



May 11, 2004
Valley Vision/Sierra Health Foundation
Sacramento, California
4:00 pm - 6:30 pm

Welcome, Introductions, and Project Overview

- Nick Bollman, President and CEO, California Center for Regional Leadership
“We have the opportunity to influence decisions made in Sacramento to better support California’s regions. We are trying to bring good information about the state budget to civic leaders.”
- Noel Perry, Founder and Managing Director, Baccharis Capital Inc.
“I want to participate to help shape the future of California.” The end result the Next Ten project is looking to achieve is a group of people coming together to focus on what is best for California and our quality of life.

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.

Q&A

Q: Retirement benefits concern - is the current level too high? Is government retirement factored in?

A: It is clear that there have been cutbacks. Is this the model we want for the public sector? If policy changes in the future we will create an unfunded mandate. Question is when things get out of kilter how do you sort that out?

Q: Prop 13... heard this will get worse...will get better (lower impact) - what is true?

A: We regenerate new beneficiaries every decade. The problem is getting larger because the population is getting larger. The technical problem remains. The problem is getting larger because we have not filled the shortfall. (Other discussion regarding passing on tax benefits to descendants) This is the problem we face. If you step back, the system does not balance. Each piece has beneficiaries - people who want the system to stay the way it is. Some people will have to give up benefits.

Q: When things go off kilter we need a plan B.

A: Problem is there is no agreement on what plan B should be. This was foreseeable.

Q: Socio-economic “compact” - this is bankrupt. Why aren’t we looking at a structural fix rather than tweaking what we have?

Q: Tax cuts have triggers. With both plans A and B, for any tax cuts there is the 2/3rds requirement. The way we raise or lower taxes has implications.

A: Polls reflect opinions. Voters don't want to cut spending **and** don't want to raise taxes. Politicians follow this but the math is off. We are all coconspirators.

Q: Actuarial soundness - really a budget deficit issue - "setting aside deficits each year"

A: Polls are clear. The public want services but do not want to pay. The incentive to put off for a year is overwhelming. The only way to solve is to cut spending or raise taxes. It is bad economic policy to loan money. Regarding the pension deal, the bargain we made doesn't look so good when money is sparse - pensions become a drag. What are equity issues when situation goes bad?

Q: "VLF" - please explain

A: In 1998 the state had extra revenues. The Vehicle License Fee was cut by a third and then cut in half and then cut by 2/3rds. In 2001 at height of the boom they made these tax cuts permanent. The backfill we continue to refer to is the money that goes to local governments because we got these tax breaks.

Q: Are we targeting a solution for 1/2 or 2/3rds of the people? Is part of the problem looking for a way to make 2/3rds of people do something?

A: We are one of three states that have a rule in place that makes it harder, but it would be hard either way.

Q: Long-term budget gap emerges (slide)

A: We are in the middle of a lot of spending. VLF fee, healthy families. Spending and cuts - there is no single thing.

Q: Prop 98 attempts to mandate a certain level of incoming revenues to go to education.

A: Under Prop 98 we are not spending any more per pupil so the question is - did we change anything? Legislature can suspend - not fixed.

Group Discussion:

- **What are your major take-aways from the presentation?**
- **Did anything surprise you?**
- **Did the presentation reflect your previous understanding?**

- The areas where California is not at the national average - that is a policy choice.
 - Surprised at number of government employees
 - Below average Medicaid and tuition
 - When you look at those numbers, half of the state employees are in higher education and are all over the state. The real percentage of state employees in Sacramento County is more like 1/3.

- Struck by the magnitude of VLF cut (4.1 billion) in terms of value to an individual - we could have cut the VLF or made higher education free.

- Question is if the group here is limited in balancing choices to spending cuts and revenue increases? How do we do things better? People criticize bureaucracy - how can this be faster, better, and run more effectively? This should be more prominent. Part of the solution is collecting fines more efficiently.

- Special Districts Reform Bill - 18% go to special districts - surprised that this allocation was higher than cities. There are 4,300 special districts in California.
- Because we rank a certain place does that mean it is better or worse? When you take the transportation money and combine it with the other money and then look are we still ranked the same? Link to performance - what is whole picture? On most charts this includes federal money. State budget is only part of the pot.
- Regarding education spending and price per pupil, are we just getting the best bang for the buck? Where do we rank in results?
- Outcome measurement heavy - never see that written up. Land use planning changes - budget planning - why are we not improving our budget planning? Trade-offs - give me a quarter and tell me where to put it. Tall Order was a wonderful process - where is this planning?

