

SOLUTIONS

FOR OUR

STATE



MARCH 2008 ECONOMIC OUTLOOK

UCLAAnderson

FORECAST

Preface

Solutions for Our State	5
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Education

Elevate the Role of Teachers to Lift California	7
Reform of Public Education System to Create More Efficient Use of Human Capital	9
My Solutions for Public Education	11
It Shouldn't Be So Hard for Teachers to Teach:	13
Individuals and Business Need to Support Public Schools	
Schools Need Real Accountability Before More Funding	15
Solving the High School Drop-Out Problem	17

Environment

Let's Make Sure Money Spent Implementing Greenhouse Gas Regulations Stays in California	19
No Water, No Future	21
The Case for LNG, Especially in California	23
Adapting California's Cities to Fight Climate Change and Protect against the Consequences	25
Alternative Energy for a Better California	27

Finance

Investing to Make California a Great Place to Work and Live	29
It's Time for the Gore-Inator	33
Exploring Sovereign to Sovereign Partnerships	35

General

Some Solutions for Our State	37
------------------------------	----

Health

California's Drug and Alcohol Problem	39
Improving Health Care	41
My Solution for Our State	43
Modifying Health Care Delivery Channels as a Means of Reducing Costs	45
Astute Health Care	47

Immigration

Solutions for Our State	49
-------------------------	----

Infrastructure

Using Innovative Partnerships to Restore the Golden State	51
Disaster Information System by California Communications Leaders	53
My Solution for Our State	55

Policy

California's Economic Health: Testing the Old Adage "The More things Change, the More they Stay the Same"	57
The Revenue Side: Generating a Consistent Resource for California Through Reassessment of Commercial Properties	59
If it's Change You Want – We Best Get Moving	61
My Solution for Our State	63
A Taxing Solution to State Budget Financing	65
State of the State	67

Urban Development

Re-Fitting the Urban Core	69
The Need for a Vision	71
Efficient Cities	73

Workforce

New Wealth: From Brainy Innovation or Investments?	75
Attracting a Skilled and Talented Workforce	77
Keeping California and the Country Working	79

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TITLE →

Solutions for Our State

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UCLA Anderson Forecast

In response to the discovery of gold in 1848 at Sutter's Mill in Coloma, 300,000 new residents from all over the globe rushed to California, swelling the population to 380,000 by 1860. In the ensuing 150 years, wave after wave of immigrants flooded into Southern California, increasing the population to 36,000,000 in 2006. These new Californians built wall-to-wall homes and businesses, initially crowded up against the coast, but sprawling farther and farther inland with each passing year.

These immigrants came for what seemed like limitless sunshine, land, job opportunities and personal freedoms. The most important function of state and local governments was literally to pave the way for all those immigrants – build the aqueducts and roads and schools and power plants and sewage systems that would allow ever greater numbers of young people from all over the world happily to pursue their own versions of the California Dream. Otherwise, government, stay out of the way. This is the land of entrepreneurial spirit and personal initiative.

Those of us living in California today still cling to the founding myth of life without limits. But deep inside we realize things have changed. We are reminded of this reality each and every time we try to go from point A to point B in the California conveyance of choice – the ubiquitous automobile. Be assured that earlier immigrants didn't come to California to spend countless hours alone in their automobiles. With or without cell phones, that's a nightmare, not a dream. But that's our reality. Still, we cling to the past. We nostalgically call them freeways when many are no-ways. And we naively pass infrastructure bond measures as if we could build our way out of the troubles we are in.

It's not just travel that is experiencing limits. Everywhere we

look today there are new limits that create new problems in search of solutions – air quality, land-use patterns, water, energy, climate, roads, middle-class jobs, educational opportunities, affordable housing, and accessible healthcare to name a few. Even life itself seems limited now that California baby boomers have packed away their tie-dyed t-shirts, hemp jewelry and water pipes in favor of fashionable golf-wear suited to the retirement communities popping up everywhere.

Our new problems need new solutions. The premise of "Solutions for Our State" is that the best solutions will emerge with the broadest and most-informed public debate. To create this book of solutions, we cast the net widely, asking Californians representing every facet of life to offer their solutions in two-page op-ed pieces. We didn't want to hear a litany of problems – we wanted the solutions. What can our state government do? What can our businesses and our schools do? What can our families do? What can we as individuals do? And what if we all worked together? In response to our invitations, we have included 36 creative solutions from 35 distinguished Californians in the book. Some of these solutions may seem familiar to some of you, but many will surprise most of you. That is the intent – to unleash the unique entrepreneurial spirit of individual Californians to solve the new problems we face.

These solutions have been arranged into categories and are published in this book distributed at the March 11, 2008 UCLA Anderson Quarterly Forecast conference, attended by many of the solution authors. Of course, a half-day to discuss these solutions and others is not going miraculously to solve all our problems. The conversation must go on. Toward that end, all of these essays are posted on our website: www.uclaforecast.com.

TITLE →

Elevate the Role of Teachers to Lift California

CONTRIBUTOR →

Dharam Ahuja, Founder and CEO
Strategic Alliances Inc.

California must elevate its math and science curriculum in its schools for long-term competitiveness in the world. It must also be taught in more interesting ways than it is done now. I suggest a teacher-exchange program between California and other countries that have better science and math programs and teaching methods. An example would be a teacher exchange program between India and California. It could begin with a 100 teacher exchange program in both directions. Over a period of time we would attain parity with Indian schools if we did that.

I have seen this approach work in the other direction. In the post independent India, IIT's (Indian Institutes of Technology) were started in collaboration with the likes of MIT and Imperial College of Science. Faculty exchange was an integral part of the collaboration. Ditto for IIM,s (Indian Institutes of Management). Let's elevate the skills of our teachers by having a State-Level exchange program with India, Singapore, Japan, Hong-Kong and China.





TITLE →

Reform of Public Education System to Create More Efficient Use of Human Capital

CONTRIBUTOR →

Adam Campos, President
Avant Garde Apparel Group

The state's public schools are overcrowded. Meanwhile, the state has fallen into a budget deficit that not even the Governor's tough talk can get us out of. Finally, the needs of our changing economy have made traditional general education models obsolete. Therefore, we need to reform the public education system in the State of California if we are to remain a major economic force worldwide.

The traditional twelve grade system is outdated- and quite frankly, a failure. This is evidenced by the high percentage of California graduates who can't read, write, or dominate basic mathematics after more than a decade in the system. The system is overwhelmed and under-funded, so it is only natural that teachers and administrators focus on moving people through the system rather than monitor individual students' learning.

The Purpose of Education

The term education has become intertwined with intelligence, ability, and other human qualities, but a rethinking of the purpose of education is in order. The purpose of "educating" young people is first, to indoctrinate them with facts so that the whole population shares a united reality. This reality that the Earth is round, there are 24 hours in a day, and that water freezes at 32 degrees Fahrenheit allows people to get along, and without it, we would have more disagreements, confusion, and wars. The second purpose is to train people in an area of study so as to create qualified practitioners. That is to say, one purpose of education is to teach people how to do things so they can do them well – well enough to get paid. Last, the education system bears the responsibility of giving young people something to do with their time until they are old enough to work. Our world wouldn't operate

well if children roamed around the cities during the day for lack of something to do. The State is essentially providing a day-care service for young people, and this service is a proactive approach to preventing crime and utter anarchy. The current model of the public education system seems to focus on the third, then the first, and last the second. This is one reason why the system is a failure. Students are not learning what they want or need to know, so many drop out or coast through school without achieving any specialized knowledge or skill that will prove useful in the working world as adults.

Irrelevant Coursework

We must acknowledge that many of the subjects taught are irrelevant to the majority of students (i.e. history, sciences, physical education, etc.). California should adopt a system like France, splitting students into vocational schools or college preparatory courses depending on their interests and test results. What good does a physical education class do when a young person wants to learn to design video games or websites, and he will spend the rest of his life sitting on his duff in front of a computer? Why does a young person need to spend a year in physics when she plans to become a movie stylist? And maybe history repeats itself because we force kids to repeat history class. And what about teacher quality and the difficulty in finding qualified math and science teachers? Changing to a technical school or academic emphasis program would allow specialization for teachers (for example, not every school would need a physics teacher, so presumably, students who take physics will have a good teacher) and will prepare students for real careers. Many of these classes are defended because they "prepare students for college".

The Higher Education Racket

There exists a misconception that all children need to go to college so that they can “get a good job”. The fact is that going to college doesn’t even guarantee a “bad” job in today’s competitive market, and that is because even colleges fail to prepare students for specialized job functions. Too many chiefs and not enough Indians will lead to weak tribes. California needs plumbers, construction workers, shipping agents, and many other unglamorous jobs to support the lawyers, engineers, executives, doctors, and studio executives. This notion that college is necessary is of course the intentional marketing efforts of the higher education racket.

Colleges, universities, and trade schools are such great businesses that they have multiplied to the point of reaching market saturation. They help propagate the fear that we need education, that without a diploma one cannot succeed in the working world, and that even if you have to take on \$100,000 debt at age 21, it is worth it. People who go to college make more than their counterparts who don’t, and those with additional education make even more. Tell that to the guy with a master’s degree in philosophy working at The Coffee Bean. And after you finish school, there’s always a way to extract even more money from you – alumni donations, the big game, not to mention merchandise (t-shirts to license plate frames), and eventually your kids. The problem is that the higher education system can’t deliver on their promises because the “value” of a college degree is in decline. This just follows the simple economic law of supply and demand. Demand for college graduates has declined as the supply has ballooned, and new schools like The University of Phoenix that sprout up like In-N-Out Burgers drive the demand even lower.

The Need for Skilled Labor

I can speak from direct experience, mainly as a small business owner who has a devil of a time finding employees. My screen printing business operates in the realm of apparel manufacturing, one of Southern California’s largest industries. I don’t need workers who have read The Iliad or can recite California history, but rather people who can speak English, add and subtract, and have some specialized

training in this field. I offer higher pay than most retail or fast food jobs, but I struggle to find anyone with a high school diploma or legal resident status to work as a secretary, production worker, printer, etc. Those people are all working at McDonald’s because they can’t get a job at Starbuck’s (where college graduates with liberal arts degrees work). We know that there are hundreds of screen printing companies like mine who need workers, so wouldn’t it make sense to incorporate this trade into at least one magnet high school’s curriculum? And what of the other dozens of trades in apparel manufacturing?

This brings us to the topic of efficient use of human capital. It is arguable that if so many of our educated youth are relegated to working retail jobs for minimum wage, and illegal immigrants are attracted to our region to fill manufacturing, agricultural, service, and construction jobs, then we are not experiencing the most efficient use of California’s human capital. Were our system efficient at all, there would be no jobs available for illegal immigrants because those jobs would be filled by trained graduates from the public high school system or high school drop-outs. There would be no unemployment or need for a minimum wage because the market would adapt itself accordingly. Given the changing economic matrix, where agriculture was replaced by manufacturing, and service replaced manufacturing, and now intellectual property and information technology is replacing services, the public education system needs to change, too. The Federal government can track and predict things like consumer spending and economic productivity, but the State government can’t seem to utilize these figures to determine the demand for courses like screen printing instead of “art”, flash web design instead of “typing”, or nursing instead of “health”.

California attracts thousands of people from all over the world to work in music, film, television, fashion, video games, pornography, software, Internet, and other creative industries. However, the less glamorous industries like agriculture, manufacturing, aerospace, and others are in desperate need of qualified workers to maintain profitability and competitiveness. Why can’t the public schools supply this necessary labor pool?



TITLE →

My Solutions for Public Education

CONTRIBUTOR →

Ruben L. Ingram, Executive Director
School Employers Association of California

My perspective of public education in California is informed from over fifty-one years of service to our students, schools, and communities. As a teacher, principal, superintendent, state agency head, and state professional association executive, this is what I believe.

The problems do not lie with the students, teachers/staff, parents, or administrators. To blame students is “victimizing the victims.” To blame parents defies basic human nature of care for their offspring. To blame teachers/staff and administrators disrespects generations of dedicated individuals who contributed their intelligence, training, and commitment to the profession while sacrificing earning power and comparable public employee retirements.

The problem is clearly and simply political. The politicization of public education at the local, state, and federal levels has created a system that responds to primarily to special interests and partisan politics. This paper will address two areas of that politicization: 1) collective bargaining; and 2) school finance.

Two Problems Regarding California Public Schools

First, while the enactment of collective bargaining laws for public employees was inevitable, and indeed justified, given employer-employee differences in priorities, the original scope of bargaining as defined in the Educational Employment Relations Act of 1975ⁱ has been expanded enormously through agency interpretations and binding decisions. Those decisions have come primarily from the Public Employment Relations Board (PERB)ⁱⁱ, while others have come from court decisions. Those decisions have expanded the scope of bargaining far beyond the original legislative statutes, and I believe, far beyond the intent of management, labor, and the legislature.

Expansion of the scope of bargaining has resulted in a rule-bound system that severely limits school districts from meeting the needs of students to the degree desired. Limitations on transfer and assignment of teachers, use of the duty day and year, performance appraisals, and staff training and development are a few examples. The rise of the charter school movement is, I believe, a reaction to this rule-bound environment, but to date there is little evidence that charter schools have the flexibility that was envisioned.

Second, the funding of school districts needed to move away from the significant variations of local property taxes, and did so as a result of the multiple *Serrano v. Priest*ⁱⁱⁱ Court Decisions.

Those decisions and resulting legislation were needed to ensure that students from any area of the state would receive equal educational opportunities backed by some measure of balanced funding. However, the result was that school funding became a state responsibility, and as such, more vulnerable to state politics. During this period Proposition 13^{iv}, another political reaction to taxes and government controls, brought severe limitations on the ability of the state to meet all its obligations. As the fortunes of the state became more and more dependent on other sources of revenues than property taxes (primarily sales and income taxes), the services dependent on the state (in this case schools) suffered the ups and downs of the economy.

While business-oriented people would say that public services should rise and fall along with the private sector, school districts cannot tie expenditures to revenues the way businesses can. When revenues are down, school districts cannot reduce the number of students who come through their doors in order to match the reduced income. The alternatives are usually unacceptable; that is, reduce the

number of teachers (thereby raising class size or reducing program offerings), or cutting other essential support services such as training and development, maintenance of facilities, transportation, etc. This realization resulted in the enactment of Proposition 98, sponsored by the educational community, passed by the citizens and was intended to provide a stable and predictable funding base for school districts. However, there were contingencies built in to protect the state against having to meet the “guarantee” when there were shortfalls in state budgets, so in effect, the guarantees the voters believed would always be there for the schools are not necessarily available from year to year. This puts the school districts back in the funding roller coaster they have always faced, and results in changing programs and services to students from year to year which is very damaging to student learning.

My Solutions

First, there should be a complete review by the legislature of all decisions made by the Public Employment Relations Board (PERB) since its inception to determine which ones exceeded the original mandatory subjects of bargaining as intended by the legislature. For instance, school employers are required to negotiate when holidays will be scheduled within the duty year. That subject and others (over 75) were not original mandatory subjects of bargaining, but resulted from a PERB Decision (Anaheim UHSDⁱ). In addition, all court decisions that resulted from appeals of those decisions should be identified in light of the fact those decisions would never have gone to court without the PERB Decision. For example California Supreme Court Decision re: Anaheim UHSD^{vi}.

When this information is made available, all provisions in contracts between employer and employee organizations that have exceeded the original statutory language should be declared null and void until the legislature enacts and the governor signs new statutes into law. This would result in the elected representatives of the people setting rules and regulations rather than appointed officials. In turn, those

statutes could be changed by the will of the people through their elected representatives; thereby eliminating the use of legal precedents to keep the status quo even when it creates barriers to improvements in the delivery of educational services to students.

Second, funding for school districts and the ability of employers to plan accordingly can be stabilized by doing two simple things. Make an absolute guarantee that schools will not receive less than the current or prior year per pupil apportionments plus growth in ADA. A second, supplemental apportionment, equivalent or better than the Implicit Price Deflator for Government Goods and Services as of December 31 of each year would be announced not later than February 1 which would allow districts to know how much additional revenues will be allocated. This, in effect would provide schools with a forward funded formula, and would allow sound program planning. For declining enrollment districts the current one year grace would stay in effect. The prior year and guaranteed equivalent or better Implicit Price Deflator apportionment would at least allow schools to keep up with inflation. If the legislature desired to improve support, they could always exceed the guarantee. In addition, establishing a 55% local vote to pass a parcel tax, or the ability to increase assessed valuation property tax rate for operational purposes would provide another avenue for local citizens to give their schools greater support.

In summary, after thirty years of collective bargaining in the public schools of California, it is time to assess whether or not the stated legislative purpose to improve employer-employee relations has occurred, and has contributed to a better education for students. In terms of school funding, the citizens of California voted to establish a guarantee that their school districts would not suffer the ups and downs of the economy, but would instead be stabilized in order to provide the security children and students need in order to develop their potentials. Again, it is time to assess whether or not the will of the people is being implemented as intended.



