

Reforming Public Finance in California

UCLA Lake Arrowhead Symposium

The Transportation-Land Use-Environment Connection
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An opening caveat

"For every complex problem there is an answer that is clear, simple, and wrong."

H. L. Mencken

Some thoughts on fixing California's finances

- ❖ Pay attention to the fundamentals
- ❖ Try to agree on the problem
- ❖ Recognize that policy actions have fiscal consequences
- ❖ Don't make long-term commitments based on rosy revenue projections
- ❖ Don't confuse debt with revenue
- ❖ Make a direct link between services and fees
- ❖ Realize that failure is an option

Public finance first principles

- ❖ There are two ways state and local governments raise money to pay for what they need, taxes or fees
- ❖ There are 100 pennies in a dollar and you can only spend them once.
- ❖ If we want to buy more of one thing, we need to move the pennies from one pile to another (education, public safety, healthcare, etc.) or raise more dollars.
- ❖ If we can't or don't want to raise more dollars, we need to buy less.

This is what budget tradeoffs are all about!

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What's wrong with California's finances?

Expenditures and revenues are out of balance.

- a. 2/3 majority to pass a budget?
- b. Proposition 13?
- c. Corporations and the wealthy don't pay enough taxes?
- d. The State tries to do too much for too many?
- e. Government is fraught with waste and inefficiency?
- f. The initiative process?
- g. None/All/Some of the above?

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Should we change the initiative process?

Proposition 3. Children's Hospital Bond Act. Grant Program -- State of California (2008)

Shall \$980,000,000 in general obligation bonds be authorized for construction, expansion, remodeling, renovation, furnishing and equipping of eligible children's hospitals?

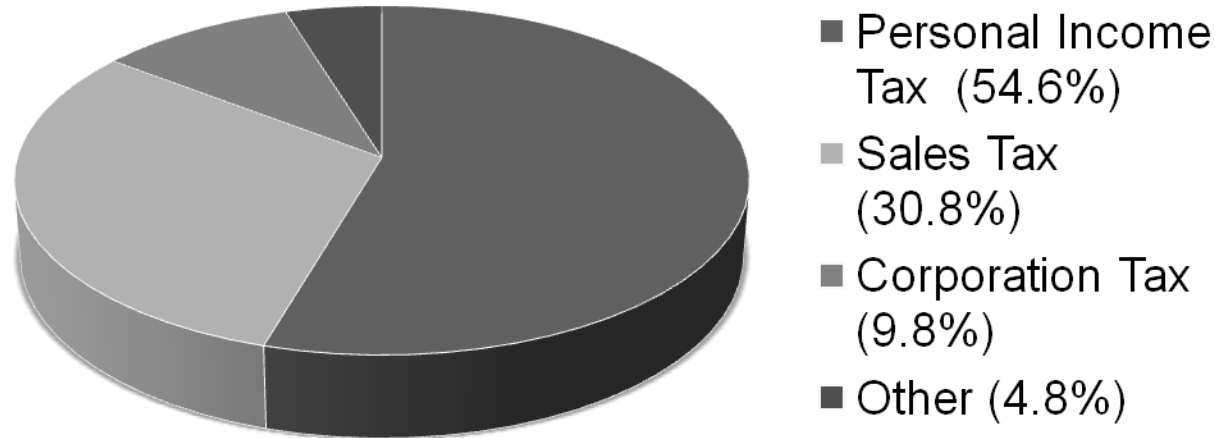
- No
- Yes, and the debt service should be paid by reallocating funds from:
 - Education
 - Human Services
 - Public Safety
 - Environmental Protection
 - Transportation
- Yes, and levy a special assessment on all taxpayers to pay the debt service

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California relies on volatile revenue sources

