



June 7, 2004
Torrance Marriott
Torrance, California
8:00 am - 11:00 am

Welcome, Introductions, and Project Overview

- Joe Aro, Executive Director, South Bay Economic Development Partnership
- 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?

- The expanding budget gap at the state level between revenue and expenditures was confirmed as a political decision - which I assumed it was.
- Interested in discretionary spending limitations at the state level.
- Found it very useful to see budget breakdown of expenditure categories.
- Good information to help us realize how the budget will impact our cities and where we are compared to the rest of the nation.
- Greater understanding of the state's budget structure and factors affecting the state's revenues.
- I appreciate the detail and breakdown of the state budget.
- There is not as much a need to cut state expenses as there is a need to increase revenues.
- Increasing grant funding with fee increases keeps access high (higher education).
- Intrigued by the funding mechanisms of property tax (Prop 13 and Prop 98) regarding state stratagem to reduce burden of backfill funding responsibilities.
- Interesting - should spend more time on property tax and it's relation to state vs. local budget issues.
- Too much data with no Q&A to understand the big picture.
- Tab eight data and text useful to understand the situation.
- Mr. Levy needs amplification.
- Appreciation for the state's situation and the looming decisions.
- Thoroughly presented material.
- "Rough roads" statistic not as important as "traffic" issue in my opinion.
- California as a whole is a reasonably "average" state.
- We can reduce spending and better implement and evaluate/monitor programs such as the human/social services category.

- Increased costs of Medicaid/education due more to increased number of recipients and less to increased spending per beneficiary.
- California is actually not dramatically above average with respect to the tax burden (percent of income).
- California is relatively low in terms of number of state employees per capita.

What surprised you?

- Percentage of all money earned to support state government. Distribution of the 300,000 state employees. No regional adjustment for federal funding.
- State prisons take a high price.
- Retirement benefits are above average.
- Nobody ever talks about really going after the “waste” (process improvement). Fraud and Abuse are different issues.
- I think the benefits paid to retirees were known but to have it in actual comparisons was greatly enlightening.
- I had not been aware of the position California had in several comparison categories relative to other states or compared to the United States.
- Very interesting to learn of poverty level currently not taking into account the regional cost of housing or regional cost of living.
- I found it interesting the comparisons used with other states.
- I was surprised that federal funding expenditures put California at a loss.
- I am surprised we are behind other states in so many areas.
- Surprised at low percentage of state employees relative to United States average.
- State’s general fund - actual expenditures vs. my perceived expenditures.
- The biggest surprise was hearing that revenue from stocks and capital gains was built into the state’s budget when experts knew this would be an unreliable revenue stream.
- I was amazed to learn that the state did not react/adjust spending after they saw revenues drop.
- We will still have deficits in coming years.
- Very small portion of real discretionary spending.
- Impact of K-12 spending as it relates to local government revenue.
- I was surprised that our teachers are paid well.
- Teachers are well paid for nine months.
- We do not spend enough on K-12 compared to other states.
- Major portion of budget is education - an emotional/hard-to-cut item.
- Interesting to note where the state (and how) allocated its spending with education being at the top. Can the state find ways of increasing tuition fees at lower levels of the higher education program?
- State backfill on education.

What additional information do you need?

- K-12 spending is key area - but why? What is driving costs? “Attendance growth?”
- There are a lot of details on education. I would like to see more on transportation.
- Clarify stats on percentage of lottery revenues going to education vs. lingering in general fund.
- Is there any information that supports increasing per pupil spending? Does more money equate to a pupil receiving a better education, attaining higher test scores, continuing education beyond high school?

- How does home-schooling fit in with the state's ideas on education spending? And does it have an impact on health and human services as well?
- I would like to hear about who the players were in the development of the budget.
- I would like to see more details on the projected needs in future years for budget forecasting.
- When state spending increased in 98-02, where did the money go? What got funded?
- Should California have a balanced budget?
- Can spending be cut sufficiently to solve the problem (service level cuts)? If not is there enough of a consensus to raise taxes?
- What is relevance of "states with fewest employees per 10k population"? Please explain.
- Would like to see more about how worker's compensation issues are affecting the state budget picture.
- Are we taking into consideration the gaming initiative?
- Who will benefit from the extra dollars in taxes?

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:

Spending

- Reduce corrections spending. Reduce inefficiencies. Look at three strikes law - prisons are full of non-violent offenders.
- Improve state administrative functions (e.g. California Performance Review).
- Increase local discretion.
- Rollback HHS spending. Examine fraud in welfare and food stamps.