ⁱ California Government Code Sections 3540 - 3549.3

ⁱⁱ California Government Code Sections 3541 - 3541.5

ⁱⁱⁱ Serrano v. Priest 5 Cal 3rd 584 (1971) et.al.

^{iv} California Proposition 98 (1988)

^v Anaheim UHSD (1981) No. 177

^{vi} California Supreme Court Decision re: Anaheim UHSD Cal 3rd 850

TITLE →

It Shouldn't Be So Hard for Teachers to Teach: Individuals and Business Need to Support Public Schools

CONTRIBUTOR →

Julie Lacouture, Deputy Director
DonorsChoose.org Southwest

Teachers are superheroes. They bear an incredible burden to keep kids interested, engaged, and in attendance. Overwhelmingly, studies show that early, quality education is the key to keeping individuals out of gangs, out of jail, in college, and in the workforce. With each round of budget cuts, we make it even more difficult for teachers to provide that quality education. How can they teach children to read when there are no books in the classroom, to write when there is a limited budget for pencils and paper?

According to a 2005 survey, the average teacher spends over \$800 of his own money on classroom supplies each year¹. That number is even higher for first year teachers.

I work at DonorsChoose.Org, a non-profit organization that helps teachers get the resources they need in their classrooms. On our website, teachers post proposals for materials and supplies – from books and paper to desks and LCD projectors – resources they would otherwise spend their own money to obtain. Individuals can then donate to the project of their choice, helping teachers make their lesson plans a reality.

At DonorsChoose.Org I have seen the challenges faced by educators on the frontline. For example, Mr. S teaches middle school English in Carson. Four years ago, he pulled tables out of a dumpster for his students to use as learning stations. Most tables were held together with duct tape; at least once a week, class was disrupted to repair a collapsed desk.

And then there is Mrs. C who teaches kindergarten in Los Angeles. For many years she had portable listening stations and headphones for her classroom tucked away in the closet. These supplies might have been the key to engaging early readers but unfortunately, Mrs. C had no books or tapes to use with the stations.

Both Mr. S and Mrs. C posted proposals on DonorsChoose.Org and within months received small donations from individuals

from all over the United States. Once their proposals were funded, DonorsChoose.Org procured materials and sent them to the teachers. But there are thousands of teachers who have yet to receive funding for their projects. Just in California, there are over 1500 teacher requests posted on our website.

We know that great efforts are being made to change the education system in California. Groups like the Broad Foundation, Education Pioneers, KIPP Academy, and Green Dot Public Schools are working hard to rejuvenate a mired system. But until a viable solution is discovered, what will we do TODAY for the students of the classes of 2010, 2015, and 2020?

The answer is just a few mouse clicks away.

No donation is too small; most teacher requests are under \$500. When an individual donates \$100 or more, he or she receives a feedback package of student photos and thank-you notes, a teacher impact letter, and an expenditure report showing that the tax-deductible gift was spent as directed. To date, over 60,000 people from all over the United States have donated to teachers at DonorsChoose.Org. For most donors, it is their first time giving to public education.

We've been fortunate to partner with companies like Bank of America, Lehman Brothers, Yahoo, and Google. Such companies understand that education is everyone's responsibility and additional resources are a necessary part of student success. But more needs to be done, whether businesses donate money, resources, or employee time, small investments can go a long way in making a difference in a child's life.

Teachers are superheroes because they make a broken system work. It's time to start helping them in return.



¹ A 2006 National School Supply and Equipment Association survey found that educators spent an average of \$826.00 for supplies and an additional \$926 for instructional materials, for a total of \$1,752.

TITLE →

Schools Need Real Accountability Before More Funding

CONTRIBUTOR →

James Lanich, President
California Business for Education Excellence

Since the 1990s, the school accountability movement has become one of the most potent forces in education nationally. Facing years of poor student academic performance, advocates of school accountability have succeeded in creating and implementing robust academic content standards, implementing standards-aligned tests, and establishing state and national accountability systems. When done correctly, these accountability elements can have a dramatic effect on improving student academic achievement.

California is fortunate to have some of the best foundational elements for an effective school accountability system. With the institution of rigorous state academic content standards and tests aligned to those standards, the foundation for an accountability system was established in California. Such a system would use student test results over time to identify poorly performing schools and attach real consequences for poor performance. The importance of consequences and mandated corrective interventions for poor performance cannot be understated. Unfortunately, California's school accountability system is severely deficient in this crucial area of consequences, mandated corrective interventions or options for parents of students attending consistently low-performing schools. In short, absolutely nothing happens if a school or district fails to meet their state benchmarks for improvement.

One primary flaw driving this lack of clear accountability is California's reliance on the Academic Performance Index (API) as the main indicator of achievement. Growth targets for schools based on the API are so meager, that simply by

achieving the state required "growth" each year, it would take an average school more than 60 years for students to reach grade-level proficiency. The API also weights more heavily moving students from the bottom levels of performance, to just above the bottom, exacerbating the acceptance of very low expectations. At the same time, the API rewards growth based upon school-wide averages while many of these schools show stagnant or declining rates of students reaching grade level proficiency, particularly minorities, English Learners and disadvantaged students.

Compounding this anemic and confusing measure of academic achievement in schools, California bases new investments in struggling schools on the API as the metric – (and these are) multi-billion dollar investments such as the Immediate Intervention/Underperforming Schools Program (II-USP) and the High Priority Schools Grant Program (HPSGP). Comparing schools that received these funds to those that were eligible yet did not request these funds, there is no significant difference in academic achievement over time as measured by improvement in grade-level proficiency.

Collectively these two programs have spent in excess of \$1.25 billion or an average of \$771,604 per school. Despite this lack of improvement in achievement, these schools met their API growth targets established by the state for successful implementation with sufficient results for exiting the program. The lack of significant academic improvement by schools participating in these programs is particularly troubling given that the state is set to spend an additional \$2.9 billion of state taxpayer funds to continue a program that does not require any higher rates of improvement.



TITLE →

Solving the High School Drop-Out Problem

CONTRIBUTOR →

Carol Libuser, Teacher
Los Angeles Unified School District

In California today, approximately one-third of high school students will drop out of school. The state's graduation rate for African-Americans is estimated at 55% and 57% for Latinos. In the Los Angeles Unified School District (LAUSD), the nation's second largest, it is estimated that the graduation rate is as low as 50%, although anecdotal evidence suggests that the rate is even lower, perhaps as low as 30% in some schools. And where do these drop-outs go? We know that many fall by the wayside into gangs and criminal activity. Others take entry-level jobs, existing on the edge of poverty. Can that be changed?

The surprising answer is “yes”, at least according to many high school teachers. First, let's examine why students drop out. In large urban schools, many ninth grade students fail some or even all of their classes. This continues into the tenth grade. By then, graduation seems impossible for many, since they are not racking up the number of credits needed to graduate, nor are they completing the required courses, such as algebra and geometry. In large urban high schools, by the twelfth grade the class of seniors has shrunk significantly. One thousand ninth graders enter each year, and there are only three to four hundred students in the senior class.

And to compound the problem, in an almost horrifying way, LAUSD has actually raised the graduation bar for next year's incoming freshman. The class of 2012 will need to successfully complete all of the courses required for entry to college at the Cal State or UC system—commonly known as the A-G requirements. Clearly graduation rates will plummet.

So what do the teachers say? Talk to almost any teacher at a high school in LAUSD, and they will say that we cannot pretend that a “one size fits all” education is appropriate.

My colleagues and I argue that high schools put too much emphasis on sending students to college, as opposed to providing technical training to those who would prefer to learn a trade. Vocational classes, which have almost disappeared, need to come back into high schools as a major part of the curriculum offerings.

And for those who fear that the schools might be regressing into forced tracking, the emphasis should be on choice—meetings held with parents and entering freshman to make reasonable decisions about program enrollment, choices and opportunities. Of course, this would entail dramatically increasing the number of high school counselors (the current ratios are roughly one counselor to four or five hundred students).

Students who choose one educational path should also have the flexibility to move into another curriculum course if they change their mind later on in their high school career. And it should be noted that there are models for this type of education in other industrialized countries. In Japan, for example, there are vocational high schools, known as Senmon Gakkou. In Germany, at age 14, students go on to either a full-time traditional high school (Gymnasium) or to a part-time vocational high school (Berufsschule). The economic and social success of these countries suggests that perhaps their methods are worth a second look.

Furthermore, the economic reality is that skilled workers with a high school diploma can often make more money than some college graduates. A shortage of skilled workers exists and will only get more intense. Nationwide, we face shortages of skilled machinists as a whole generation is set to retire. We need electricians, auto mechanics, plumbers, and particularly healthcare workers. Vocational programs could be offered within large high schools, or at magnet

18

schools. Apprenticeships in the 11th and 12th grades could be a part of the final steps towards graduation for vocational students.

One particularly stunning reality is that with a rapidly aging population in California, we will need large numbers of healthcare workers with technical training and just a basic education at the high school level. At present we do not have enough of those workers to fill the increasing demand. For example, there is a current shortage of phlebotomists (who draw blood), and the salary for those workers can be as high as \$19 per hour. In addition to college educated RN's, we will need LVN's and health aides. As homecare for sick and elderly patients increases, so does the need for skilled attendants.

The job of high schools must become twofold. One mission is to prepare students for college. The other mission should be to prepare others to immediately enter the work force

as skilled workers, or to continue on to certificate programs or AA degrees at community colleges. Using models from other countries, high schools must be reconfigured to fit the needs of both the students and the economy in terms of the demand for various types of technically trained workers.

Our current system of high school education robs students of appropriate educational opportunities, and it ultimately deprives our society of a potentially large skilled workforce. We are leaving a third or more of them behind, and at the very least, they represent a significant opportunity cost to our economy. These young people are our citizens of the future, and we need them successfully integrated into the economic and social fabric, now more than ever. They are the workers who will replace, care for and even economically support the retiring baby boomers. California, the world's seventh largest economy, can and must lead the nation in changing how we educate our young people. We must build a strong future for them and for us.



TITLE →

Let's Make Sure Money Spent Implementing Greenhouse Gas Regulations Stays in California

CONTRIBUTOR →

Bill Allen, President and CEO

Los Angeles County Economic Development Corporation

California is committed to greenhouse gas (GHG) reduction. The state's landmark Global Warming Solutions Act (AB 32) is almost certainly the nation's most aggressive legislative attempt to reduce GHG emissions and combat the effects of climate change. AB 32 mandates a return to 1990 levels of 426.6 million metric tons (MMT) by 2020, a cut of almost 30% from the 600 MMT forecast under a "business as usual" scenario. Further cuts to 80% below 1990 levels are required by 2050.

However, passing bold legislation is the easy part. The bigger challenge is in deciding how to actually implement and realize the goals of AB 32 and other GHG reduction measures without doing critical damage to our state's economy.

GHG reductions will cost money. If the costs are substantial, California will lose jobs and no one will follow our lead. This matters because California's planned reductions will be meaningless unless the rest of the United States as well as other countries follow suit. (Ranked among countries, California is the 18th largest source of GHG emissions, but the increase in emissions from China alone by 2015 will be many times greater than the planned reductions here.) The way to encourage others to emulate our actions is to demonstrate that GHG reductions are compatible with economic growth.

Whether reductions are compatible with growth in California will depend on the geographic distribution of spending to lower emissions, as illustrated by a green power project in southern Nevada. The Nellis Air Force base solar plant is the largest in North America at 15 megawatts, and is a private-public joint venture between the Air Force, MMA Renewable Ventures, and SunPower Corp.

The deal is a win for the Air Force, which leases the land for the plant free of charge in exchange for a reduced carbon footprint and lower power bills: a 25-year contract to purchase power for 2.2 cents per kilowatt hour (kWh) instead of the usual 9 cents per kWh it pays for power from

Nevada Power. SunPower was paid to build the plant and earns more money operating it. MMA earns a return on its \$100 million investment in the plant through the sale of power and clean energy credits. The energy credits are the key, since they account for most of the return.

Nevada Power purchases the credits because it is required by state law to produce renewable power or buy renewable energy credits. Though imperceptible to individual Nevada Power customers, the aggregate of the rate increases used to purchase the credits translates into several millions of dollars per year. If used to purchase goods and services in Nevada, this spending would have sustained additional business revenue and jobs in the state. Instead, the purchase of the credits benefits San Jose-based SunPower Corp. and San Francisco-based MMA Renewable Ventures LLC.

The Nellis AFB example suggests that California will benefit most from implementing measures to reduce GHG emissions if the money spent on reductions is directed to clean technology firms based in the state. California's efforts to reduce GHG emissions do not have to mean making a choice between a healthy environment or economic growth, but – if implemented correctly – measures to reduce GHG emissions may present us with a great opportunity to create a clean, healthy environment and generate new wealth and jobs throughout the state. This is because the money and know-how required to achieve regulatory mandates and reduce greenhouse gas emissions can also serve to capitalize and unleash the entrepreneurial power of our state's private sector to develop innovative technologies. This in turn can create thousands of new jobs in California's clean tech sector – the state's fourth fastest growing sector. To do so, however, the state must make it a priority to encourage the attraction and growth of clean technology companies. To the extent possible, the state should ensure that the money used to meet GHG regulations is kept within state lines where it can facilitate the continued development of our nascent clean tech sector into a leading global export industry.



TITLE →

No Water, No Future

CONTRIBUTOR →

David Hopelain

A “Perfect Storm” is brewing over California water and it threatens the state’s future. The “clouds,” described below, are moving in to produce political thunder and lightning, as well as a flood of problems that will drench the current system.

- ★ Central California’s \$25 billion agriculture industry is threatened by a significant groundwater overdraft of as much as 100,000 acre-feet. The overdraft is increasing at a rate of about 20% per year. If this overdraft is not reversed, wells will go dry and land will be removed from production.
- ★ After 16 years of negotiation, the San Joaquin River Restoration & Management settlement agreement is “on the rocks.” Funds adequate for the agreed upon “(River) restoration and water management plan” cannot be raised in Congress or elsewhere.
- ★ Sierra Nevada snow pack – a traditional source of California’s water storage – continues to decline, as a consequence of global warming. Alternative storage facilities – i.e. dams – are politically controversial and expensive.
- ★ Southern California’s/Los Angeles’ source of water – the Colorado River - suffers from a long-term drought. That region will “look north” for its water.
- ★ San Francisco Public Utilities Commission (SFPUC) is looking to the Tuolumne River in Yosemite National Park for 25 million gallons of water per day to support their growth.
- ★ Recent court rulings prevent the movement of plentiful northern California water to regions south of the Sacramento Delta to central and southern California.
- ★ Flood control levies in central California are neglected and have proven seriously deficient. They can no longer be counted on to capture and store flood water.
- ★ National and state politics pit northern and southern urban areas against rural agricultural areas in a competition for water.

Preparations for The Perfect Storm are inadequate. Conceptually, water management consists of two basic elements: storage to make sure there is water when it’s needed; and distribution – i.e. plumbing – for delivery. There are two kinds of storage: natural – i.e. snow pack and confined aquifers holding groundwater; and man-made – i.e. lakes behind dams and water banks. There are also two kinds of distribution systems: natural – i.e. rivers and streams; and man-made – i.e. canals and pipelines.

Water management plans and decisions are constrained by three dimensions: political considerations, economic realities and hydro-geologic facts documenting known water supplies and quality. The technology for gathering hydro-geologic facts is well known and available. The inadequacy of California’s “storm preparation” lies in the imbalance, between political considerations and economic realities. California’s current process of creating water management plans is excessively focused on gaining consensus among political interests. The result is unrealistic political compromises that do not stand up to the economic realities of water management and, frequently, ignore relevant hydro-geologic facts.

The political imbalance arises from an excessive dependence on tax revenues and grant funds to pay for the needed infrastructure. Infrastructure projects require substantial initial investment. They also require time to design, time to implement, and time to realize their political and economic

benefits. A planning process grounded in current political realities results in water management decisions made with a short time horizon – i.e. the next election and/or budget cycle or the next round of annual grant funding. That time horizon does not match that needed to develop an infrastructure project

What is needed is a funding source for water management infrastructure, whose political interests are aligned with Californians and whose time horizon corresponds to the type of projects that are needed. The California Public Employees Retirement Fund (CALPERS) is such an entity.

CALPERS manages pension and health benefits for approximately 1.5 million California public employees, retirees and their families. Collectively, the system's assets exceed \$247 billion. Of that \$247 billion, \$26.8 billion is invested in California. The impact of this initial investment, in California, is estimated to be an additional \$15.1 billion. At its September 2007, Pension Fund Investment Conference, CALPERS formally explored additional opportunities and strategies for investing in California and specifically, its infrastructure. This commitment to California infrastructure lays the foundation necessary to prepare for The Perfect Storm. As a next step, CALPERS should establish a California Water Infrastructure Investment Fund (CWEIF). CALPERS meets the overall criteria, as an investor. They have a strong

political interest in the future of California and an investment time horizon that corresponds to the time horizon for the development of water management infrastructure.