Sources of General Fund Revenue 2009 – 2010 Approved Budget

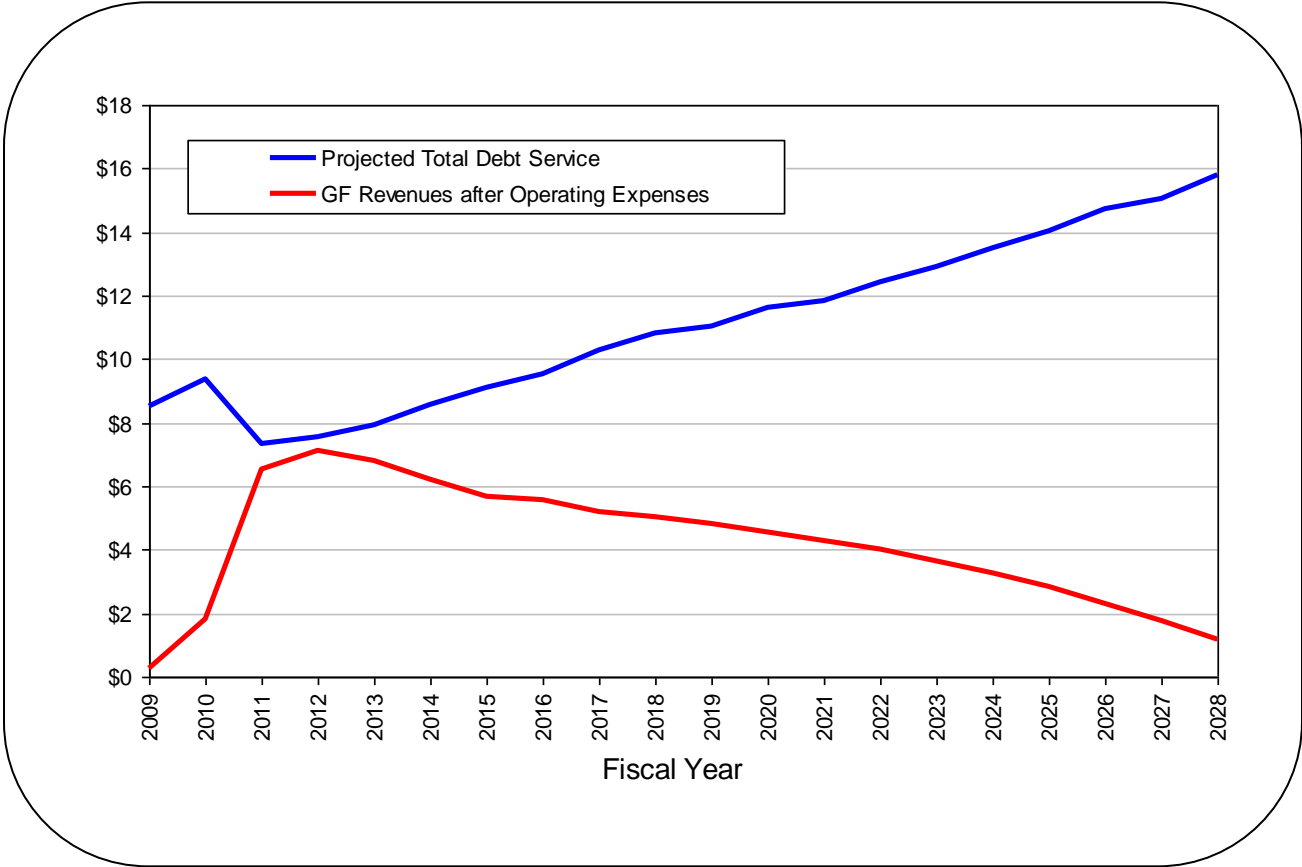


In April 2009, sales taxes were down 51%, personal income taxes were down 44% and corporate taxes were down 9% from a year earlier.