Trade-Offs and Choices: A Closer Look at Education

- Scenario discussion
 - Review Key Facts About Education and brainstorm recommendations to the following scenario question:

The state of California has a structural deficit of \$7 billion. If we were to balance the budget with an across the board spending reduction, education would absorb a \$2.7 billion dollar reduction, putting us at 38th in per pupil spending.

Q. What strategies would you recommend the state pursue to balance the budget without reducing education spending? Options: spending cuts (cutting other state services, less waste); revenue increases (inc. taxes/fees, more federal funding), other options?

Small Group A:

1. Structural political reforms: e.g. open primary, redistricting, term limits (bi-partisan - need the middle to make deals/solutions)
2. Has to be pieced together
3. Reassess commercial property (tough with split roll rates)
4. Shift responsibility to health and retirement benefits to a health authority - state authorizes but no accountability - 45% of salary - need special task force

Small Group B:

To compare cost per student is invalid - not the only metric to judge success.

- Where does money go? Class size, staff, and facilities?
- There is not an equal allotment of the 2.7 billion - it is different for each district

Want to keep same standing regarding other states and not reduce 2.7 billion

How do we achieve outstanding budget performance within the constraints of this budget?

- Increase taxes
- Need full menu before choices can be made
- Look at other indicators of success
- Is the money being spent effectively?

- Cuts in social services or other cuts
- Cut other parts of the budget - maybe higher education

This is the wrong question - wants to blow up constraints and deliver education in a different way.

Small Group C:

Strategies:

1. Efficiencies
 - a. Performance-based funding (not just categorical and A.D.A)
 - b. Funding system antiquated
 - c. Program design changes
 - d. Ask teachers
 - e. Craft-based not rules-based
 - f. Measure performance with good criteria and measurements
 - g. Uniformity does not work
 - h. Get parents involved (immigrants ideas)
2. Revenues - raise taxes
 - a. Property taxes - prop 13
3. Both
4. Other cuts?

Political Will:

1. Use better data to get public opinion than typical polling (race and class bias)
2. Sacramento diversity - how to include everyone (such as immigrants)
3. Partner with media - voter education
4. Understand choices and trade-offs (VLF verses K-12)
5. Voters without children (crime/prisons)

Small Group D:

The Governor is currently proposing a \$2.1 billion cut to education, which is similar to what the scenario proposes.

Increase Federal Funding:

- The California Congressional delegation does not have as much clout as it should, given our size. The Congressional delegation should work together on a specific set of goals to increase federal dollars coming to California.

Increase efficiency of the state dollars that we already spend in education:

- In high schools there are many overlaying bureaucracies. If the funding structure was different there would be a different administrative structure.
- California has too much of a hierarchical structure in education. We should look at creating regional offices of education.
- Education changes in the past 100 years have centralized a lot of functions that used to be at the school. Syndicalism -- where interest groups go to legislature and ask for special needs - is rampant in California. The classroom share of the education budget needs to be held harmless. Department of Education should analyze spending on needs of some students due to past problems.

Tax Increases:

- Review property tax system again as a source of increased revenue.
- Review the 2/3rds requirement for local taxes and consider lowering this threshold.
- Address the credibility and trust issue with voters.

Small Group E:

Strategies:

1. Efficiencies
 - a. Freeze education spending
 - b. Review current spending - bring stakeholders together and produce an assessment
 - c. Reduce the number of education categories
2. Revenues
 - a. Once this is done, we can split the deficit
 - i. Raise taxes for half of the deficit
 - ii. Cut other spending for the other half

The focus should be on the quality of education and not on numbers. If we are to make decisions, we need more statistics, i.e. - how many students from public K-12 go on to college/professional jobs? How does per student spending relate to academic achievement? How do we compare with the rest of the world? What are our portable skill sets that make us competitive globally?

What are the gaps?

What are the outcomes?

How do we measure best practices?

Report out from each small group

- Education funding: take a hard look at performance outcomes
- What are we getting for our money now? How can we get more for our money?
- Mix cuts and increases
- Get our fair share of federal money
- Get more efficiencies out of the system
- Tax increase on property tax (trust - associate with education)
- 2/3 voter threshold has to be addressed - political will for reform, efficiencies, and increase