Those who stand to gain from investment in infrastructure projects are a fractious, contentious and diversified group consisting of large and small cities and counties, federal, state and local government agencies, water districts, Native American tribes, quasi-private agencies funded with State funds, and business interests. The creation of a CWEIF generates significant incentives to put aside their competing political positions and join those with whom they share economic interests. The result will be water management plans based on common hydro-geologic conditions and shared economic concerns, rather than arbitrary political boundaries.

Water is essential to life. Water management plans that balance political considerations, economic realities and hydro-geologic facts are essential to California's future. When asked, by a NASA official, why he was so certain there used to be life on Mars, the late UC Berkeley Professor, George C. Pimentel, replied, “. . . because there used to be water there.”

We all hope there will never be a conversation, like that, about California.



TITLE →

The Case for LNG, Especially in California

CONTRIBUTOR →

Joh Kurfess

In the heated debate over competing LNG (Liquefied Natural Gas) proposals, one basic question has never been adequately discussed: will California need LNG by the time we get the infrastructure to handle it? The answer is a resounding YES. We can debate where the receiving facilities should be built but we should not lose sight of the fact that we will need LNG to have a secure energy future for California.

Natural Gas Demand

Total U.S. demand for natural gas is about 22 trillion cubic feet (TCF) a year. The Department of Energy Energy Information Administration expects this to reach 26.1 TCF by 2030 with much of the growth before 2020. Gas is the fuel of choice for generating electricity while meeting today's stringent clean air regulations. As a result, gas consumption in this market has been increasing at almost 5% a year. We are now using over 50% more gas than nine years ago! Over half of existing U.S. power plants, and the overwhelming majority of those currently under construction, burn natural gas.

California by itself uses about 10% of the U.S. total. While almost 60% of our annual usage is for residential, commercial, and industrial use, just over 40% is burned to generate electricity.

California's electricity today comes from an array of sources but we are very heavily, and increasingly, dependent on gas. The California Energy Commission (CEC) reports that all 37 plants built since 2001 burn natural gas as do 18 of the 20 currently under construction.

The CEC projects that our total gas consumption will increase by about 25% by 2016, a forecast they produced before the California Public Utilities Commission (CPUC) ruled on

January 25, 2007 that California's power companies may no longer import power from out-of-state coal burning plants unless they can be made as clean as a combined cycle natural gas fired plant. The CPUC itself does not expect this to be possible.

The upshot of this ruling? California will lose access to 20% of its currently available electricity supply. Whether from in-state or out-of-state sources, we will get replacement power in all likelihood from generators burning natural gas. Where do we get the gas?

Natural Gas Supply

California produces only 15% of the gas it consumes and imports 85% -- all via pipeline -- from Canada and the rest of the U.S. California's own production has fallen by almost a third since 1980. Therefore, without access to LNG, California's future supply will depend on the extent to which Canada and the balance of the U.S. can develop or import gas in sufficient quantities to meet their own needs and -- at the end of the pipeline -- ours.

How optimistic should we be? Natural gas produced in the United States peaked in the early 70s at around 21-22 TCF per year. Today, we produce less than 19 TCF a year. Imports from Canada have made up for our shortfall. In 1990, we imported about 1.5 TCF. By 2005, we were importing over 3.6 TCF annually. California is even more dependent on Canadian imports. In 2005, 23% came from this source. However, Canadian production appears to have peaked in the 2000-2002 period.

With today's high gas prices, there is a scramble to find additional gas. The number of rigs exploring the U.S.

and Canada has tripled since 1998. Clearly, the oil and gas industry is pulling out all the stops to find additional resources. Just as clearly, the industry has been unable to find significant new sources of gas.

The fundamental reason for this is that the U.S. and Canada are the most thoroughly explored nations on earth. The gas reserves we appear to have left are smaller, more expensive to develop, and deplete faster than those of earlier years. Consequently, the industry must drill increasing numbers of wells at great cost just to keep our gas production from falling still faster.

One very important group of people has seen and accepted this scenario and they are convinced that LNG will be the only solution to our impending natural gas shortage. These are the companies who have announced proposals to build 43 new LNG import terminals around the coastline of the United States! Private industry is eager to commit tens of billions of dollars based on their belief that (a) the need is

there, (b) gas prices will stay high indefinitely and (c) they can make a good return on their investment over the life of the proposed projects.

* * * * *

Is it possible California will continue to have access to adequate supplies of reasonably priced natural gas without allowing LNG to come in? It is possible, but it will not be under the control or even the influence of the State of California. As Californians, we should not plan the future of our State around possibilities. We must do what we can to steer our way into a future that is always less than perfectly predictable. If we build one or more LNG import facilities, we greatly increase our energy supply options and pave the way for a more secure energy future for the State. If we do not, we will be at the mercy of future events, with very little maneuvering room. There are no easy “do overs” when dealing with a policy issue of this magnitude.



TITLE →

Adapting California's Cities to Fight Climate Change and Protect against the Consequences

CONTRIBUTOR →

Andy Lipkis, Founder and President
TreePeople

Deep in the ground below Los Angeles sits a secure high-tech facility. From this room, thousands of emergency workers and government personnel, their vehicles and rescue equipment can be deployed and controlled. The facility requires a crack team of highly trained representatives from each city agency, supported by continually updated intelligence as it monitors progress and allocates or relocates resources to situations of higher need. Team members collaborate to hold an integrated picture of the city, connecting the dots to protect the public's health and safety, minimize damage, and protect the economy. Welcome to the city's Emergency Command Center. It operates when there is an imminent threat from floods, earthquake or civil unrest.

There are similar centers in nearly every city in America. Nearly every day of the year, the centers are dark and dormant. But perhaps they shouldn't be. Los Angeles – as with other California cities -- faces a quiet, growing, daily environmental disaster that causes injury, economic damage, even loss of life to thousands of residents and businesses. The impact is felt far beyond the city limits, threatening the health and safety of millions of people around the world.

Given the urgency, it's imperative that we mobilize our cities' resources to protect their populations from this unfolding disaster. Although many agencies and organizations are addressing these issues, they're doing so in uncoordinated silos, wasting time, energy and resources. Worse, their uncoordinated efforts often conflict.

The culprit responsible for this quiet disaster is our increasingly wasteful resource use. Simply put, our cities have become some of the largest sources of global warming on the planet. In Southern California where I live, our warm, dry climate pushes us to air condition our buildings and import our water. Pumping it from hundreds of miles away over the mountains into the L.A. basin is the largest use of electricity in the state.

We know that burning energy releases global warming gases which, if uncontrolled, will lead to environmental disaster. What we don't always realize is that while global warming may still seem many years distant, the urban disasters are already here...and are growing. For example, take the consequences of current levels of air pollution. In 2007, the Southern California Association of Governments urged the declaration of a state of emergency in the South Coast Air Basin. A California Air Resources Board report delivered in January 2007 showed that each year the region suffers 5,400 premature deaths, 2,400 hospitalizations, 140,000 cases of asthma and other lower respiratory problems, and 980,000 lost work days because of exposure to diesel-related pollution.

In 2007, I discovered firsthand from meeting with engineers from Seattle, San Francisco and London that these cities are already experiencing unprecedented life-threatening urban flooding triggered by global warming enhanced severe weather.

What lies behind these problems is a fundamental misunderstanding of urban environments, reflected in urban infrastructure systems that are costly and can inadvertently make things worse. For example, the city of Los Angeles receives roughly half the water needed for all uses in the form of annual rainfall. Unfortunately, each year the rain falls down onto a city which is two thirds covered with asphalt, concrete or buildings. L.A. sends nearly all this precious water straight out to the ocean, causing pollution, flooding and worsened water shortages. In summer, that unshaded hardscape raises city temperatures as much as 10 degrees, increasing photochemical smog and pushing businesses and residences to use more energy for cooling. Our tree-deficient landscape is undoubtedly a factor in the Center for Disease Control's declaration that melanoma is increasingly the most common form of cancer in America.

Today there is no person, no agency, no system, and no structure at any level of government whose job it is to monitor and manage our cities' ecosystems. If we were to embrace integrated urban ecosystem management and build our new infrastructure systems to be multi-purpose, we could save precious time and utilize the billions of dollars currently wasted in our uncoordinated approach for implementing solutions that work in partnership with nature, not at cross-purposes.

Let's look at L.A.'s water. The Los Angeles Department of Water and Power spends nearly \$1 billion every year on importing water. The L.A. County Department of Public Works spends roughly \$500 million disposing of the area's rainfall, which as stated above, could meet half its annual water demand. Essentially the county is spending millions of dollars a year to throw away millions of dollars worth of rainfall. The solution requires a paradigm shift to understand cities as living ecosystems and to rehabilitate nature's ability to protect us and meet our needs.

Consider the power of trees and forests. The root zone under a large native oak includes fallen leaves, twigs, compost, mulch, humus, and the permeable soil that is home to millions of organisms. Those elements work together as a giant sponge that can filter out pollutants and treat up to 57,000 gallons of rainfall in a 12-inch annual rainfall or flash flood, using it to recharge the ground water. Take that tree away, and you get a flood, pollution, soil erosion and diminished local water supply.

Ten years ago, TreePeople brought together a team of 75 of the nation's top economists, engineers, and building and landscape architects and an array of government agencies to determine the feasibility of adapting the L.A. landscape as a functioning watershed with a combination of trees, and technologies that mimic them including: cisterns, bio-swales, and gray water systems. The premise was that we waste so much money in dis-integrated infrastructure management that there would be enough to create an integrated system. The multi-year study and the five demonstration projects completed to date have yielded potential results such as cutting the city's water importation by half, solving our flooding and storm water pollution problem, dramatically reducing energy used for cooling, improving air quality and creating up to 50,000 new jobs.

Under ideal circumstances the demonstration projects described above can capture as much as 1.25 million gallons during a one-inch rainfall, with the water stored for irrigation

use or released into the soil for groundwater recharge. The projects' capture potential during the 2007-08 rains approached 10 million gallons. That's a start, but there's a long way to go, as currently an inch of rain falling in L.A. produces runoff of 7.6 billion gallons.

Los Angeles as a whole has made progress. Its first integrated plan for water has recently been adopted by the city council. The city and county have each formed Watershed Management agencies and begun regional integrated planning. California voters have passed billions of dollars in new bonds that require integrated, multi-purpose projects. Now we need the leadership and vision to lead California's cities into the next era, organizing our government, agencies, and citizenry to work together with natural systems rather than against them.

As California prepares to spend billions of dollars to adapt to climate change and meet the state's energy and water needs, we can no longer continue to build infrastructure that fights nature and ends up costing increasing amounts of money, energy and water, worsening climate change, air and water quality and increasing the threat to public health and safety.

California has its own Emergency Command Center. The state could use the command center approach to coordinate all of its water, energy and resource agencies and their planning activities to embrace a cost-effective, sustainable integrated approach.

Imagine managing our cities as living watershed ecosystems, replanting the forest as an overlay onto the city landscape. Imagine every residential, commercial and industrial building employing tree-mimicking technologies such as cisterns and infiltration systems to further capture and manage the precious rainwater we receive. Imagine concrete replaced with deeply mulched soil, with swales and berms to capture, filter, and recharge the groundwater to reduce our dependency on outside sources. Imagine the resources and energy saved, the pollution avoided, and jobs created if we adapted and properly managed the entire city landscape.

Imagine if every day, a crack team of our best and brightest people, supported by ongoing feeds of intelligence and data, collaborated to monitor conditions and deploy resources, people, programs, and equipment to heal our city and communities by eliminating the sources of the damage, disease and destruction. Perhaps it's time to stop imagining and begin acting.



TITLE →

Alternative Energy for a Better California

CONTRIBUTOR →

Jordan Ramer
Wattopia.com

California is a global economic powerhouse with a population of 38 million trending, by U.S. Census Bureau estimates, toward 50 million in 2025. Like many thriving economies, our state has its share of problems: poor air quality and an increasing appetite for energy to name just two. But these particular problems have the potential to dramatically affect the quality of life and economic stability of California's residents.

The negative effects of poor air quality have long been documented in scientific and medical journals. Recent studies published by the Journal of the American Medical Association and the Surface Transportation Policy Partnership associate transportation related air pollution, specifically ozone and particulate matter from motor vehicles, with severe asthma and other respiratory illnesses. Health impact studies also show that compromised air quality can increase the risk of heart disease and cancer. According to the Environmental Protection Agency (EPA), approximately half of all cancers attributed to outdoor sources are caused by pollution from automobiles. As healthcare costs continue to increase, the added number of pollution related illnesses can and will cause additional strain on the state's already overextended medical infrastructure.

To limit inefficient and polluting vehicles on our roadways, the state could benefit from a revamped car registration plan that provides incentives for cleaner, more efficient vehicles. I propose an automobile registration scheme that gives a rebate to efficient, low polluting vehicles while taxing gas-guzzlers. Why not take into account a car's average miles per gallon and the quantity of emissions it produces? This would encourage California's population to buy more environmentally friendly cars and would provide automotive manufacturers with an incentive to build them. The state could easily put this program in place using readily available data put out by the EPA, and revenues generated by a car

registration program could then be invested in incentives for alternative energy.

Why does the state need to invest in alternative energy? Because as California's population grows, so does its appetite for energy, and increasing energy demand means more pollution, greater concentrations of greenhouse gasses and continued dependence on foreign oil. Volatility in the energy market in our state can and already has caused rolling blackouts and economic woes, including inflation and historically, recessions. It is important that California continue to lead the nation with its energy and environmental legislation, and its recent efforts to jumpstart the solar sector with the California Solar Initiative seem to be helping. Put in place just a year ago, this visionary program has put in place over 200 megawatts of renewable power. Early signs suggest this could be a model program for the state. Funds generated from the above mentioned car registration program could broaden the Solar Initiative into a California Energy Initiative. This enhanced program would add renewable or energy efficiency technologies each year such as small wind power, enhanced lighting and improved building cooling. Like the Solar Initiative's goal, the expanded program would strive to make each new alternative energy sector into a self-sufficient industry.

For too long, the state and federal governments have adopted a laissez-faire attitude in waiting for environmentally friendly technologies to gain enough ground to compete with more entrenched energy concerns. How much more environmental impact and economic mismanagement must we suffer before we finally encourage the state to prod cleaner technologies into a position where it can compete and flourish? The survival of our quality of life, our economy, our jobs and, ultimately, our California depends on our making a change.



TITLE →

Investing to Make California a Great Place to Work and Live

CONTRIBUTOR →

Steve Levy, Director
Center for Continuing Study of the California Economy

My job is to think about the future of the California economy. Looking ahead for the next five, ten and twenty years, I see four undeniable facts.

First, California has a great set of industries, workers, and entrepreneurs. We have established leadership positions in fast-growing sectors including Internet services, biotech and green tech, Pacific Rim trade and finance and tourism and entertainment. In economist talk, we have a strong economic base.

But companies will not continue to locate in California and talented people will not come to the state unless California is a great place to work and live.

Second, we face a tidal wave of retirements. Over the next decade 3 million Californians will retire and another 3 million will retire in the following decade. This tidal wave of baby boomer retirements will create both needs and opportunities for the state's workforce.

Third, California's new workforce will increasingly come from immigrants and their children and grandchildren. Latino and Asian residents will be a larger and larger share of the state's labor force over the next 10 to 20 years. This will be true for high, middle and lower wage jobs and there will be plenty of openings at all skill levels.

California faces an education and training challenge. We need to focus on students and existing workers. We need to support more access to college, more math and science education and a greatly increased emphasis on career technical education. We need to prepare workers for new

jobs and to replace retiring workers in existing jobs. We need to make our workforce a competitive attraction for companies and open up for all families the tremendous opportunities provided by the coming tidal wave of retirements.

Fourth, California must rebuild our physical infrastructure—in transportation, water, schools and public buildings. Our economy and our quality of life demand these investments. We have made a new start but there is a long way to go.

To compete in the world economy, we need to be investing. Businesses know it is an “invest or die” world. It is the same for states. California competes by being a great place to live and work. This means investing in our people, in our infrastructure and in our communities.

But investing takes money. We invest now for future benefits. If we postpone the investments, we postpone the benefits and make California a less competitive place to work and live.

And right now California faces yet another large state budget shortfall. Legislators and the Governor have begun their annual discussion of solutions.

The choices are familiar—reduce the rate of growth of spending or increase the rate of growth of revenue. And the political debate is familiar as well. Republicans generally favor no revenue increases, some Democrats favor tax increases on high-income households and corporations and there is some bipartisan support for raising money from smokers and gamblers and closing “loopholes” although there is rarely agreement on what constitutes a loophole.

And voters strongly favor more investment in education and infrastructure as long as other people pay it for.

I favor investing more in our people and our infrastructure but I also favor paying for what I want to invest.

I propose raising state and local government revenues by \$10 billion a year. Here are several specific ways to raise these revenues consistent with the concept of shared responsibility and minimizing the amount of tax rate increases.