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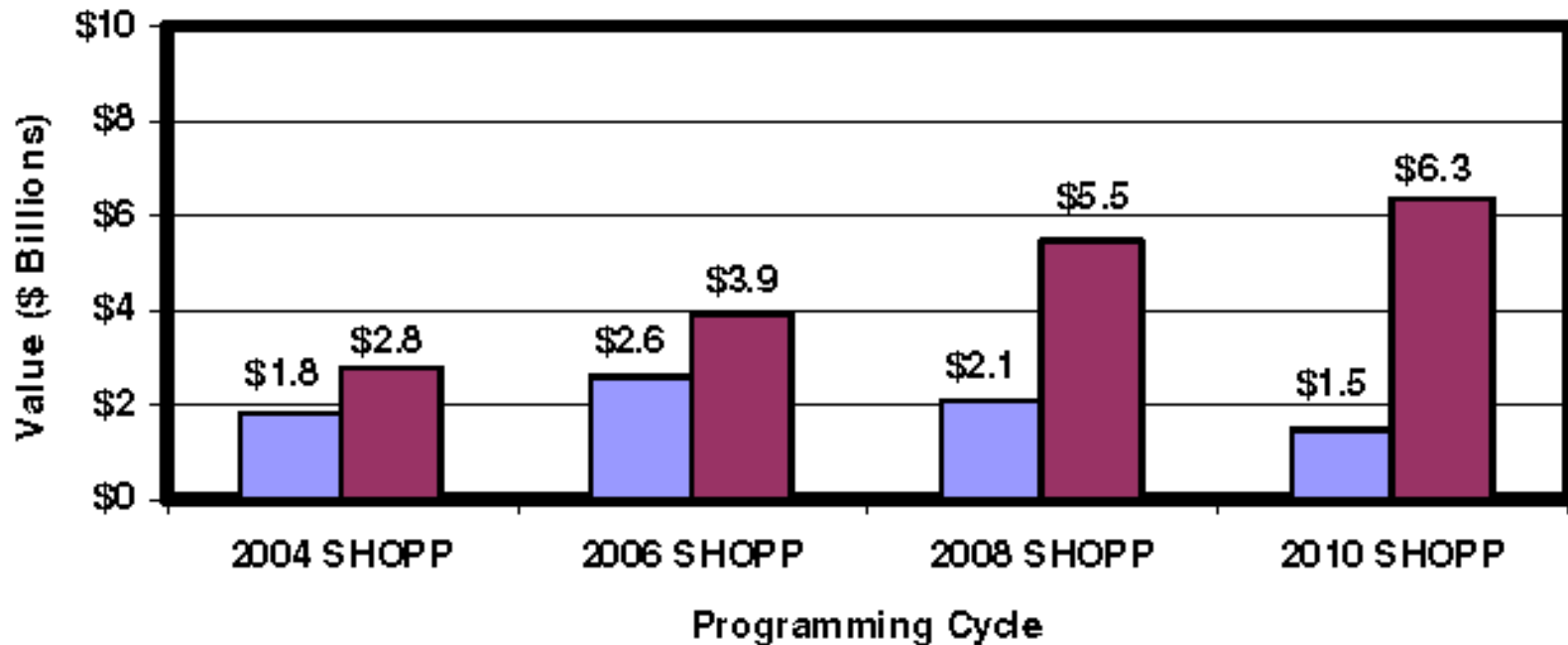
Barring drastic changes in fiscal policy, California will not have the revenues to pay debt service on new GO Bonds



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The State Highway Operation and Protection Program (SHOPP) is chronically underfunded



- Annual Value of Programmed Projects (Capital Outlay plus Capital Outlay Support)
- Annual Value of Ten-Year Need (Capital Outlay plus Capital Outlay Support)

A modest increase in the gas tax could restore and maintain California's highways

- ❖ 1¢/gal of fuel tax \approx \$175,000,000
- ❖ 10¢/gal \approx \$1.75 Billion/year
- ❖ If you drive 20,000 mpy in a vehicle that gets 20 mpg this will cost you \approx per day.