Revenues

- Taxes: increase commercial property taxes (concern about business climate). Pursue tax amnesty.
- Increase higher education fees.
- Improve tax collection system.
- Federal funds: increase allocations. Get California delegation to work together. Get federal funds without restrictions. Immigration & health care?

Small Group B:

Spending

- Need to look at the big picture and big ticket items.
 - Education, HHS - need more information.
 - Pensions - attract good people to government who forego higher private salaries in exchange for higher public pensions.
- Higher education: Raise tuition and increase student aid. Can help fund student aid by increasing private fundraising activity in the public higher education system. However, there is concern about the effect on fairness in admissions e.g. your parents

give a lot of money to the higher education institutions and their child gets preferential treatment in admission.

- Education: Need more information about special needs students and associated legal issues. E.g. public schools have to provide education to all students.
- Corrections: What is the effect of three-strikes on spending?
- Part-time legislature
- Overhaul the civic service system.

Revenues

- What are loopholes to examine regarding corporate tax?
- Increase frequency of property tax collections to monthly. This assumes that investment income from this activity is greater than the cost of administering the program.
- Federal tax money - readjust poverty formulas to account for California's higher cost of living.
- Reinstate the Vehicle License Fee (VLF).
- Increase gas taxes e.g. make the tax a percentage of the sale or make the gas tax adjust with inflation.
- Higher user fees for public transportation systems (roads).

Solution should be a combination of increasing revenues and decreasing spending. We can't keep borrowing. We need to make decisions about what are our core priorities and are we willing to fund these.

Small Group C:

What is the problem? What is different about the problem?

Problems

- Numbers increase - students, caseload...
- Burden of raising population but not raising benefits.
- Education spending not producing inventors - California not benefiting.
- Students are going home after getting educated here. How to keep the best and brightest from leaving for other states?
- Shocked by the amount of money that goes to Community College students.
- How do we address retirement issue? What can the state do to relieve the problem?
- Medical caps - abuse within billing
- Can't recruit nurses.
- Immigration is a BIG issue - is that part of the problem?
- How to get the undocumented to pay for the problem? Too much money goes to undocumented regarding education. Need to pass regulations to stop undocumented workers. Need immigration legislation - how many undocumented?

Solutions

- Do not increase sales or income taxes.
- Reduce spending overall. Give state all sales tax and give all property tax to cities.
- Shift to utility tax - people cannot avoid, and pay less for sales and income tax (everyone has to pay utility tax).
- Torrance has good sales taxes and a good land use approach.

- There should be a penalty tax on cars that are only getting 8 mpg compared to cars getting 20 mpg.
- Artificially suppressed economy - as global economy settles, California will be first to benefit (in 2005).
- Business always solves its problems.
- Idea of education should be get educated here and then stay here.
- Raise tuition (two percent increase).
- Not all tuitions are the same across campuses - increase by five percent.
- In the past people were educated for jobs (telephone company trained their workers, etc.). Businesses need to train workers. Cut higher education and give money to businesses to train workers.
- Cut spending in social services - only need half money (or \$1 billion) for Calworks. Cut spending in social services and reduce fraud.
- Welfare to work doesn't work - childcare is an issue - put money into childcare so people can work.
- Hire more people to work.
- Infrastructure will collapse if we do not repair - need to cut somewhere to repair existing infrastructure.
- Legislation doesn't work for undocumented. Make it less desirable for undocumented workers to come and take advantage of services.

Small Group D:

Spending

- Move to comparability with other state/local expenditures and taxes.
- Re-negotiate pension costs - on par with private sector.
- Outsource public activities to private sector - prisons (profit motive).
- Efficiencies in state subsidy of higher education (return on investment?).

Revenues

- Raise state sales tax and gas tax for transportation.
- Increase federal funds - pay for programs resulting from federal policy (immigration, homeland security) - no unfunded mandates.
- Increase taxes by constitutional amendment and dedicate them to infrastructure investments.
- Finance toll roads for transportation revenue.
- User pays for benefits received.

Other

- Deficit plan - Process improvement savings from waste (California Performance Review).
- Lower unemployment rate through training to increase worker skills and attract businesses and reduce workers compensation costs.
- Question: What is the percent of tuition as grants in aid? Of overall cost?
- State makes cities financially viable?
- Look at commercial property tax re-assessment - fair share - keep goose laying eggs?
- Improve budget process - strategic plan - 2 year budgets?
- Change politics - political "rules of the game."