- 1) Broaden the sales tax base to include some spending on services. The current sales tax base is \$600 billion. If we added \$120 billion in services spending, another \$9-10 billion would be raised for state and local government spending and transportation.
- 2) What services should be taxed? My sense is to start with professional and repair services like lawyers, accountants, architects, consultants (like me) and computer services and also look at repair services such as auto and home repair. The Board of Equalization staff can produce a menu of options for extending the sales tax base by \$120 billion.
- 3) Lower the voting majority required for approving local bonds and transportation taxes from 2/3 to 55% as we did for education. Let local voters help pay for more of our infrastructure investments and decide what projects to fund.
- 4) Reinstate California's previous vehicle license fee schedule. This would raise \$6 billion a year for state and local governments. The original intent was to lower the vehicle fees only when the state had "extra" revenues, which is surely not the case today.
- 5) Increase the use of privately funded infrastructure where tolls and other fees can be collected from users to cover the cost of investing. Using user fees to fund some infrastructure can lower demand and increase

the efficiency of investment decisions by making users more aware of the true costs of the infrastructure.

- 6) Add 10 cents per \$100 of assessed value to everyone's property tax bill to fund state general obligation bonds, which now appear "free" to voters in state bond elections. This additional 10 cents could raise \$4-5 billion per year and fund more than \$50 billion in additional infrastructure investments. Voters pay for local bonds as part of the approval process. It should be the same for state bonds as well.

Some combination of these measures would fund the investments in our people, our infrastructure and our communities needed to help make California a great place to work and live. Good practices for choosing investments, increased accountability and a whole host of improvements in the way our public institutions function will help as well.

But we need to avoid a confrontation leading to stalemate over the issue of resources versus reform. The answer is both.

I am sure this call for increasing revenues will be met with the predictable arguments outlined below.

Families Must Live Within Their Means

I think this argument is offered to convince us to reduce the rate of growth in spending. Somehow, advocates want us to think that if we raised more revenue for state investment then we would not be "living within our means". But that is a twisted view of fiscal responsibility and makes no sense when you think of the real choices facing California families.

Our "family income" in California is \$1.5 trillion or \$1,500 billion per year. Right now we devote approximately \$105 billion to the state General Fund and approximately \$170 billion to all state and local government spending. If we

want to spend an additional \$10 billion a year on public investment, this is a choice we can make while living “within our means”. All we would have to do is to cut \$10 billion from our more than \$1,000 billion in private consumption spending each year or one penny out of each dollar of private consumption spending.

Many of us have grandparents who “went without” during the Great Depression or similar financial disasters to keep our parents in school and to keep their homes. Compared to their sacrifice finding another \$10 billion now for public investment from our family’s \$1,500 income is hardly any sacrifice at all.

Businesses Would Go Broke if They Kept Running Deficits

And California shouldn’t keep running deficits either. But that doesn’t answer the question of how we should balance the state budget. Businesses have also taught us that it is an “invest or die” world of competition.

So we have two teachings from business—1) the books have to balance or you go out of business and 2) investing is absolutely critical to business survival. Raising funds to pay for investments is absolutely good business if the investments are critical to the future competitiveness of the business. The same is true for states.

Raising Tax Rates Will “Chase Business Away”

First, I have tried to be careful to craft ideas for raising revenues that do not focus exclusively on high-income

earners or corporations and minimize the use of rate increases.

Second, there have been several studies of business location trying to find whether businesses are “fleeing California” as is often alleged. And all studies find no such business flight.

But there is a deeper issue here that Californians deserve to hear debated. I think that investing in education, infrastructure and our communities helps the economy and makes the state more, not less, competitive. Whether raising revenues makes sense should depend on what the money is being used for.

If anyone wants to argue that raising revenues to support critical investments is bad for the economy, I welcome that debate at any time and any place. If people think we are spending too much on education, infrastructure and our communities, let’s debate that and see what people feel is best for our economy and our quality of life.

My mother made girls’ clothing. After every successful season, she would say, “Remember that we are only as good as our next line”.

So it is with states. California needs to continue to invest and innovate in our “next line” of people, places and infrastructure. We need to make California a great place to live and work. We need to work hard to merit the decisions of firms and families to turn California’s enormous economic opportunities into realities.

Reallocating \$10 billion of our families’ \$1,500 income to support these investments is not too high a price to pay.



TITLE →

It's Time for the Gore-Inator

CONTRIBUTOR →

Daniel J.B. Mitchell, Ho-Su Wu Chair in Management
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Back in late August 2007, Governor Schwarzenegger and legislative leaders joined in celebration of the signing of the (very late) 2007-08 state budget. There was much fanfare and backslapping as the governor proclaimed that he had just signed off on a budget with zero deficit. By early January 2008, when the governor announced his proposals for the next budget, he acknowledged that the budget he had signed off on in August was in fact in deficit. For that matter, the prior budget was in deficit. The governor further announced that he would be floating the last of the deficit financing bonds the voters allowed him to issue back in 2004, under Props 57 and 58, to deal with the budget problem that he inherited from Governor Gray Davis. The governor also announced some across-the-board cuts and proposed releasing prisoners and closing state parks. Five weeks after the governor made his budget proposals and projections, the Legislative Analyst released new estimates suggesting there would be still less revenue in the coming year and probably more spending.

How did we find ourselves in the latest state fiscal crisis, one which will also compound the budgetary problems of local governments such as the City and County of Los Angeles? I am reminded of two classic movie scenes. In Alfred Hitchcock's "The Birds," the main character sits on a bench in front of a school. Behind her, evil crows are accumulating on a jungle gym next to the school. But she is truly unaware of the developing problem until she happens to turn around and discovers it. And by then, the situation is dire and she runs into the school to warn the children. The other scene is in "Casablanca" where the French policeman announces he is "shocked, shocked" to discover gambling going on in Rick's café, while at the same time being handed his gambling winnings. Sometimes problems really do appear unannounced; other times, we just pretend we haven't seen them.

Sadly, while the governor and legislature were ostensibly shocked, shocked, to find that the budget was in deficit in January 2008, there was not a soul at the August 2007 festivities who could not have been aware of the growing problem. We had Casablanca, not The Birds. By August 2007, the sub-prime mortgage crisis was in full bloom. The Monthly Finance bulletin of that month put out by the governor's Department of Finance began with the words: "The effects of the housing sector downturn continued at midyear. Job gains slowed to a trickle in June as home sales and construction activity continued to slow." State officials surely knew that a slowing economy will not produce robust tax revenue. And all in attendance at the August ceremony should have known that we never really fixed the budget problem left by Governor Davis at the time of his 2003 recall.

We could spend much time casting blame for the lack of past budgetary repair. But it is better to leave that to historians, columnists, and bloggers, and instead figure out what to do now. The governor would like to have a constitutional budget amendment – a variant of one he proposed as part of his ill-fated "year of reform" in 2005 – enacted by the voters. The new version of the amendment would be aimed at building up reserves in good times to finance deficits in hard times. And it would allow emergency cuts to be made if that approach proves insufficient. But the clock is ticking and there is a more immediate problem. The public does not yet perceive the budget crisis.

Most Californians do not receive many public services directly from the state. Schools, for example, are delivered by local school districts, but much of their money comes from the state's general fund. Similarly, state funding is passed on to cities, counties, and other local districts for a variety of purposes. The governor proposed closing state

parks to get our attention, but most of us are not using those parks in winter. Perhaps shutting the DMV down two days a week would help convince the public there is a problem, although the governor did not go that far. Other than the DMV, shutting down direct state services hasn't sent the desired message. And we can't wait until schools and local governments begin to shut their doors for the message to be delivered.

Lack of public attention should not be surprising. Back in 2004, when voters were asked to approve the deficit bonds, they were told that henceforth the state would "throw away the credit card." Still in 2008, the governor is protesting that the credit card was thrown away, even as more deficit bonds are being floated. As far as voters are concerned, the problem was fixed. When the governor proposed a constitutional budget initiative in 2005, it was turned down by a larger majority than the other three initiatives he put on the ballot. The various gimmicky photo ops – a faucet pouring out red ink – were more suggestive of an amusement than a serious issue. And anyway, public services were being delivered and there was no immediate crisis since we had thrown away the credit card.

So what Governor Schwarzenegger needs to do now is focus only, repeat only, on the budget. He needs to travel around the state to Chambers of Commerce, Rotary Clubs, and yes, even to union halls, and deliver the message in Al Gore style complete with charts and PowerPoint slides. The governor is a better communicator than most politicians.

He is at least as good as Al Gore and Gore ended up with an Oscar and a Nobel Prize for his exposition. The governor's favored Big Issue of last year – universal health care – has been taken off the table by a failure of the Senate to enact it. Education reform, the planned gubernatorial issue for this year, needs to go off the table as well. Everything other than the budget – global warming, hydrogen highway, stem cells – needs to go off the table. Budget, budget, budget. That's all we should be hearing.

And the governor needs to consider, and perhaps reconsider, whether his proposed budget amendment should be the centerpiece of his Gore-style communications. He has been arguing that if we had the amendment in place ten years ago, we would today have a "rainy day" fund to cover our current fiscal problems. Perhaps so. But we didn't have it in place ten years ago and we now have a problem. The amendment was proposed too late to go on the February 2008 ballot. It is too late for the June 2008 ballot. And the clock is running on the November 2008 ballot. And even if it were on the November ballot, we would be five months into the 2008-09 fiscal year when voters made their decision. So amending the constitution could well be a project best put off until the problems we face immediately are resolved.

If enough people believe there is a problem – and it is up to the governor to convince them - he and legislature can then, with public support, put together an interim solution before the state runs out of cash. That may not seem like much of a remedy. But it is all we have.



TITLE →

Exploring Sovereign to Sovereign Partnerships

CONTRIBUTOR →

Valerie Red-Horse, President
Red-Horse Financial Group

With the recent passage of several extremely visible and heated Tribal gaming propositions, unfortunately the presence of our numerous Native American Tribal Nations within the State of California has been reduced in the minds of most citizens to a casino gaming topic. The reality is that California hosts more sovereign tribal nations than any other state in the U.S. and also hosts several whose net worth and debt rating is stronger than most municipalities. If we can take the topic of gaming out of the equation for the purpose of this discussion, and simply agree that whether one supports gambling or not, gaming has been the federally mandated (Indian Gaming Regulatory Act 1988) economic engine providing the tribal governments with the means to grow their financial resources and secure the well being of their tribal members. Tribal government revenue can easily be compared to a state's tax base which is the largest portion of revenue received towards meeting the budgetary needs of the sovereign municipality.

Those tribes close enough to large population centers, demographics with a propensity to game and freeway access (i.e. location, location, location) have obviously fared very well with their gaming operations. However, like other governmental municipalities, tribal nations are motivated to improve their infrastructure, the lives of their citizens (tribal members) and secure a positive future for the next generations to come. This often includes finding mutually beneficial projects with the communities and municipalities around them and entering into cooperative relationships and agreements. Some areas of common interest are transportation and roads, parks and cultural centers, green energy, employment, healthcare and the economy. All tribal nations have sovereign departments within their own borders, but also must have reciprocal relationships with the state and local communities around them for various needs and uses. The State of California cannot ignore the valuable resources and the immense opportunity posed by

the numerous tribes in California and the shared and mutual benefit certain projects could realize.

To be specific, as legal and recognized governments, both the state and the tribal nations are allowed to issue tax exempt bonds for any infrastructure project with joint benefit. To seek joint debt issuances at low cost for road, transportation or energy projects would seem reasonable and beneficial. In some cases, the tribal nation might be able to provide additional credit-worthiness based on their resources which could add to the low cost of capital financing.

Furthermore, renewable energy is an area that should be seriously considered in terms of the joint venture possibilities providing a myriad of viable and important solutions for our state. In 2000-2001, I was directly involved with the State of California's legislative body and the Energy Department in formulating sovereign permitting criteria that would allow our tribal nations the ability to permit and build energy facilities on sovereign land. Since they do not fall under state jurisdiction, there needed to be criteria set that met or surpassed established air quality standards and yet allowed for the recognition of their sovereign government status. This was accomplished and the working templates designed at that time (thinking we were in an energy crisis) were to have tribal nations build power generation facilities, utilize whatever amount of energy they needed for their nation's usage then sell the remainder back into the grid (to the state or local municipalities) to government long-term contracts at wholesale prices. This was a win-win model for all entities – except it cut out merchant commercial energy providers (it is my personal opinion that this may very well have been the reason this plan never saw the light of day—but that is a topic for another paper perhaps). As an added benefit to note, the cost of financing these facilities can be extremely low as many commercial capital markets providers in the business of financing energy projects, will provide extremely

low interest financing (some even quote zero interest rates over long-term tenors) since there is a structure whereby the capital providers can receive the tax benefits, such as credits, rebates and accelerated depreciation, if the energy is renewable – that the tribal nations cannot utilize as sovereign governments with no need for income tax incentives. I understand that right now many tribal nations are extremely interested in launching solar, wind and other renewable power facilities; however, the current discussions appear to be on individualized tribal levels as opposed to a consolidated effort working with the state on a long-term master plan. The energy project model is just one example of a large scale effort that would provide solutions, jobs and potential revenue.

There could be similar models and joint efforts in other industries such as transportation, highway and road improvements, law enforcement, job creation, parks and cultural centers, etc., however, the effort must be real and forthright – not by virtue of a committee discussion or a think tank process. As Native Americans we have been subjected to several well meaning but fruitless efforts at the federal, state and corporate levels. I personally sit on more than my share of diversity, cultural and inclusion committees and boards. I am not being disrespectful or facetious – there is a place for these types of agendas and discussions. However, if we are serious about SOLUTIONS to a severe budget crisis and if we are serious about achieving actions not words – then there must be specific projects targeted and realized in as expedient a manner as possible.

I recommend one or two pilot projects targeted with the state working with key tribal nations. These can then be critiqued

and improved to be duplicated. A working group should be formed -- but not just with state and tribal government officials -- the group needs to also include private sector professionals that have work related experience in the chosen sector (energy, transportation, etc.), in finance, in law and with federal/state/tribal government issues. A timeline should be established with deadlines and milestones targeted and mandated.

Tribal Nations and Native Americans in general have been talked about and spoken to for a very long time in often fruitless “feel good” sessions. The perception that a fair amount of mistrust of the government exists by the tribes is altogether true, but it is not based in racism or intolerance, it is typically formulated from actual real life experiences of dealing with impossibly frustrating treatment and outdated policies. (I have one tribal client in year 21 of waiting for a government office response to its application). Therefore many tribes, when given the means, have adopted the attitude that we will simply take care of ourselves. I see this as unfortunate and believe that if we work together much, much more will be accomplished.

In closing, I realize that for the purposes of this memo, my thoughts have been altogether too brief and the details of the projects have been noted in a manner that leaves much room for further clarification. However the conclusion and thesis of my discussion cannot and should not be ignored: By working together, the State of California and the Sovereign Tribal Governments located in California can accomplish much more together than apart towards effective and progressive solutions for our future.



TITLE →

Some Solutions for Our State

CONTRIBUTOR →

Richard Lee Slotkin, Adj. Assistant Professor of Economics
Los Angeles Valley College

The biggest problem facing the state is the budget deficit. Rising prices, a contracting economy and an inelastic demand for state services, especially education, threaten to worsen the deficit. One obvious approach is to raise the sales tax by a quarter percent and raise the state income tax slightly but progressively. In order to do this with an obstructionist component in the legislature, the requirement of a super majority vote on those issues would have to be changed to a simple majority. Yes, the sales tax increase would be regressive but, if people rob banks because that's where the money is, then taxes must be applied to the middle and sub middle classes for the same reason: that's where the spending is.

Traffic congestion and very high costs of housing are two other critical factors here. The spread-out nature of Los Angeles makes public transit very difficult and expensive to implement. Ways to do this would include raising the price of gasoline, restricting vehicle entry into downtown areas during business hours and raising the cost of parking, partly through smart meters, not building more freeways. But, before measures such as these are enacted, viable alternatives must be put in place, such as making public transit available and driving people onto it via the measures just described. The housing crisis could be alleviated at least to some extent by changing zoning to allow more density, which, in turn, would make expanding public transit more feasible.



TITLE →

California's Drug and Alcohol Problem

CONTRIBUTOR →

Jim Beall Jr., Assemblymember
California State Assembly

A tidal wave of addiction to alcohol and drugs has deluged California, overwhelming our families, flooding our emergency rooms with patients and our prisons with inmates.

Advancements in the biological and neurobehavioral sciences show that addiction is a chronic disease. Yet many of our current policies view addiction as a behavioral problem. This misguided strategy relies not on treatment but on penalizing the addict -- incarceration and, in some cases, taking away their children. This policy cannot continue because it fails to attack the root of the problem.

The numbers that reflect California's substance abuse problem are staggering and disturbing:

- ★ More than 7,300 alcohol- or drug-related deaths were recorded in 2004.
- ★ There were more than 215,600 admissions into drug treatment programs during fiscal year 2006-2007.
- ★ Californians represented 40 percent of all publicly funded treatment admissions nationwide for methamphetamine addiction in 2005.
- ★ Twelve percent of seventh graders, 23.8 percent of ninth graders, and 35.8 percent of 11th graders had consumed alcohol in the past month, according to the 11th Biennial California Student Survey conducted in 2005 and 2006.
- ★ In 2006, drug and alcohol abuse cost the state \$44 billion in health care expenses, prevention and treatment costs, criminal justice costs, lost productivity, and losses associated to crime, according to the California Department of Alcohol and Drug Programs.