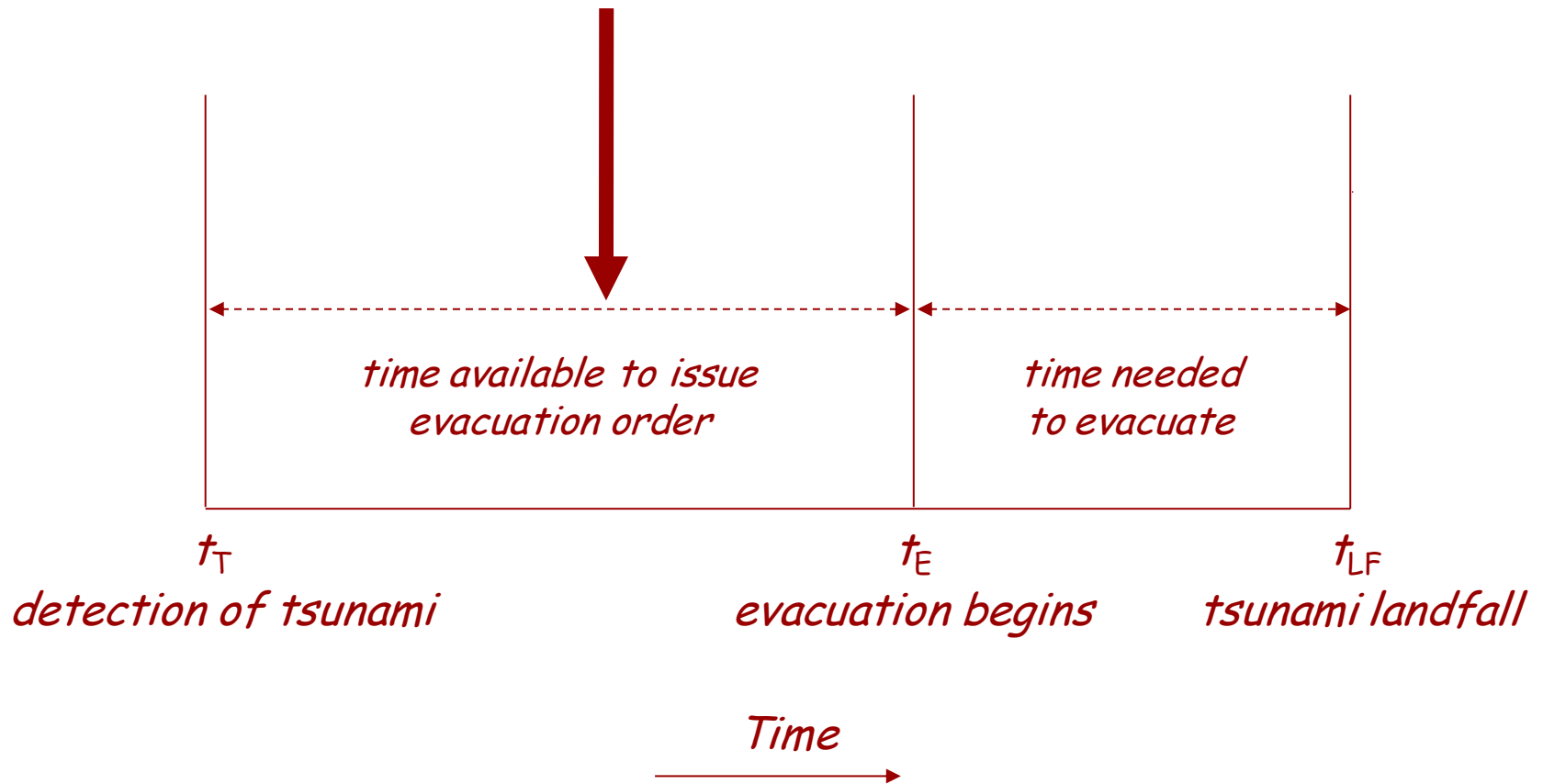


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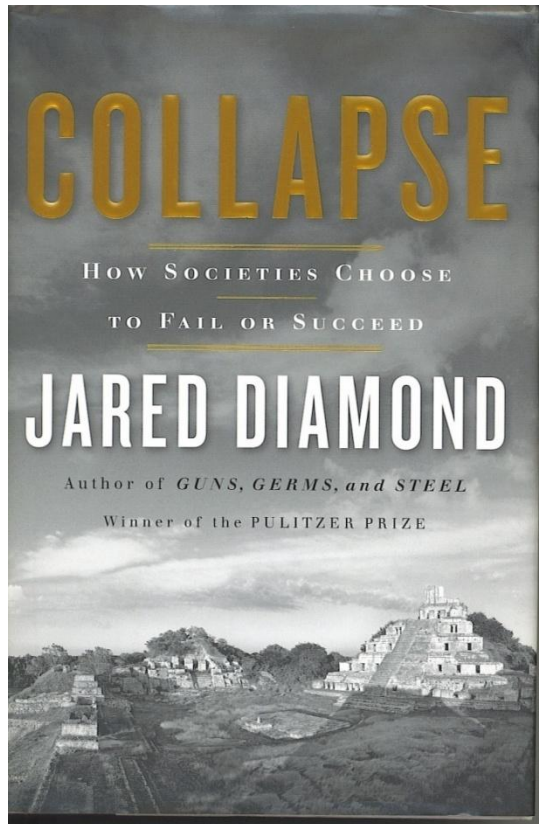
- ❖ Pay attention to the fundamentals
- ❖ Separate myth from reality
- ❖ Recognize that policy actions have fiscal consequences
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We do not have the luxury of doing nothing!

Where are we in responding
to our financial tsunami?



Is this how we want to be remembered?



“If we understood the reasons why groups often make bad decisions, we could use that knowledge as a checklist to guide groups to make good decisions.”

A closing caution!

"Insanity is doing the same thing over and over again and expecting different results."

Albert Einstein

Thank you!

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