



June 7, 2004
Economic Alliance of the San Fernando Valley
Sherman Oaks, California
3:00 am - 6:00 pm

Welcome, Introductions, and Project Overview

- Bruce Ackerman, President and CEO, Economic Alliance of the San Fernando Valley
- Nick Bollman, President and CEO, California Center for Regional Leadership
- Noel Perry, Founder and Managing Director, Baccharis Capital Inc.
- 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?

- Better understanding of state budget breakdown
- Impact of service expansion on budget
- Actual details on the budget that reveal the short and long-term issues
- Budget is not straight forward - it's gimmicky in key areas so it is hard to know what the real amount we need to spend is or where cuts need to be made.
- \$8 billion deficit is from \$4 b. new programs; \$4 b. Vehicle License Fee (VLF). What was it spent on? What new programs?
- Poverty level adjusted from 100-200% (for Medi-Cal access)
- \$20 billion increase = \$8 billion "new"; \$12 billion increase. Bill includes VLF cut from 1998?!
- Increase blamed on "singular" incident of stock market; but persistence of gap does not match
- Next move: where to cut?
- Capital gains fueled spending increases
- Income taxes fell dramatically between 2000-'01 and 2002-'03
- I think you said "property tax as percentage of total spending not down from late 1970's".
- The very small opportunity to fix the budget short of big revenue increases. (I am incredulous at the Reason Foundations comments in light of all of the above.)
- Presentation reinforces that the "problem" is a people issue given the complexity of the budget, funding sources, expenditure mandates, etc. When this is coupled with term limits, the results are seemingly easy decisions (e.g. new salary increase/higher retirement benefits) without knowledge/understanding of the consequences. The

question: how to overcome this training education gap both with electeds and the electorate. Must have greater institutional knowledge regardless. (Harvey Berg)

- Underscored the importance of age and other demographic characteristics on the budget.
- Higher education cost for students is less in California
- California teachers salaries are highest
- Education is 50 percent of the state budget
- Better understanding of Educational Revenue Augmentation Fund (ERAF) and state/local division of education funding
- Enrollment decline in state
- Employees within educational system
- Enrollment trends K-12 versus higher education
- Education spending as percentage of state budget
- State pensions are too high
- Excellent presentation - problem is complex; thought that the state/local dimension could have had a bit more development
- Second fewest state and local government employees per 10,000 population
- State myth of state employee base versus its state average
- Good historical view

What surprised you?

- Much better understanding of some of the major problems to be addressed.
- No real surprises - I was surprised a little at seeing the UC/CSU employment numbers. Community college (CCC) numbers would have been interesting - which demonstrates some of the need for more development of local government dimension.
- Was not aware that California was dead last in state/local government employees per capita.
- State higher education fees per pupil; K-12 enrollment forecast; California fewest state employees per 10,000 population.
- No surprises, but lots of new information, with the following exception, the amount of spending increase from enrollment.
- Property tax relationship to school spending
- Relative size of revenue sources
- Ranking of California in several expenditure categories
- Convoluted way in which the budget numbers are arrived at
- The future impact of aging
- The very small portion of the expenditure side that is discretionary or manageable
- The discovery of the origins of the problem in revenue

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

- Matched prior understanding
- Presentation generally consistent with prior understanding
- Did not match my prior understanding

What additional information do you need?

- What is economist's projected growth over ten years and how much can state policies influence it?
- Percentage and dollar value of civil service workers as part of total state general fund budget; percentage of \$80 billion regardless of pass through.
- Where are the results of the "waste & fraud" audit?
- How does undocumented immigration impact budget?
- Probably need to discuss immigration as an issue impacting services; also need to provide context of economic restructuring challenges. Perhaps some data on high tech, low tech and manufacturing jobs. All of this is key to understanding service needs of California residents in ten years.
- How much "income tax" is corporate? Individual?
- How about a table showing projected demographics by race/ethnicity, income by race/ethnicity.

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:

- On-going deficits are not desirable
- Must increase efficiency of government services first of all. Do we have the highest bang for the buck in terms of government services? Are we most efficient?
- Pursue structural reform regarding budget process. E.g. find best practices from around the country and around the world
- We need a new paradigm that requires that we consider the financial impact on the community of each new legislative action (highlight the financial impact of each new bill). This could be similar to the articles by writer Greg Lippe that highlight the impact of new legislation on the business climate.
- Theory: by increasing the attractiveness of the business climate, the economy will grow more rapidly and therefore the tax base will increase as a result.
- Currently, California is perceived as unfriendly to business, which depresses the economy and therefore the tax base. E.g.
 - Gas prices - related to lack of refineries and grade regulations
 - California minimum wage - increases in minimum wage reduce job opportunities for our youth
 - We need to deal with the heavy bureaucracy
- If we deal with business unfriendly problems we can increase business activity and increase the tax base. This is possible over time (ten year time horizon).
- Support increasing fees for higher education, assuming we increase student aide for the lowest income groups. Our higher education system is a fantastic bargain that we can't afford.
- The cost of public employee pensions is a major concern. Especially troubling are the double dippers - who are people who retire after 20 years then take second job and

collect a second pension. What about making the second pension a defined contribution plan instead of defined benefit?