- ★ Nearly one-fifth of California's 170,000 prison inmates were incarcerated for drug offenses. However, drugs played an ancillary role in the crimes committed by half of the total inmates.

As the chairman of the Assembly Committee on Human Services and also the Select Committee on Alcohol and Drug Abuse, I believe the solutions to our pervasive drug and alcohol problem are prevention, treatment, and the restructuring of our strategies to fight substance abuse.

Right now, there is no comprehensive, statewide approach to managing our alcohol or drug abuse problems. Instead, we parcel out addiction's end results to law enforcement, the courts, or treatment programs and various agencies.

So, what is the answer? We must create policies and programs that coordinate and synchronize our efforts. To that end, the select committee is holding a series of hearings to examine the depth of the issues in order to find new solutions that will be considered by the Legislature.

I believe the state must create a new cabinet-level position – Secretary of Addiction and Recovery Services – with wide-ranging authority to oversee and orchestrate our efforts against addiction, and I have authored legislation to achieve that.

In November 2006, voters passed Proposition 36, which channels non-violent drug offenders into treatment instead of jail. The electorate's wisdom was borne out in 2006 when a UCLA study concluded that the proposition saved the public \$2.50 for each dollar it spent in getting offenders into treatment programs.

But, why should we wait to get addicts treatment only after they enter the justice system? Many who suffer from chronic

substance abuse cannot get treatment because they cannot afford it or their health insurance will not cover the costs.

My solution is embodied in a bill I introduced to require all health insurers to cover the cost of treatments for substance abuse, as well as mental health disorders, just as they would for any other physical illness. Ensuring that mental illnesses are covered goes hand-in-hand with coverage for substance abuse is important since treatment facilities have reported more than 50 percent of their patients were also suffering from mental health disorders.

The need for treatment will grow unless we can halt the under-age drinking. Research shows that kids who begin drinking before they are 15 are four times more likely to become dependent on alcohol while also exposing themselves to a greater risk of alcohol-associated problems – vehicle accidents and assaults – later in life compared with those who wait until they are 21 to take their first drink.

More and more, teen-agers -- especially girls -- are being introduced to alcohol through flavored drinks that are heavily

sweetened to mimic the taste of sodas, energy drinks, or fruit drinks. These sugary, liquor-laced beverages – also known as “alcopops” – are a gateway to alcohol abuse. Thirteen percent of 11th graders reported two or more alcohol dependency symptoms in a state survey.

The labels on alcopops, the product of slick marketers, also imitate the appearance of the non-alcoholic drinks and add confusion to what exactly is being purchased and, more to the point, what exactly is being consumed.

My solution is to force breweries and distilleries to change the labeling of alcopop containers to display a prominent warning or a sticker that tells consumers it contains alcohol. I have authored a pending bill in the Legislature to accomplish this goal.

Addiction is a gargantuan problem. But, we can gain the upper hand if we start looking at addiction in a comprehensive fashion and by searching for remedies that prevent substance abuse before it destroys lives.



TITLE →

Improving Health Care

CONTRIBUTOR →

Frederick W. Croft, Managing Partner
and Gregg Martins, Senior Partner, PVM Partners LLC

THE PROBLEM

Health care in California is too expensive and too inaccessible: the state has six million working uninsured citizens who don't qualify for MediCal but lack coverage. This distribution creates funding problems. The uninsured go to emergency rooms when they need care, ensuring that care will be provided in the most inefficient manner and that costs shift to those buying health plans and to hospitals, which respond by closing unprofitable emergency rooms and further restricting access to care. It also emphasizes the lack of value that many citizens see in health care as it's now provided: according to the Census Bureau, 20% of the working uninsured have family incomes over \$75,000 annually, which indicates they are seeing conventional health plans as not worth the money. In 1995, when we were involved in co-founding the Latino health plan VHP, we considered working uninsured a target market until we ran several surveys showing that the majority of them thought health insurance "wasn't worth the money". Surveys done during the preparation for Hillarycare¹ also showed that peoples' desire for government-provided health care dropped like a stone when they realized they'd be charged for it.

The health care system in this state is broken: the majority of citizens see it as too expensive, too hard to use, and not providing value for its (considerable) expense. But this is a problem requiring brains rather than dollars. While mandates have appeal (since they eliminate the risk transfers of the current system), states such as Massachusetts have been unable to get nearly half the state population to enroll. We can't tax or mandate our way to better health care, the public refuses to pay for that, but we can make health care more efficient.

OUR PROPOSAL

In many foreign health plans, a management process called Lean Six Sigma has consistently demonstrated its ability to lower overall health care costs by factors of 10% to 15%, while improving the quality of patient care. It does this by using the proven process management methods perfected by GE and Toyota and applying them to hospitals, clinics, physician provider groups and health plans.

We propose establishing a state fund of \$100 million to be granted specifically for financing projects to implement Lean Six Sigma projects in qualifying health care organizations (hospitals, physician groups, clinics, and health plans which are large enough to generate a return on the funds committed). In return for providing and funding the Lean Six Sigma assistance, the state would receive 70% of the savings produced by the program over the five years following its implementation. This provides gains for all parties:

- ★ The state gains a share of savings which it can use to fund programs for the working uninsured or other initiatives.
- ★ The providers and plans get their (smaller) portion of the savings without having to advance capital
- ★ Patients and citizens get better quality care
- ★ Taxpayers get more from government without having to pay more taxes
- ★ The program can be tested and monitored for performance, unlike the current Clinton proposal (which makes an unmonitored \$100 billion commitment, and

doesn't address the state providing the funds directly sharing in the savings generated)

We believe this approach provides value for all citizen groups in the state with minimal downside. We'd also suggest two other modifications of the current health care system:

- 1) We'd suggest modifications of policy allowing the state (and its citizens) to purchase drugs in Canada. Drug companies routinely subsidize foreign markets by charging them less for the same pharmaceuticals; we

propose that California go to these markets if that's what's required to source drugs most cost-efficiently.

- 2) We suggest that benefits coverage mandates built into the Knox-Keene Act and other state health care legislation be radically reduced, allowing citizens to purchase catastrophic-only coverage if that's what they wish. We already have convincing evidence that some of the current uninsured problem is due, in part, to financially-capable citizens wishing to escape the cost of mandated coverages they don't want.



TITLE →

My Solution for Our State

AUTHOR →

Bob Gokay

I think that the proliferation of psychiatric drugs - and the pharmaceutical-psychiatric complex that has grown up to mutually profit from the marketing of these drugs, especially to young children - constitutes perhaps the most important medical ethics issue of our time.

Historically, you could plot a green line on a graph showing the decline in reading, writing and math skills among K-through-Twelve school children in the past thirty years. Over that same period you could plot a red line representing the rise in mental disorders diagnosed among the same population during the same period. Finally, you could plot a black line starting parallel to the red line then rising exponentially, representing the rise in psychotropic drugs prescribed to the youth of America over this same period of time. That solution to a problem having other causes is now the source of a much more severe problem.

It is a business - a bad business. America has turned over the role of parent and moral guide to psychiatrists and pharmaceutical companies. Lobbyists and researchers for hire claim they can detect latent "disorders" in children under ten. We see sponsorship of psycho-socialization initiatives to legally enforce pre-emptive drug treatment of these children.

Simply in terms of preservation of our national power and freedom, were a foreign government to plan and carry out an assault on our principal strategic asset – our children – using drugs that can crush their initiative, spontaneity and creativity, we would be resolute in our opposition, for as our human capital is denatured, so goes America itself.

Popular opinion says the drug culture is the product of pushers who prowl our schoolyards and prey on our kids. But, there are other pushers who work for some large American corporations. They'd like to create the therapeutic state – legislatively-enforced, tax-dollar-supported. Some of the most brilliant achievers in history were the kind of kids they are treating in these programs. Nonconformity almost goes with the territory when it comes to genius:

- ★ The masters at St. James School requested that Winston Churchill be expelled because he was so unruly. At Harrow, his high school, he ranked dead last among students.
- ★ Thomas Edison was whipped by his father when Thomas burned down the family barn, "just to see what would happen."
- ★ Isaac Newton was ranked seventy-eighth out of eighty students in his grammar school.
- ★ The great Galileo's own father called his son an absent-minded stargazer who sees strange visions and hears uncanny sounds.

Most of our great artists and thinkers have been disparaged for being different. All the people just described would have had their behavior modified by psychiatric drugs to please their parents and teachers.

What would our world be like today if there had been Psycho-Socialization programs then? What will our world be like tomorrow if there is continued widespread Psycho-Socialization today?



TITLE →

Modifying Health Care Delivery Channels as a Means of Reducing Costs

AUTHOR →

Jean L. Knox, CEO
Knox Support Services

California's proposed answers to concerns regarding the rising rate of health care costs have tended to focus on insurance-- how many people are or are not insured and who is deserving of receiving healthcare through public funding.

An underlying assumption is an ideal of each person having a primary care physician as a gateway to other health services, along with personal insurance that would cover catastrophic expenses for hospitalization and drugs.

This assumption does not match the reality of healthcare in the U.S. today, nor in California.

- ★ Research has conclusively proven that diet and exercise are significant factors in reducing heart disease, diabetes, and other conditions. Yet, more than 57% of Californians are overweight or obese, often because of poor diet and insufficient exercise, and the percentage is increasing. So is the cost. In 2000, medical expenditures related to obesity in adults exceeded \$21.7 billion.ⁱ Obesity responds to diet, exercise, education, and support. These are not typical medical tools. Doctors and insurance companies have not been able to reduce some of our major chronic health problems, such as obesity, because the cure is not medical in nature.
- ★ For more than 100 years the National Institutes of Health (NIH) have researched diseases, improving public health in areas such as communicable diseases, water treatment, and vector control, as well as personal health. There is so much information that specialists, advanced treatments, and predictive medicine are a major part of the picture. More recently, with the development of the internet, health information is available to the public at no charge and

some healthcare procedures can be handled without the physical presence of a trained specialist. The overall result is proliferating points of service—e.g., doctors, specialists, cholesterol testing for seniors, immunizations at the public health service, gyms, and alternative medicine. With so many points of service, overall health care for the individual may be compromised. Major illnesses can have quiet symptoms. Primary care physicians are important, but they are no longer a gateway to health services for a large portion of the population.

- ★ More than 75% of today's healthcare costs are attributable to chronic diseases.ⁱⁱ The assumption that insurance will cover these costs for the middle class and the rich, and that public funds will pay these costs for the poor, ignores the magnitude of the costs—currently more than 16% of the U.S. Gross Domestic Product and growing.ⁱⁱⁱ Health care costs can be reduced humanely through the innovation of free market forces combined with local problem-solving and volunteerism. Without real reductions, there is a power struggle for control of resources. For example, Medicare and large, employer-based insurance companies are able to negotiate lower prices than individuals. CBS News' 60 Minutes found that some uninsured hospital patients were charged two to four times as much as insured patients for the same treatment.^{iv} Public entities have the size and opportunity to collaborate to create excellent team-based care for chronic diseases. Is it an appropriate use of public funds if such programs are only available at any price to individuals below a specific income level? Insurance cannot cover today's health care expenses.

My proposal would be to adjust health care for Californians so that it better meets current market conditions and encourages effective innovation. In this plan:

- ★ Each adult would be entitled one check-up per year. Children’s check-ups would be given per a schedule recommended by medical professionals. These check-ups could be provided in a primary care physician’s office or in a clinic. They would be at a low cost to everyone, perhaps \$10 or \$20, through State subsidies. They would be available to undocumented residents, as well, as a means of preventing communicable diseases.
- ★ Beyond the check-up, individuals would receive health education tailored to their needs, or they would be informed of options for further support and care. Depending on the nature of the disease and individual resources, offerings might include care teams paid through insurance, community volunteers at schools and churches, or private businesses such as Weight Watchers. Through subsequent check-ups, it would be possible to know which resources were most effective overall.
- ★ Service design and coordination responsibility would occur at the county level. At this level, cooperation among doctors, hospitals, and clinics occurs more readily.
- ★ The State would have the larger overview. The State might develop a specific questionnaire about general health to be completed beforehand and determine which more costly diagnostics should be included at each age. The State could also monitor health data and determine which programs and practices were more effective. Finally, the State could offer its strength as an entity in negotiating for Medicare and other federal health reimbursements.

While it would be costly to offer each person a check-up, there is good evidence of overall cost savings. Some

hospitals already provide free or low-cost primary care services to the uninsured as a means of reducing overall emergency care costs.^v

The check-up would be a point of contact for follow-up education and care, substantially reducing costs. In one study impacting nearly 20,000 young children, after parents received training about colds, fevers, and earaches, including a written, easy-to-read medical guide, visits to the hospital emergency room or clinic decreased nearly 50%.^{vi} Follow-up care does not necessarily need to be at a hospital or medical facility. For the overweight, a walking support group might be appropriate. But it does help to have a point of accountability, which annual check-ups would provide. In the treatment of chronic disease, proven models utilize individuals who are not highly skilled medical practitioners, but who are trained in a certain areas of education and support.^{vii} This indicates that volunteers and entry-level workers could be effective as part of an affordable treatment team.

An additional advantage of check-ups and follow-ups organized at the county level is that local needs could more easily be discussed and addressed. For example, a community might identify lack of playgrounds as a contributor to childhood obesity. Through already established connections, it would be easier for communities to define what is needed, identify ways to meet the need, and develop solutions more specifically tailored to their community, rather than bargaining with State agencies about the definition of the need.

This system of check-ups and follow-up care is already in place in some health care systems, for example, Kaiser Permanente. By encouraging similar systems in all communities, it is my belief that the State of California will reap great benefits.



ⁱ “California Obesity Prevention Initiative,” California Department of Public Health, 2007, <http://www.dhs.ca.gov/cdic/copi/html/problem.htm>.

ⁱⁱ Richard J. Turman, Deputy Assistant Secretary, Budget, National Institutes of Health, testimony before budget subcommittee, 19 March 2007, <http://www.nih.gov/about/director/budgetrequest/fy2008directorsenatebudgetrequest.html>, p. 2.

ⁱⁱⁱ Turman, p. 3.

^{iv} Michael Rosenbaum, “Hospitals: Is the Price Right?”, 60 Minutes, CBS News, 5 March 2006, <http://www.cbsnews.com/stories/2006/03/02/60minutes/printable1362808.shtml>.

^v Erik Eckholm, “U.S. Hospitals Try to Stem Losses with Free Care,” International Herald Tribune, 25 October 2006, <http://www.iht.com/bin/print/php?id=3286777>.

^{vi} “UCLA Research Shows Dramatic Savings for Medicaid When Head Start Parents Learn to Care for Kids’ Illnesses,” report of UCLA /Johnson & Johnson Healthcare Institute, 6 November 2007.

^{vii} “Better Chronic Disease Care Program Focus: Central Valley Diabetes Project,” California Healthcare Foundation, <http://www.chcf.org/programs/chronicdisease/view.cfm?itemid=133458>.

TITLE →

Astute Health Care

AUTHOR →

Philip Solomita, Claims Compliance Officer
Blue Shield of California

Negotiating specifics about universal health coverage will require compromise; however, unless some basic principles are central to the debate, the result will be cost-prohibitive:

- 1) No state residents can opt out without spoiling the "insurance" effect, unless perhaps people of demonstrated means or who maintain adequate funds in a medical set-aside account to pay for catastrophic long-term care can get a partial rebate if they propose to self-insure.
- 2) There will never be a "free market" at the individual level. Individuals and families facing serious illness are not able to force free market opportunities. Yardsticks for reasonable pricing and a combination market with fee-for-service, managed care, and a single-payer option should be maintained to keep each other efficient. Perhaps California would be allowed to pilot an option for the young and healthy to "buy" Medicare coverage when they prefer a single-payer option. Physicians, hospitals and drugs must all be subject to agreed competitive pricing or negotiated rates. Long-term monitoring of costs and outcomes for each delivery model needs to be conducted.
- 3) Some rational rationing of care needs to be defined, for example, for the extremely elderly near end-of-life and for premature birth babies. For any gray-area situations, perhaps charitable agencies can be formed to concentrate on helping some of "exceptions" in funding care when existing charities leave some patients without options or when the development of orphaned procedures or drugs are underfunded.
- 4) Significant administrative overhead is involved in medical claims processing, and even very good administration still results in thousands of errors and frustrated patients and providers. An agency should be charged with creating standardized, on-line or automated processes/communications for determining appropriate services, prices, and reimbursements within days of covered care being rendered. This should begin in the state's emergency and urgent care facilities, where a "live," real-time dialog between attending MDs and payer MDs could support near-immediate reimbursement without paper claims.
- 5) Service levels should be reasonably similar throughout the state. Where shortages of providers or facilities degrade service delivery or push pricing up disproportionately, a dedicated agency should identify and implement solutions.

