federal return to state 77 cents per dollar in your presentation.
- Would like to have heard what budget cuts have been proposed.
- Clarify state vs. local money - why was it said that the "state takes local money"?
- An assumption on the part of many is that if we tax the "wealthy" more that it will help solve the problem. To what effect? About 2 billion dollars?? If so, this seems somewhat negligible even though \$2 billion is \$2 billion.
- Why does the state collect K-12 money rather than leaving it in the local region? Eliminate state education department and require a fixed spend per pupil minimum.
- Would have liked to hear an explanation of the reason deficits can continue with the other proposition (49?) that the Governor got passed that was to prohibit future deficits.
- How can we be relatively low in "tax burden" compared to personal income and also comparatively low in spending levels (compared to other states) on big ticket items like K-12 per pupil spending?
- New information desired on social/need trends predicted over next ten years.
- What is the California Performance Review?
- Projected rise in higher education enrollment vs. decrease in K-12.
- Can you explain how Prop 13 impacted the economy?
- We spend 37 percent of our budget on education. How does that compare to other states? We know how we compare in per pupil spending, but how do we compare as far as percent of overall budget?
- Explain again the relationship/mechanism of local property taxes - why we don't keep ours - how state keeps "backfill". Also - why this pits local governments against each other?
- More information as to what created "mandates" for expenditures.
- Why do some programs have more flexibility for change?
- Who sets retirement benefits for the state and other employees?
- More information on pensions, unfunded mandates, workers compensation, lifetime medical, waste, fraud and abuse, outsource services, consolidating agencies.

- Information on private vs. public sector comparison and on campaign finance reform.
- Expand more on how California's tax structure affects budget.

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?

Small Group A:

- Prop 13 reform - real property tax rates that follow real increase in property values (a percentage that is more acceptable - between 1-3 percent).
- Reinstate vehicle license fee with tax relief for fixed income and elderly.
- Broaden sales tax to include services (lower overall tax rate if base broadened).
- Higher taxes for the wealthy - restore 10-11 percent personal income tax rate.
- Eliminate process of local money getting "stolen" by the state.
- Privatization of corrections facilities to reduce costs.

Small Group B:

- Spending
 - Shift MediCal nursing to in-home care
 - Revisit pension structure
 - No price controls
 - Need neutral decision makers
 - Change corporation tax/contribution paradigm
- Revenue
 - VLF
 - State land sale and assessment
 - Fees adjust cyclically
 - Parks, higher ed, etc.
 - Legislation is reactionary
 - Need better preparation
 - Term limits
 - Initiative reform
 - No trade-offs
 - Random budget acts with no context
 - City/State reorganization
 - Decentralize decision making
 - More frequent property tax assessments
 - Look at Prop 13 - who benefits?
 - 911 fee as a model for emergency services
 - Broaden sales tax base services, internet

Small Group C:

- Housing issues

- Prop 13
- No turnover
- Hard to buy in Dublin
- More sprawl - longer commute
- Raise Assessed Value increase from 2 percent to 3 percent
- Reinstate Vehicle License Fee (VLF) for gas guzzlers
- VLF to support local government - should VLF increase go to locals? Help locals vs. solve state deficit.
- Income tax increases
 - Upper income coupled with spending cuts
- Class warfare now among agencies
- 3 year permanent \$2 billion income tax increase
- mandate reserves
- Increase gas tax - trucking industry
- Immigration control
- MediCal - What is in safety net?
 - Re-examine spending given commitment to safety net
 - Savings \$1 billion
- California Performance Review
- Out of state sales enforcement costs
- Raise taxes - tie to spending limitation
- Spread burden over larger group with smaller share
- Maybe top 50 percent should help
- Still smoke and mirrors - need real solutions
- Problem of hanging over head forever is frightening

Small Group D:

- Revenues
 - Get additional money from federal government
 - Reform money to education
 - Tax credits
 - Wealthy tax (top 1-2 percent)
 - Raise taxes overall
 - Reinstate VLF (\$3B) OR
 - Raise taxes overall by ¼ percent (\$3B)
 - Increase user fees for higher ed for people who can pay
- Spending (\$3B cut)
 - Privatization in prison sector - increase inefficiencies (\$1B)
 - Reduce spending overall statewide by 2 percent - short-term fix (\$2B)
- What helps the economy?
 - Prison fiscal reform
 - Different approach regarding collective bargaining
 - Governance reforms
 - No new requirements unless funding is identified

Small Group E:

- Spending
 - No new programs without identified revenue stream and with sunset

- Formal periodic review of existing programs to justify continuation and priority over needed new programs
- Examine state employee pay benefits and retirement vs. business compensation
- Review corrections spending
- Streamlining of state services - delivery to improve service and reduce cost by faster availability - i.e. roads
- Prudently address MediCal and elderly care to avoid excessive costs in the future.
- Revenue
 - Fair share of federal funding
 - Fine tune Prop 13 opportunities
 - Commercial property assessments
 - Assess property
 - Strong emphasis on economy
 - Growth for added revenues
 - Facilitate housing and infrastructure development to recycle money back to economy
 - Increase UC/CSU/Community College fees with monies going to education
 - User fees - i.e. congestion pricing - smart lanes (pay as you go and decrease use)
 - Look into comprehensive tax system reforms

Small Group F:

- Tax increases are out. The business environment is important. Spending increased during the boom and we need to look back at these increases for ideas for cuts. It is naïve to believe that spending cuts are impossible.
- Group agreed to follow the “Guidelines for a Productive Discussion” and consider all possibilities including spending cuts and tax increases for purposes of this discussion.
- Taxes - “Eight percent of the population pays 80 percent of taxes in the state” (need to check this fact with Steve). The distribution of taxes is important and can be disincentives to business creation.
- Regarding the business environment: business climate is impacted by regulations as well as by taxes. Regulations that could be reviewed include:
 - Family Leave Act
 - Also, Manufacturing Investment Tax Credit - restoration
 - Workers Compensation Reform - question as to how the reforms will affect public sector workers
- Cost of doing business in California is very high
 - Currently low wage jobs are on the increase. When this happens, the use of public services increases as well as the cost of providing those services.
 - At the same time we are losing high-wage jobs, which are more beneficial to our economy and state service levels than low-wage jobs.
- Education - businesses need qualified workers, so our education system has a high impact on businesses.
- Agreement - increasing fees for higher education is warranted.
- Commercial property tax - if we increase the reassessment frequency this could be a double-edged sword since as values fall during a recession (like now) a frequent reassessment would decrease tax revenues.

- Agreement - apply sales taxes to internet sales. Exempting internet businesses from sales tax was meant to help them get through the start-up period - that period is now over, so it is right that they pay the same sales taxes as bricks-and-mortar businesses.
- Apply sales tax to entertainment such as movies, concerts. Noted that this could be detrimental to the consumer. We should always review distribution and equity issues when reviewing taxes.
- Agreement: we are for a balanced budget
- Agreement: increasing federal dollars coming to California is needed. E.g. go after more Homeland Security money. Get our delegation to change the federal formulas to our advantage (e.g. adjust for higher cost of living in California).
- Campaign finance reform will save money in the long-run by reducing the weight of special interest groups.
- Service areas -pursue privatization/outsourcing option to hold back spending. E.g. compare the repair work after the earthquakes in Los Angeles versus San Francisco Bay Area. The Los Angeles private contractor finished the job much faster and cheaper than the San Francisco public agency did.
- Reform three-strikes to make the third strike only for violent felonies.
- Efficiency - the money is there.
- Infrastructure finance - need to install a firewall around Prop. 42 funds so that the state does not spend the money elsewhere.
- Pension reform should be pursued.