- The cost of the prison system is also a concern. Concern about the cost of health care to prisoners; concern about excessive health care being delivered. One solution may be to privatize some prisons utilizing competitive bids to lower costs. This has been tried in other states. What about three-strikes law? This was essentially a major program expansion that made more people eligible for long-term prison.
- Other ways to improve the economy are to increase the supply of housing to lower the price of housing (this is not "subsidized housing") and to increase the supply of water, energy, etc.
- Education - Why do teachers not have sufficient resources to buy their supplies, thus requiring that they pay for supplies out of their own pockets? What percentage of the education dollar does not go to the classroom?

Small Group B:

- California needs to put more effort into qualifying for federal money. Also, need to redefine federal guidelines to get more federal money.
- Slight increase in top California tax rates.
- Increase fees for California graduate education. Pay if you can pay. Out-of-state students should pay even more than they are paying now. Possibility that minority students could be bumped out of California higher education by out of state students.
- Increase efficiencies in spending (e.g. duplications). Can make agencies more efficient.
- Use political process of Yes or No (don't get too specific)
- Corrections: Review 3 Strikes law... Repeal three-strikes law. Three-strikes should be for violent crime only. Drug possession should not count. Life imprisonment should only be up to age 70 or lower. For over 70 can provide housing, but no guards.
- Do not believe all programs pass a cost/benefit analysis. Need to analyze all spending first. Evaluate all programs to determine if they should be funded.
- Roads: Consider congestion prices as the first infrastructure solution, then figure out if we need more roads.
- 10 percent cut across all agencies AND allow agencies to privatize.
- K-12: There is a lot of money to be saved. Allow more charter schools. Every school should be a charter school. Give \$4,000 to any parent that pulls their child out of the public school system.
- Get rid of state licensing boards (heard in the audience: "Oh great, my mother always wanted me to be a doctor. Now I can be.") Get rid of other boards: dairy boards, immaterial business boards, etc.
- Get rid of state employment department, except for data collection.
- Get rid of all the lobbyists.
- DARE program not successful and should be axed.
- Do not increase any revenues now.
- Health care: Do not allow Medi-Cal payments for message therapy, acupuncture, etc.
- Eliminate full-time legislature.

Small Group C:

- Encourage new businesses and economic growth.

- Increase slot machines
- Support stem cell research
- Incentivize auto assembly
- Raise state sales tax by one cent, to raise \$4-5 billion.
- Budget process: long-term plan, multi-year budgets.
- Stabilize revenue
- Re-assess commercial property tax
- HOT Lanes & truck tolls should be pursued
- Gas tax should have regular increases.
- Convert pensions from defined benefit to defined contribution plans. Start with new employees and disincentive early retirement.
- Remove incentives for inter-city competition for sales tax generators. (Intra-state okay)
- Simplify income tax e.g. add on to federal taxes.
- Disincentive movement but don't discourage redevelopment. Need redevelopment agencies and need to reform redevelopment.
- Rethink state and local government finance.
- More local control with spending caps and ensure equity for poor communities.
- Look at per capita spending for state employees. Control, accountability, work rules.
- What are alternative models for state revenue?
- Should higher education pay for itself? Need to take a new look at low cost to students and families.
- Ration health care.

Small Group D:

- Increase higher education fees
 - Especially foreign and out-of-state students (no residency); priority for California residents
- Luxury tax
- Tax internet - "no way"
- Bring back the Vehicle License Fee (VLF)
- Sell state property - this would put property back on property tax rolls
- Revamp pension system - go to a defined contribution plan
- Cut (non-educational) state employees
- Cuts in education administration
- Pursue privatization in prisons and some social welfare programs - in the long-term pursue this more
- Revisit three-strikes law
- Proposition 13 reform (not full agreement)
- Local control - pursue greater efficiencies. For example, could break-up Los Angeles Unified School District
- Break fiscalization of land use incentives - this could bring house prices down
- Increase income tax rate on high-income earners - (not full agreement)
- Full agreement - pursue more federal money