I hope some of these suggestions contribute to the effective development of universal coverage.



TITLE →

Solutions for Our State

AUTHOR →

Greg Autry

I believe there are many acute areas of concern here in California, as well as the nation. The issues about immigration are complex and apply to our Nation, as well as California. Historically, immigrants have been exploited for the betterment of, and by, a specific group. Our country is no exception.

However, as far back as the beginning of the twentieth century, immigrants have been coming to the United States of America for their own betterment as well. And today, people from all over the world, seek out the USA and especially California, as a place to better themselves and their families. California, with its proximity and southern border to Mexico, is thus highly attractive to Mexican immigrants.

To those who would speak in nationalistic terms, that it is not patriotic in some way to support immigrants, or that immigrants are taking jobs away from our own citizens, that is not true. We must recognize that we are in a global economy and as such, we must compete for manpower, materials, and intellectual and creative resources, on a global basis.

This country has had a major transformation in its manufacturing base and in its entire workforce over the last 40 years. Any citizen here who wants to do a job now being performed by predominately immigrant labor, is welcome to. I have seen no signs on corners, no rules or laws, prohibiting anyone from working as a gardener, or house cleaner, or cook, or labor of any sort.

Again, early in the twentieth century as our nation matured, and after the Great Depression of the 1930s, the unions became strong fighting for the rights of labor and the employees. And rightly so as there was great misuse of all people and basic rights. The unions became very strong, and fought for their rights, wanting more and more. At the same time, the world economy was becoming more and more shared, so that labor in one country would be competing for wages with those of people in other countries.

For a multitude of reasons, business, and management in certain industries, was not successful in equalizing the wages and benefits paid in the USA, as compared to other countries which were developing what would become powerhouse corporations that are now competing with the likes of our biggest corporations.

From other countries, especially in Mexico, there began an exodus en masse, to fill jobs being vacated in California. Our Californian citizens were seeking ever higher pay jobs and entrepreneurial opportunities in other fields and emerging technologies. These immigrants then, and today, fill a void in our labor force. Ask any businessman who owns a restaurant, or small construction company.

If California citizens were to fill these jobs being so pervasively performed by the immigrant workforce today, they would require substantially higher wages than is paid today, or they would not perform the work. If that were the case, the cost of a hamburger, and the cost of a home, would be so significantly higher, that it's not possible to comprehend. In fact, California is among the most expensive places to live in the County. We simply cannot bear a higher cost basis to our many industries and that is why the immigrant labor force has prevailed.

SOLUTIONS

We cannot open our borders to whomever wants to come. For both economic and security reasons (both of vital concern, and separate issues to be debated separately).

We must set limits on borders that are reasonable. With these limits there must be implemented a simple right to work document that allows citizens of Mexico, and other countries, to come to stay, and to work. Those people who are here working, and living, and who can demonstrate that they have established themselves, must be allowed to remain. Anyone with a criminal record must be placed on probation, anyone who has been committed of a felony, should be deported and not allowed back into California.

These workers must be given and accept responsibility for being allowed to work in California. They must have the fear of deportation removed. With that fear removed, they will come forward and be responsible. These newly allowed people should be required to pay some taxes, albeit lower due to their already low pay, and in light that they are not benefiting by all that we have. There must be recognition that if they drive, they must obey all of our laws, including that or registration and licensing. Allow a classification of driver's license so as to better implement workable laws.

After a certain period of time, say five years, allow these people to apply for citizenship.

We must allow for seasonal workers as well as for workers in specific industries and those who live here only part time. And we must allow that some live here and are assimilated into our culture, our economy, and our lives.

We must also account for the added cost to the state for more people. First recognizing that we've already assimilated

the cost in most cases, as the masses of immigrants have been here for some time. That said, another part of this solution, but also a separate issue for debate and resolution, is that of a national medical insurance policy.

Schooling is a vexing issue which raises great concern, and cost large sums of monies for both states and cities. Schooling must be provided for every person living here. Every child deserves and has a right to an education. Just as he has an inalienable right to pursue whichever religious belief he may wish to. When people are educated it simply raises the bar, for the next generation, and the next. Education benefits everyone, always, and forever.

One of the great aspects of living in California is the amazing cultural diversity. Don't be afraid of your neighbor, hopefully he will speak another language, and have new ideas for you to learn from. This is a springboard to new ideas, development, and the manifestation of a society that loses its judgement and fear, and relies on openness and compassion to create opportunity for all.



TITLE →

Using Innovative Partnerships to Restore the Golden State

AUTHOR →

Bill Eggers, Global Director
Deloitte Research – Public Sector

Back in the 1960s, California was known for more than just Hollywood, the Beach Boys and some of the most beautiful scenery in the country. The state was also famous for its unparalleled infrastructure building. Led by Governor Pat Brown, California had one of the world's most extensive transportation infrastructure programs in the late 1950s and early 1960s, paving the way for much of the state's subsequent economic prosperity.

Those times now seem like ancient history. Today, California needs around \$16 billion a year for transportation—but only foots about a quarter of the bill. The result is a huge and growing backlog of projects. It's no wonder that traffic problems are so huge. Los Angeles and San Francisco—Oakland top the list of most congested metropolitan areas in the country. This dubious distinction comes as no surprise to California voters, who signaled their frustration with the state's chronic underinvestment in infrastructure by passing a record-breaking public works bond package back in 2006—with \$19.9 billion going to transportation improvement projects.

While the bond package helps put a dent in the state's infrastructure deficit, the funding gap remains significant. Caltrans estimates it'll cost \$107 billion over the next ten years to reduce congestion below today's levels and points to the need to further engage the private sector in order to carry out the governor's Strategic Growth Plan. Governor Schwarzenegger is pressing for greater legislative authority to enter into partnership arrangements and proposing the creation of a new center charged with determining which projects will benefit from increased private sector participation and monitoring performance.

Given all the controversy that marred the 91 Express Lanes toll road project, it's no wonder that some politicians are ambivalent about re-visiting the public-private partnership (PPP) issue. Nevertheless, the fact remains that a lot of time has elapsed since PPPs first made their entrée onto government agendas and considerable experience and insight has been gained. As California contemplates how to utilize innovative partnerships more widely to close its funding gap, it's important to look at the actual experience of other governments that have used PPPs to tackle their own infrastructure deficits to help separate out the rhetoric surrounding PPPs from the reality, and to understand some of the important lessons learned.

Before a conversation about how PPPs might be used to bolster funding for California's infrastructure can take place, there are some common concerns that crop up nearly every time someone mentions PPPs. The foremost concern always seems to be what's called the cost of capital issue: Isn't government-issued debt cheaper than the private sector's cost of borrowing? The answer is: it depends. Often times what happens is an apples-to-oranges cost comparison. Once the cost overruns and delays that typically plague big projects are factored in, the borrowing cost advantage that the public sector starts out with gets chipped away at. An apples-to-apples comparison would weigh the government's risk-adjusted cost of capital against the weighted average of the private sector's cost of debt and equity. Moreover, the magnitude of the public sector's borrowing advantage is slipping away as private infrastructure markets become more and more sophisticated. Across the pond, the difference between the private cost of capital and public borrowing in the United Kingdom has narrowed to just 1-3 percentage

points. With \$15 billion in tax-exempt private activity bonds up for grabs courtesy of the U.S. Department of Transportation, the private sector's cost of capital is further reduced.

Another concern that often gets raised is the impact of PPPs on citizens. One of the most common fears understandably centers on the toll rate issue—big profits for the private sector at the expense of consumers. There are several mechanisms available to the public sector to help mitigate this concern. Toll increases, for example, may be indexed to inflation or another predetermined rate. Another way to limit the direct financial impact felt by consumers is through what's called an availability fee. To protect customers of the service from the sticker shock of high tolls, the government can offset the difference between the market rate and a toll rate that's acceptable to the public sector by making use of this payment mechanism to make up the difference. This can help ease the financial burden that customers are forced to absorb when shifting to a user fee system.

Shifting gears from the why (PPP's ought to be considered) to the how (to make them successful), a few important lessons stand out.

First, a strong understanding of the new innovative PPP models available can help the public sector select the right procurement model for the project at hand. While the non-compete clause embedded in the 91 Express Lanes contract soured Californians to the PPP concept, more than a decade later governments around the world have gained considerable experience applying PPPs to numerous infrastructure projects. As a result, a far wider range of more sophisticated financing and delivery models have been

developed to deal with the problems that plagued earlier projects. Knowing how and when to use these models can help government agencies choose an appropriate approach and tailor it to meet their particular needs.

Second, the public sector needs a clear framework for partnerships that covers all the bases of a project—from the policy and planning all the way through post-construction. Often times the focus is too narrow. The transaction is carried out, with little thought given to the necessary groundwork for long-term success. By establishing a solid framework for PPPs and effective governance of the project once it's up and running, the public sector can avoid showstopper problems that can damage PPP projects—from a lack of clarity about outcomes to inadequate government capacity to manage the process, among others.

Last, the public sector can make use of its full portfolio of assets to realize its infrastructure goals. For example, government assets such as land and buildings can be used as equity to partner with the private sector to create new facilities or develop existing ones that service more pressing needs. Oregon, for example, is currently working on a swap of highway maintenance facilities in exchange for the construction of new facilities.

Restoring California's infrastructure to a condition befitting of the Golden State requires looking beyond conventional financing and delivery approaches. By applying the lessons learned over the past decade and continuing to innovate, the state can realize the governor's bold vision of restoring California's infrastructure and lay the groundwork for continued economic prosperity in the 21st century.



TITLE →

Disaster Information System by California Communications Leaders

AUTHOR →

Gregg Kail, Consultant
Telecom

The safety and lifestyle of Californians can be improved with innovation from two of the world's leading communications companies headquartered in California – Qualcomm and Google. This proposal is for the two communications innovators to utilize the ubiquity of wireless mobile devices for launching a mobile disaster information system. The system would deliver information in the case of natural disasters or other catastrophic emergencies and could be named CAMDIS for California Mobile Disaster Information System.

For the development of the system, Qualcomm would contribute its technology in MediaFlo for mobile TV and the Gobi chip that handles both EV-DO and HSPA networks for universal coverage. Google would offer its GMaps and developments in GPS navigation and local search. The initial launches would be in the Sorrento Valley and Mountain Park to match the headquarters locations of Qualcomm and Google. Qualcomm could expand the CAMDIS participation with an alliance of device manufacturers that have divisions in the Sorrento Valley such as Ericsson, Motorola, LG,

Nokia and Samsung. Google could offer the technology of its navigation partnerships with Navteq, TeleAtlas and TomTom.

The CAMDIS functionality would be available to both public safety agencies and California individuals and businesses. The access to CAMDIS could be controlled by the involvement of the carriers with wireless licenses in California. The CAMDIS application would also prompt the California licensed carriers to abide by post-Katrina FCC rulings and pursue the recommendations of the Department of Homeland Security. The FCC has ruled for U.S. cell sites to be equipped with at least eight hours of backup power in the case of disaster or emergency. The Department of Homeland Security recommended cell sites that are quickly deployable, portable and interoperable communications facilities in the report titled "The Federal Response to Hurricane Katrina: Lessons Learned". The CAMDIS proposal combines California's technology leaders, equipment manufacturers, and wireless carriers for a statewide disaster recovery tool.



TITLE →

My Solution for Our State

AUTHOR →

George Tharakan, Director of Research
Santa Barbara Asset Management

When I look at the economy of California, I see some major issues that need to be addressed. The issues are very similar to the ones facing the nation at large.

First, high crude oil prices are taking an increasing toll on the economy. A significant percentage of personal income is now being spent on gasoline. High crude prices also have an indirect impact on spending. Ethanol mandates to address high crude prices are driving up the price of corn and other agricultural commodities. High agricultural prices are driving up the prices of meat and prepared food.

Second, there is widespread agreement in the scientific community that global warming is real and is being driven by human activity. The percentage of carbon dioxide in the atmosphere continues to rise and is a prime driver of global warming. One of the primary sources of carbon dioxide emissions is automobile transportation.

Third, a large portion of the population is not participating in the growth of the economy. The gap between the highest and lowest quintile by income or wealth is widening. The primary reason for this discrepancy seems to be a lack of good, well-paying jobs for non-college graduates. There have always been people who could not (or would not) go to college after graduation from high-school. Historically, such folks would find well-paying jobs in the manufacturing sector. Globalization and the emergence of China as a low-cost manufacturing center have left many of these people with few opportunities. Even the manufacturing jobs that remain are under constant pressure to keep wages and benefits low to compete with low-cost Chinese labor. The threat of out-sourcing is always in the background.

While the problems described above have no easy solutions there is much the state government can do to alleviate these

issues. One solution which can help address all three of the above issues is the widespread deployment of commuter rail throughout California. There are many major cities in our state that lack a commuter rail infrastructure. The Greater Los Angeles basin is a prime example but other cities such as San Diego and Sacramento also fit the bill. The U.S. Department of Transportation states the fuel efficiency of commuter rails is eight times more efficient than an automobile! It is highly unlikely that corn-based ethanol will provide anything close to these levels of efficiency. A widespread deployment of commuter rails will reduce crude oil use since approximately 70% of crude oil is used for transportation purposes. Commuter rails are also the cleanest means of transportation and thus very good for the environment.

A deployment of commuter rails across California will require the employment of many people, primarily those who have been impacted by the loss of manufacturing jobs to China. The scope will be similar to the nationwide highway construction undertaken by President Eisenhower after WWII. It will provide long-lasting economic benefits to all Californians.

A vast undertaking described above cannot be initiated by the private sector. The Government of California can play a vital role in leading and driving this project. The private sector will play an important role to bring this project to fruition. The project will initially need to be funded by issuing municipal bonds backed by the state. Once the system is up and running the bonds can be paid off by levying user fees on rail commuters and tolls on drivers who continue to use the highways.



TITLE →

California's Economic Health: Testing the Old Adage "The More things Change, the More they Stay the Same"

AUTHOR →

Scott Chronert

The year was 1979. My memories are of hour-long lines at the gas station, double-digit interest rates, smog so bad it made your lungs hurt to breathe, the novelty of Prop 13, and countless time spent feeding decks of chad ridden data cards into something that, at the time, qualified as a computer, leading to many debates with Professor Larry Kimbell (then head of the UCLA Business Forecasting Project, now the UCLA Anderson Forecast) regarding cause and effect of the state's and nation's economic issues.

Things have changed: ample availability of gas (albeit at a slightly higher price), low single-digit interest rates, improved air quality in most parts of the state, the legacy of Prop 13, and a computer/technology revolution that has led to immeasurable productivity enhancements in nearly every aspect of our lives. But, what has stayed the same is the susceptibility of California's economy to accentuated swings, both up and down, to the underlying direction of the U.S. economy.

The result has been a series of governors who take credit for the state's fiscal prosperity when the broader economic cycle is the real underlying influence, but who are quick to shift blame to anyone or anything else when the cycle leads to revenue shortfalls, and resultant deficit situations. At the same time, the state legislative system continues to be plagued by bipartisanship that renders it useless in dealing with California's underlying structural issues.

The goal of the State's economic policy has to be one that seeks means of smoothing out the influence of broader economic swings in a manner that enables our elected officials to manage the state toward multiyear strategic objectives that include:

- ★ a favorable environment for business;
- ★ an education infrastructure that strives to be among the best in the country;
- ★ providing appropriate levels of social welfare services;
- ★ an environmentally conscious approach to growth.

In my view, the basic tenets that should be applied in such a policy are 1) the private sector will typically be the most efficient provider of many services; and 2) the greater the degree of autonomy that is given to local governments, the better the chance is that policy and decisions regarding the four points above can actually be achieved.

To accomplish this, I propose the following:

- ★ Reduce the state income tax rate by 10%, phased in over two years
- ★ Increase the Prop 13 property tax rate from 1.25% to 1.50%
- ★ Rewrite capital gains tax such that rates are graduated lower from six months out to two years
- ★ Reform worker's comp in a way that reduces the annual insurance burden on all businesses
- ★ Provide aggressive tax incentives to individuals and businesses to broadly adopt and invest in alternative energy solutions

Specific to the first two points, which are the most controversial, the lower state tax rate is intended to be

1) stimulative to economic growth and 2) will force the state governmental infrastructure to streamline as it shifts spending to cities and counties. By increasing the Prop 13 tax rate, what is lost in state tax revenues will be made up at the local level. In turn, property taxes would then become the primary means of funding education, as well as certain other services. Local governments would then exercise more control over education spending, as well as other services, presumably in a manner most appropriate for the needs of its constituents. Once tied to asset property values, the educational system will become less susceptible to the state's revenue swings related to underlying economic cycles.

Concurrently, steps need to be taken to make California more "business friendly" as a means of attracting higher paying jobs to the state. The lower state tax rate, workers comp reform, tax credits related to energy efficiency, and a declining capital gains tax structure are all important elements to improving the climate for business in the state, with an emphasis on longer-term investment time horizons. The intent is to both stimulate business formation and

benefit from the multiplier effect that it ultimately will have on economic growth and, thus, the tax base.

Simply stated, the goal of this approach is to:

- 1) Shift education spending closer to the county level via modest property tax rate changes. The state's primary expenditures thus become more closely tied to categorical items
- 2) Increase the motivation for businesses to invest in the state, with tax incentives for longer-term capital gains
- 3) Stimulate spending via the reduction in state income tax rate, betting on the multiplier effect of that spending ultimately increasing state revenues as the economy rebounds. At the same time, the income tax reduction softens the current blow of a weakening economy with its associated credit concerns impacting housing, etc.



TITLE →

The Revenue Side: Generating a Consistent Resource for California Through Reassessment of Commercial Properties

AUTHOR →

Mona Field, Trustee, Professor of Political Science

Los Angeles Community College District, Glendale Community College

California is supposed to be the Golden State, a place where the blessings of natural resources combine with a history of diversity and innovation to enable human aspirations to flourish.

California has created one of the world's finest public systems of higher education, and it has the potential to be the world's economic driver by creating the educated, skilled workforce needed in the global economy. However, continuing under funding of the UCs, CSUs and Community Colleges results in fee increases and reduced programs. Additionally, California's K-12 public schools now rank 34th among the 50 states in K-12 spending per student, spending \$959 less per student than the US as a whole.ⁱ Repeated studies and commissions tell us we must spend much more if we want an educated workforce.

But California has hamstrung itself by creating a tax structure that depends too heavily on the booms and busts of the larger economy. With personal income and sales tax combined providing nearly 80% of the state's annual budget, it is no wonder that when recession hits, California is in crisis.

Ever since 1978, with the passage of Proposition 13, property owners have enjoyed the privilege of retaining tax rates based on the value at the time of purchase (or the value in 1976, whichever came first). In the 30 years since, while private homes have changed hands consistently, and individual homeowners have increasingly paid higher taxes, the corporations that never die are able to maintain their ancient tax rates – and thus provide inadequate resources to the community.

According to the California Tax Reform Association, huge disparities exist across the state among substantially

similar properties, both commercial and residential. In the major counties, an increasing percentage of the local property tax burden has shifted to homeowners rather than commercial owners. Given the wording of Proposition 13 that reassessment shall only occur when there is “change of ownership,” commercial properties routinely change ownership without a deed being recorded due to the vast complexity of the ownership structures and the many ways in which commercial properties are titled. In other words, they are not reassessed, and thus their property taxes are vastly below necessary levels for public services to be provided at levels needed by a growing state.

The Minnesota Taxpayers Association in a 2003 study found that only eight states have lower commercial and industrial property taxes than California. None of the states with lower property taxes are large industrial states like California.ⁱⁱ

California deserves better. California's people increasingly live in a third world society, with vast gaps between the life options of the educated workforce and the constrained world of large numbers of under-prepared individuals, some of whom become the criminals that drive our huge prison costs. Creating a healthy, educated workforce is essential. One way to provide revenue for this challenge is a change in the state constitution that would require commercial property to be reassessed for current values and taxed accordingly.

According to the California Tax Reform Association, polls demonstrate that “voters prefer market value assessment of non-residential property by 60-34, as a solution to our structural budget problems.” California is unique in its “no reassessment until change in ownership” approach; most other states call for the periodic reassessment of commercial properties at market value.

It is time for a ballot measure to amend Proposition 13 so that commercial property is reassessed periodically. “Such an assessment method prevents commercial property owners from gaming the system to avoid reassessment and provides county assessors with clear guidelines about when properties should be reassessed. It would also guarantee that businesses compete on an equal playing field and ensure that California’s property tax system captures billions of dollars in tax revenues.”ⁱⁱⁱ

Will the business community scream that they cannot absorb more taxes? No doubt. Will strong leadership be

needed from elected officials to ensure voter support for such a measure? Certainly. Will all the groups that currently represent public sector services need to unite instead of fighting among themselves over the shrinking public budget pie? Absolutely.

Can it be done? Only if our elected leaders tell the truth: we cannot provide world-class educational opportunities and other essential services without taxes. We should bring our commercial property tax system in line with other states. Corporate interests must not be permitted to reap windfalls while Californians become peons in the world economy.



ⁱ California Budget Project, School Finance F A C T S, October 2007

ⁱⁱ California Tax Reform Association, California Commercial Property Tax Study Statewide Study Finds Huge Disparities in Property Taxes Paid for Similar Properties; Highlights Need to Reform System, April 2004

ⁱⁱⁱ *ibid*

TITLE →

If it's Change You Want – We Best Get Moving

AUTHOR →

Doby Fleeman, Fellow Taxpayer and Anderson Alum

The fundamental problem facing our legislature, the problem that blocks it from addressing and prioritizing the issues, is gridlock.

Today's gridlock is borne of our current electoral process, the results of which yield undue power to the special interests. Perhaps it has been ever thus, that is, the special interests controlling the legislature. Over time, however, the absolute magnitude of special interest influence has grown so disproportionate as to result in a legislative process that has lost sight of its primary role.

Quality legislation can only emerge from an environment that fosters open and vigorous debate of those issues deemed most critical to the continued prosperity and well being of our citizens and our communities. Pursuit of these issues and resulting policies is the sole business to which our legislature must attend. At its best, the goal of such legislation would be to seek results in a middle ground between the near- and longer-term objectives.

Today, such approach to legislation is not possible. From day one, potential or would be legislators are faced with a series of difficult choices. Party politics demand a certain minimum platform, endorsements from popular politicians and public officials exact another measure of independence, and lastly, donor and PAC demands present another labyrinth to be navigated on the way to a successful campaign. At the conclusion, even the most independent of candidates retains but a narrow window through which to pursue their dreams of making a real difference.

It's not a long wait before even that window is slammed shut by the inevitable realities of the political process. Newcomers must wait their turn. Existing alliances must be acknowledged, accepted and supported – favors begetting favors – obstructions begetting failure.

Over decades, the balance of power has shifted. At one time it was Big Business or Big Agriculture that controlled the stage. While those influences still persist, that equation has now shifted – this time more in favor of groups representing the interests of our largest public employee unions and the departments that oversee them. And inevitably, every sponsor is looking to short-term results from their hand-picked candidate. Such trends are simple facts of life for an institution with a power structure dictated solely by the powerful forces with the means to deliver the votes come election time. Time and money are the variables, with measurable, short-term results being the only measures of success and longevity.

And, if the sole objective of our legislators were simply to win their reasonable share of the spoils for their well-heeled constituents then everything would be fine. Unfortunately, however, there is not a limitless supply of funds and there exists no agreed system for equitably distributing the available funds, with the end result being gridlock.

But most importantly, such a system neither encourages nor rewards the vigorous debate of issues critical to the future of state and the continued prosperity and wellbeing of our citizens and our communities. Pragmatically speaking, from the viewpoint of the legislator/candidate, there is simply no percentage in such approach.

It's important not to misinterpret what I am saying, for it's not the legislators that are to blame. In fact, they are simply doing as any in their position would – trying to succeed within the context of a system they did not create. It's the system, then, that needs the fix.

The best means to break this gridlock - returning an issues-oriented dialogue to the legislature's floor - is to return the power of the ballot to the people.

Most of the important issues facing us today are communal in nature – eventually affecting all of our citizens and all of our communities. This becomes all the more evident when we consider the longer-term effects of policy outcome.

We can talk educational innovation, energy policy, the environment, transportation and infrastructure, water and resource management, initiatives to foster competitiveness, health and welfare reform, tort reform. The list may be long, but it is finite. And better outcomes are possible.

Largely, however, it's a matter of public will. Will, however, does not arise without understanding. And it is that understanding which is so lacking in today's debate.

As a society, we really have no excuse. Given today's tools of mass communication, our appetite for and capacity to

develop entertaining media, it is wholly within our means to acknowledge the challenges, to summarize the issues – their benefits and shortcomings – and to share these findings with the public. It's purely a matter of collective will. The means are at hand. The solution is really quite simple: Restore the power and the tools of deliberation to the public square, providing us the encouragement and the means to make our voices heard.

More important is our answer to the question: "Are we willing to accept the challenge? Are we willing to encourage our citizens to dream of a truly representative form of government in which the concerns of the citizens and our communities come first and foremost?"

If it's change you want, let's get moving.



TITLE →

My Solution for Our State

AUTHOR →

Eric G. Juline, Retired Partner, Past Regent, PriceWaterhouseCoopers LLP, University of California Board of Regents

At the risk of oversimplifying the fiscal dilemma which the state faces, there are four major forces in play:

- ★ We have a high demand for and a high level of services being provided (and a high level of cost)
- ★ We have a tax structure which inconsistently generates revenues sufficient to fund that high cost
- ★ We have a dysfunctional democracy in which elections to state legislative offices are most often determined as a result of primary political party elections rather than general elections and therefore candidates that are more liberal or more conservative are typically elected to the State Senate and Assembly
- ★ Inherent in the system of compensation of public sector employees are pension and retiree healthcare benefits for which there are clearly insufficient current and future resources to pay for those benefits

These four forces have resulted in both past and current fiscal crises and will inevitably lead to even more serious future fiscal crises if they are not addressed – and the sooner the better. The failure to adequately address the benefits structure has been particularly egregious. Private sector employers have been required to address their retiree healthcare obligations since the early 1990s. Public sector employers are only now beginning to consider how such obligations will be addressed.

As noted, the fiscal crisis has been further complicated by the highly partisan political environment caused principally by the gerrymandering of voting districts for both the State Senate and the State Assembly. And one further complication is the relative power that public employee unions wield in the political environment. Such political power must become

more rational if any meaningful beneficial solution is to be successful.

My proposed solution is an all-encompassing compromise that requires cooperation by all constituents (including the people of the state and public sector employees and their union leaders). The major components of the compromise are as follows:

- ★ Agreement on a constitutional initiative for an independent methodology for the rational and reasonable establishment of voting districts in the State
- ★ Implementation of a temporary surtax on income taxes of 10% that would remain in place until the current budget crisis is remedied and pension and retiree healthcare benefits are being systematically funded.
- ★ Replacement of the current benefits structure (defined benefit pension plans and high employer cost share retiree healthcare benefits) with a new benefits structure (defined contribution pension plans and moderate employer cost share retiree healthcare benefits) for newly-hired public sector employees.

The courage to carry out such a plan must be universal including one hugely critical downstream element – union negotiations. If political leaders are unwilling upfront to declare that the existing benefits structure is unsustainable and must be changed, this solution will not work. In addition, if those same political leaders are unwilling to declare that they are prepared to replace current employers with new employees if their unions do not agree to the new benefits structure for new employees, this solution will not work.



TITLE →

A Taxing Solution to State Budget Financing

AUTHOR →

Richard Seeley, Small Business Owner

One of the major socio-economic issues, and possibly the most important major issue facing the nation and the states, is financial debt. The federal government is over \$9 trillion dollars in the hole and just about every state has a budget deficit. Wars, the military and politics, at all levels, continue to gobble up huge chunks of what revenue is available.

The answer to our revenue problem, according to our present leaders, is cut spending on services such as education, financial assistance to the elderly, the disabled and the disadvantaged young, as well as reduce and privatize Social Security, among other areas, that effect only the middle class and the working poor!

In California, the budget deficit in the coming year is said to be \$14.2 billion. Will we make up this deficit by cutting services, closing 48-50 parks and recreation areas, and passing a bond measure which will cost the public about 2-3 times more over the years than raising taxes? Will the Native-American Casino Propositions 94-97, if passed, get us out of the \$14.2 billion hole as advertised? If so, at \$9 billion in taxes over twenty years, it will take about 32 years to do so!

The basic problem is a horrendously out of balance income tax structure which is neither progressive nor just! Tax loopholes and reductions for the wealthy and the corporate are monumental! Examples: One large corporation doing business in California has skipped out on paying state taxes of over \$2.3 billion during the years 1999 to 2005! How much more have they skipped out on in 2006-2007 or before 1999. Another large corporation made over \$934 billion in pretax profits over a four year period, paid not one cent in federal taxes and received a \$164 billion rebate??

The special lowered tax rates on capital gains and dividends expanded by the present administration reduced income tax payments by \$91.5 billion in 2005 with 75% of that sum going to 0.6 percent of taxpayers reporting adjusted gross incomes in excess of \$500,000! In the 1940's, corporations paid about 40% of the total federal income tax burden- now they pay less than 5%! Lastly, the top 1% of income earners pay an effective tax rate of 5.2%. Those in the middle 20% pay at a rate of 9.6% while the poorest 20% pay a rate of 11.4%. Again, this is neither progressive nor equal justice under the law!

It will be extremely difficult due to the lackluster and "hands in the corporate pockets" politicians of both parties, but a major effort must be continually pushed to correct our present terribly flawed and unfair income tax system. It must be total reform, properly progressive and simple. No complicated legal jargon that even the tax lawyers don't fully comprehend, no loopholes, no deductions or credits and no tax breaks of any kind. And all sources of income must be taxed, interest, dividends, profits, wages, salaries, every form of income at every level, with perhaps a non-taxable limit of \$12,000-\$15,000 at the bottom income bracket. Then, in my opinion, with more money than even the government would be able to spend, most, if not all, the other forms of taxation such as sales taxes, property taxes, luxury taxes, etc, might be eliminated or, at least, greatly reduced. For a better future for us and for our grandchildren, it's certainly worth trying.

See Citizens for Tax Justice and The Institute on Taxation and Economic Policy 1616 P Street NW, Suite 200, Washington, D.C. 20036 for tax info cited.



TITLE →

State of the State

AUTHOR →

Martha Zepeda, Founder
Zepeda and Company, Inc.

General abuse and predatory lending in the sub-prime market, and fiscal irresponsibility caused our current economic crisis. The regulations on mortgage, payday and credit card lenders need to tighten. Loop holes in the state usury limit that many lenders are taking advantage of need to be closed. Lowering financing costs will allow people to spend more on food, clothing, cars and housing. We are now faced with higher property taxes, higher food, utility and fuel prices while our economy is floundering and we are losing jobs. Fiscally we should focus on a policy that has lower taxes for businesses and better access to capital for Californians and lower property taxes. Ironically, lower interest rates (federal reduction) make loans more difficult to obtain for both businesses and individuals.

The pools of public pension fund money allocated to alternative investments such as private equity would be optimally utilized today in the middle market (\$15 - \$400 million) rather than in the large cap market. We have about 50,000 middle market companies nationwide, with 30,000 located here in California. Furthermore as the private equity market in the "EBITDA \$10mm" category becomes more efficient, prior conventional strategies such as the reliance on multiple expansions, financial engineering, and the ability to buy cheap are no longer sustainable methods. Targeting value in the middle market can be a very

lucrative investment. By adding value with capital access and succession opportunities, such deals will have a more meaningful and direct impact on this specific market.

Although this sector of the market requires quite a bit of hand holding and more time than dealing with larger cap companies the process can be standardized or professionalized. These companies are not typically venture capital and past early stage. They have tended to grow with cash flow constraints because they have not had access to growth capital and are typically family owned. Access to growth capital would accelerate greatly the development of these companies and their ability to satisfy their markets. We have great examples of these phenomena particularly in the Hispanic middle market. Financial sponsors must have a differentiated strategy to generate returns in today's market. There is a need to focus on planning and execution, promoting "lean" business concepts, reducing dependence on business cycles, and improving sustainable earnings.

Conclusion: Coordinate fiscal policy for economic growth by encouraging public pension investment in funds that will invest in middle market Californian companies, stimulating rapid economic growth while protecting consumers and being fair to the working people who are the soul and engine of our economy.



TITLE →

Re-Fitting the Urban Core

AUTHOR →

Frederick Croft, Managing Partner
and Gregg Martins, Senior Partner, PVM Partners LLC

THE PROBLEM

California has a number of environmental issues directly related to the residential suburbs which house the majority of the state's residents. These include: long commutes (caused as suburbs move steadily further from employment areas in search of cheap land and less onerous zoning), auto pollution (from cars stuck motionless in commuter gridlock as they belch carcinogens), destruction of natural habitat by encroaching developments, and the drain on scarce water resources caused by wide lawns and imported vegetation ill suited to the California environment.

The impact is personal as well as environmental: home ownership becomes problematic for the majority of the state's residents, with new home prices driven through the roof by a combination of high land costs, approval processes that can take years and often involve ugly litigation with various homeowners associations and civic groups who oppose any change in the status quo, and bureaucratic zoning approval processes that load on the cost without adding any definable value for the state's residents.

OUR PROPOSAL

We propose an initiative to rebuild the urban core of California's cities, based around a statewide standard approved zoning specification for mixed use, live – work developments. This would involve areas at multiple economic levels and focus on providing high-quality housing for various consumer demographics, rather than the emphasis on low income that has held mixed use back in much of the state. Mixed use offers numerous environmental and homeownership-encouraging features that are lacking in the patchwork local system that's in place now:

Environmental

- ★ Locating residences closer to employment areas lowers the load on California's overstretched freeway system, and lowers the pollution caused by long commutes.
- ★ Emphasizing vertical development rather than large, eco-hostile yards with water-addicted lawns minimizes the need for loss of natural land and lowers the water drain imposed by imported vegetation.
- ★ Working in the urban core reduces the loss of natural land.

Home Ownership

- ★ Creating more high-quality housing with the land use efficiencies of multifamily construction creates home ownership options for younger buyers who can't afford suburbs with high six figure prices.
- ★ Creating statewide zoning standards allows increased use of LEED standards and of manufactured/panelized construction techniques that are often opposed by local zoning and inspection simply because they're new. These new techniques offer demonstrated low costs coupled with a smaller environmental footprint.
- ★ Statewide zoning standards can speed the approval process, getting needed quality housing into the system while further lowering costs.

We are also suggesting further initiatives be included in the statewide program. These would include incentives for use of xeriscaping in parks, public buildings and private residences. These might be coupled with restrictions on water access for watering imported vegetation during water shortage periods (possibly enforced by ticketing or fining offenders).



TITLE →

The Need for a Vision

AUTHOR →

Philip S. Hart, Executive Director
Urban Land Institute Los Angeles

What will California look like in the year 2020? Where will the state find room for nearly seven million more people in 2020 while meeting our greenhouse gas emissions reduction goals? The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

To this end, the Urban Land Institute (ULI) led by its San Francisco District Council and joined by the five other District Councils throughout California, convened environmentalists, civic organizations and developers to agree upon a set of principles and actions to guide land use decision making. This group, California 2020, building upon the best thinking of a 2002 multi-stakeholder, consensus-building exercise entitled, "Putting the Pieces Together: State Actions to Encourage Smart Growth Practices in California, published by ULI, has formulated:

- ★ Five livability goals for 2020;
- ★ Ten principles to govern land use decision-making;
- ★ Local responsible land use policies, and;
- ★ Ten high priority actions to achieve these goals.

The five California 2020 goals are as follows:

- ★ Create thriving and sustainable communities;
- ★ Enhance California's economic competitiveness;
- ★ Enhance housing opportunities;
- ★ Preserve open space, natural resources, farmland, and the environment; and
- ★ Reduce greenhouse gases by reducing per capita vehicle miles traveled (VMT).

The ten principles for achieving California 2020 goals are as follows:

- ★ Compact development;
- ★ Infill;
- ★ More development certainty;
- ★ Balanced housing choice;
- ★ Jobs/Housing balance;
- ★ Mixed use;
- ★ Mixed income;
- ★ Transit-Oriented Development;
- ★ Farmland and Open Space Preservation; and
- ★ Responsible Infrastructure Investment.

The ten recommended high priority actions are as follows:

- ★ Ensure that all State administrative actions are consistent with and advance the Ten Principles;
- ★ Establish State performance-based rewards that promote responsible land use;
- ★ Implement performance-based rewards in determining local compliance with housing need requirements;
- ★ Amend the existing California Environmental Quality Act (CEQA) to assure that Actions 1 to 3 are implemented;
- ★ Support regional blueprint planning;

- ★ Establish a permanent source of funding to build subsidized affordable housing and seek ways to reduce the cost of building housing;
- ★ Encourage un-subsidized workforce housing;
- ★ Protect important farmland, open space, and natural resources;
- ★ Preserve the continued ability of State and local governments to promote needed infrastructure and urban infill and protect the environment; and
- ★ Modify fiscal policy.

This California 2020 vision offers a blueprint to allow the State to move forward in a humane, inclusive and sustainable

manner. Its implementation will require prudent action and visionary thinking on the part of: the state, local governments, neighborhoods, builders, designers, the financial community, environmentalists and planners.

The six California ULI District Councils from Sacramento, San Francisco, Los Angeles, Inland Empire, Orange County, and San Diego, have vetted this California 2020 vision. Their consensus has led to ULI's decision to have its new West Region Office based in Los Angeles to take on this California 2020 initiative as one of its initial regional projects. It is hoped that this vision for California in the year 2020 can provide a clear foundation for public and private participants to achieve the goals of sustainability in commerce, conservation and community.



TITLE →

Efficient Cities

AUTHOR →

Steve Raney, Research Lead
Cities 21

The average Californian consumes more energy driving than operating their home. Efficient cities minimize the distance between work, home, and activities, thus cutting energy consumption and carbon dioxide production by more than half. Efficient cities provide the following benefits:

- ★ lower cost-of-living
- ★ lower per-capita carbon emissions
- ★ happier people from more neighborhood social connections and less time wasted stuck in traffic
- ★ higher convenience
- ★ more vibrant street scenes
- ★ better health from more walking
- ★ more mobile kids and seniors
- ★ accommodate large population growth via lucrative in-fill real-estate development

Personal Rapid Transit (PRT) technology is coming to London Heathrow Airport in the Spring of 2009. When used as a transit circulator, PRT is faster than a car for short trips, and makes traditional transit and carpooling more effective by solving the “last mile problem.”

Web and cell phones help create a “comprehensive new mobility” system to make green transportation seamless and hassle-free. Paid “smart parking” is the “stick” that reduces solo commuting by 25%. “Low Miles residential communities” foster green culture, where residents help each other to reduce carbon dioxide. This green culture is created using the same powerful sociological marketing principles that drive our materialistic society. Housing

preference policies are used to select new residents who will travel less and use green transportation.

Two-car families sell one car. As the real-estate gradually changes, asphalt-dominated employment centers are transformed into walkable locales. Walking, biking, electric scooters, and Personal Rapid Transit enable more than 50% of trips (commute, errands, recreation, etc.) to be made without driving alone. Each of California’s 43 concentrated suburban job centers (Irvine Spectrum, San Diego Sorrento Valley, Warner Center, 13 in Silicon Valley, etc.) with 30,000+ employees can be transformed into huge transit villages of two square miles or more.

Quotes

UCLA Professor Donald Shoup (author: *The High Cost of Free Parking*) says, “Parking lots within our office parks represent a ‘land bank.’ Office parks can be transformed in ways that few people now envision.”

Peter Calthorpe (Lead Consultant, SCAG’s Southern California Regional Blueprint (<http://www.compassblueprint.org/about/team>). UCLA’s Neighborhood Knowledge Center is a Compass Blueprint consulting team member.)

- ★ In a six-page paper, <http://www.calthorpe.com/clippings/UrbanNet1216.pdf>, Calthorpe writes: “All the advantages of New Urbanism - its compact land saving density, its walkable mix of uses, and its integrated range of housing opportunities - would be supported and amplified by a circulation system that offers fundamentally different choices in mobility and access. Smart Growth and new Urbanism have begun the work of redefining America’s twenty-first century development paradigms. Now it is time to redefine

the circulation armature that supports them. It is short sighted to think that significant changes in land-use and regional structure can be realized without fundamentally reordering our circulation system."

- ★ At a 2005 conference, Calthorpe said, "One of my pet peeves is that we've been dealing with 19th Century transit technology. We can have ultra light elevated transit systems (personal rapid transit) with lightweight vehicles. Because the vehicles are lighter, the system will use less energy. I used to be a PRT skeptic, but now the technology is there. If you think about what you'd want from the ideal transit technology, it's PRT: a) stations right where you are, within walking distance, b) no waiting."

Sir Peter Hall (author: *Cities of Tomorrow*): "The social perception of public transportation depends on the quality of

the transportation. I think we may be looking to technological advances in public transportation to create new kinds of personal rapid transit. We had a big breakthrough announced only a week ago that a British system called, literally, PRT, Personal Rapid Transit, is going to be adapted for Heathrow Airport progressively over the next ten years. And when you drive your car into Heathrow to one of the parking lots, you will get your own personal vehicle and program it to go to your terminal, or vice versa. And if this is as successful as I think it will be, this could be a big breakthrough in developing new kinds of totally personalized rapid transit, which could transform our cities in ways that we can't yet see." Dec. 15, 2005, National Building Museum.

A six-page version of "efficient cities" with references to peer-reviewed research can be found at: <http://www.cities21.org/efficientSuburbs2020.htm>



TITLE →

New Wealth: From Brainy Innovation or Investments?

AUTHOR →

Thomas D. Arkwright, CEO
Mirada Systems, Inc.

Thought leaders have long understood that money and labor can increase productivity. In recent years, a math insight¹ -- widely overlooked -- has suggested an important role for management innovation in productivity increases. For prudent Californians, management innovation can be a wealth-increasing substitute for some spending and labor. The opportunity, often anchored in new technologies, is to get more with less capital and labor.

The E-mail Example: Computer users take for granted that e-mail is preferable to interrupting a co-worker to deliver a message. The e-mail management innovation voids the need for senders and receivers to synchronize attention, happens faster with fewer resources, and sets up an audit trail we can search like a database. Some organizations have benefited disproportionately by capturing the productivity of e-mail early on.

If e-mail is a management innovation, is it really a total freebie? Perhaps close enough. Initially, e-mail reused software that others had written and piggybacked on computers that organizations already owned. As e-mail volume increased, cash was spent for more computer capacity. Yet, such expense items were nominal and are now vastly offset by lower expenses for mailroom operations and office space.

Often, the more management innovations we put in place, the more management innovations we can adopt. For example, organizations typically began by setting up their own computing infrastructure for handling e-mail. Today, many organizations have found that delegating e-mail operations to a third party is a productive management innovation.

The Data-Protection Example: In 2007, the executive for new technologies at a large bank wanted to cut expenses, so I suggested three management innovations. To give one example, even organizations as large as California can now largely automate backup and remote archiving for most data. Better still, more productivity from management innovation in backup has come from a new capability called continuous data protection. This has seriously cut the risk of data loss from human errors such as accidental file deletions.

The Link to Social Investments: Our examples suggest that organizations can apply management innovations to create productivity growth. Higher productivity can free California to invest more in social projects like education, healthcare, and transport.

The long, transformational history of the e-mail management innovation anchors the math insight about the nature of productivity. A bit edgier, data-protection automation is one of many management innovations that offer California fresh, scalable productivity growth.

The Need for Management: Productivity growth from innovations such as data-protection automation can be obvious: less backup effort, fewer supplies, less machinery, fewer errors, and easier recovery. Unfortunately, innovations may fall outside an organization's comfort zone. This is where the management part of management innovation comes in.

Action: California elected officials, state employees, and vendors to the state can serve residents by planning timely, cheap, productivity-boosting management innovation. It is up to state operating management teams to translate those plans into productivity growth.



¹ Economists often use the technical name, total factor productivity.

TITLE →

Attracting a Skilled and Talented Workforce

AUTHOR →

Frederick Croft, Managing Partner
and Gregg Martins, Senior Partner, PVM Partners LLC

THE PROBLEM

To “Keep California Working” requires us to attract productivity and capital from other states and the best of the globe. Attracting and retaining the best and most productive workforce is critical to this effort: capital will go where there’s a strong, skilled and creative workforce which can deploy it most effectively.

California’s lifestyle, scenery and climate have drawn a productive and creative workforce in the past, but a formidable barrier exists in recruiting the best new workers in the future: the high cost of housing in California. Economic incentives are needed to balance this cost, but they must be affordable for state government and California taxpayers.

THE PROPOSAL

California has an excellent state university system, but the cost of getting a university degree in California is substantial, particularly for the out-of-state students who pay three times the tuition of in-state students.

We propose an incentive program for graduates to remain working in California:

- ★ Any out-of-state graduate of the state university system who remains resident in and working in California continuously for the five years immediately following

graduation, gets a rebate reducing their tuition to in-state levels.

- ★ Any in-state graduate of the state university system who remains resident in and working in California continuously for the five years immediately following graduation gets a rebate reducing their tuition cost by 20%

When a student in the program graduates, the amount of the rebate is structured as a “zero coupon” school loan, with all payments (principal and interest) deferred for five years. If the student qualifies by continuously living and working in California for the five-year period, the loan is waived. If they don’t, the loan becomes payable on the same terms as other school loans.

The state income taxes paid by the students during the five-year period should pay for the cost of the program. The economic multiplier effect of these skilled graduates paying for housing and food while they’re at school, working in the state after graduation, building new businesses, and strengthening the productivity of the businesses they work for will substantially increase the state’s economic base and attractiveness as a site for capital investment. Family members coming to visit the former students will strengthen the state’s tourist revenues.



TITLE →

Keeping California and the Country Working

AUTHOR →

Thomas J. Nagle, USA and California Occupant

There was a time when staying employed and the economy were not as serious concerns as they are today. The fact is back in the 50s and 60s, many of the concerns that exist today were not even in the mind of most Americans and Californians. These concerns include employment, property value, healthcare, Social Security, government spending and similar items. But today these are major political footballs. What major actions have occurred to bring about the change?

The actions were not dramatic for the most part and did not happen rapidly. In the post World War II era affluence grew in the middle class. This group became economically very stable and visible. These working Americans established the demand that drove industry. As a result, industries flourished and began to grow by satisfying the needs and wants of the middle class majority. There was healthy competition that drove the industries. Products changed to meet those market driven demands.

But, while competition is good and builds stronger industries soon the competition would change. While product competition was still a factor the growing competition was "BOTTOM LINE COMPETITION". The bottom line competition soon recognized the benefits of lower cost products that could be provided. These lower cost products were typically from foreign industries entering the competition. The initial attempts by the foreign industries met limited success because of deficiencies in quality. Those shortfalls did not last and soon the competition focused on cost. American industry began to focus on the lowest cost race because it seemed to be the only way to survive.

As the country moved into the 70s and 80s, rapid inflation and high interest rates also moved buyer focus toward lower cost products. This also was visible to industry and made businesses try to respond rapidly to lower cost items.

The American industry focus on cost came at the expense of quality and competitive product. This snowballed into sometime weak attempts to recover lower cost and meet quality expectations. As American industry struggled to bring product and cost into line competitively they made some hard decisions and at the same time foreign industry continued to widen the gap. American industry began to also embrace the use of foreign products to narrow the cost gap. Many Americans protested this action but industry began to build information flow to mask those attempts. The industry began to talk about world products, world economies and multi-national competition.

How could U.S. industry begin to cut the cost gap? They looked at where the costs were and the facts that made differences with foreign competitors. The biggest differences showed most in labor intensive products but also even in those without the highly skilled and active U.S. workers. The cost difference was at many levels of industry. The quick fix for the U.S. industry was to drop many of the high cost items that workers received as well as basic cost cuts. These cuts became most noticeable in the benefits paid to employees. These were areas such as retirement benefits and health care. The cuts resulted in job cuts as well. The snowball effect then reached government as those high numbers of well paid employees started to go down. So the squeeze moved to the government and as that started it rippled back to industry again.

This, pretty much, is where we are today. The people want government to fix the problem and return everyone to the earlier conditions but that can't easily happen. Most of the fixes the government can make create false economies which result in generally worse conditions in the long-run. The real solution is not false economies and not in the hands of the government. The best solution is in the hands of the people. And the vote the American people have to make

is not so much at the polls but more at the stores. The vote is with the dollar they have in their purse or wallet. The American people have to make the decision to buy American products. They should evaluate their purchases as to American products, California products and products from the county and city where they live and the resultant impacts. Industry will pick up on the message and begin to focus on American products. Industry should focus on letting the buyer know the percentage of purchase price returned to the American Economy. If each Californian were to adjust their buying habits just at the grocery store and convert \$10 of purchases of imported products to purchases of California generated products that would translate to

at least \$40,000,000 increase to the California economy. This same philosophy applies to U.S. products compared to foreign products except the numbers are much higher. The only action needed by the government is to require each product be marked with the percentage on selling price that is returned to the U.S. domestic economy. If people would step up to a commitment to buy only products delivering 80% or higher, all the problems currently impacting our country would begin to get resolution. This is not an answer. It is the only answer to return America and California to the prosperity it once had and the industries we all once recognized.



UCLAAnderson

FORECAST

The UCLA Anderson Forecast, one of the most widely watched and often-cited economic outlooks for California and the nation, is no stranger to accurate forecasts. The forecasting team is credited as the first major U.S. economic forecasting group to declare the recession of 2001. The team was also unique in predicting both the seriousness of the early-1990s downturn in California, and the strength of the state's rebound since 1993.

Founded in 1952, the UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation. Award-winning for its accuracy, the UCLA Anderson Forecast often breaks with consensus in its quarterly forecast reports, which feature projections for major economic indicators, including inflation, interest rates, job growth and gross domestic product growth.

UCLAAnderson

School of Management

UCLA Anderson School of Management is perennially ranked among the top-tier business schools in the world. Award-winning faculty renowned for their research and teaching, highly selective admissions, successful alumni and world-class facilities combine to provide an extraordinary learning environment. UCLA Anderson students are part of a culture that values individual vision, intellectual discipline and a sense of teamwork and collegiality.

Established in 1935, UCLA Anderson School of Management provides management education to more than 1,400 students enrolled in MBA and doctoral programs, and some 2,000 executives and managers enrolled annually in executive education programs. Recognizing that the school offers unparalleled expertise in management education, the world's business community turns to UCLA Anderson School of Management as a center of influence for the ideas, innovations, strategies and talent that will shape the future.

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