

**Coalition for a  
California  
Financial  
Workout Plan**

May 11, 2011

**Silicon Valley  
Leadership Group**

**Los Angeles  
Chamber of  
Commerce**

**Bay Area Council**

**Orange County  
Business Council**

**Friends of the San  
Joaquin Valley**

**Oakland  
Metropolitan  
Chamber of  
Commerce**

**Sacramento Metro  
Chamber**

**San Francisco  
Chamber of  
Commerce**

**Los Angeles County  
Economic  
Development  
Corporation**

**Business Council  
of San Joaquin**

**Fresno Business  
Council**

**San Gabriel Valley  
Economic  
Partnership**

Dear Governor Brown and Members of the Legislature:

In the business world, a financial workout plan is an agreement between a financially troubled company and its lender to alter the terms of repayment. Typically, the lender agrees to modify the terms in exchange for legally binding commitments from the company to fix the structural problems that got the company in trouble. That's what California needs: a workout plan where taxpayers agree to extend temporary taxes on the condition that state government fixes the underlying conditions that got California in trouble. Voters should be given the opportunity to approve the plan.

We disagree with those who don't see the need for a workout – those who favor an all-cuts budget that will scar California's future, as well as those who want tax extensions without the reforms needed to get California out of this mess.

In early March, it looked like Governor Brown and thoughtful members of the Legislature were heading toward a reasonable agreement. For whatever reasons, the negotiations did not succeed, but we know that they came close. It's time to re-start negotiations and close the deal. Our elected leaders should consider every day a deadline until an agreement is reached.

The five-point plan proposed in this letter is consistent with what the Governor and Legislature were discussing in March. It's time to tie a ribbon around it and present it to the voters for their approval.

**THE FIVE-POINT PLAN**

**Spending Control and Budget Reforms**

Since 1998, every annual budget has spent more than it received in tax revenue. The difference has often been financed with borrowed money and budgeting gimmicks. Even in the years with strong revenue growth, lawmakers failed to restrain spending and save for inevitable downturns. Constitutional spending controls must be put in place to ensure fiscal discipline. Additionally, the state budget must include performance metrics so everyone knows if we're getting our money's worth, along with multi-year forecasts so we can see the long-term impacts of budget deals. In addition, lawmakers need to be required to spend more time reviewing the effectiveness of programs and less time passing new laws.

### **1. SPENDING CONTROL AND BUDGET REFORMS**

Since 1998, every annual budget has spent more than it received in tax revenue. The difference has often been financed with borrowed money and budgeting gimmicks. Even in the years with strong revenue growth, lawmakers failed to restrain spending and save for inevitable downturns. Constitutional spending controls must be put in place to ensure fiscal discipline. Additionally, the state budget must include performance metrics so everyone knows if we're getting our money's worth, along with multi-year forecasts so we can see the long-term impacts of budget deals. In addition, lawmakers need to be required to spend more time reviewing the effectiveness of programs and less time passing new laws.

### **2. A PATH TO JOB CREATION**

California desperately needs jobs. Our 12 percent unemployment rate is one-third higher than the 9 percent national average. Most people don't realize California's unemployment rate has been higher than the national average since 1990. One reason is the State's duplicative, excessively burdensome regulatory climate. Protecting our environment is a priority for the signers of this letter, but there are thousands of jobs in the pipeline that are needlessly being held up by bureaucracy and abuses of the California Environmental Quality Act. CEQA reform is vital to unleashing job creation, reducing poverty and ultimately restoring public revenues. Every regulation must be subjected to an economic impact analysis.

We support the need to fix Redevelopment Area and Enterprise Zone programs to prevent abuses, but we urge the Governor and the Legislature to fix them in a way that preserves their job generation capacity.

### **3. PENSION REFORM**

In its March 2011 report, the bipartisan Little Hoover Commission warned that pension costs are crushing government, squeezing budgets that are already struggling to support schools, police officers, firefighters, libraries and health care. In April, Governor Brown unveiled a pension reform plan that would implement some of the Commission's recommendations. Somewhere between the Governor's plan and the Commission's recommendations lies a fiscally sustainable pension reform plan that is, in the Governor's words, "fair to taxpayers and workers alike." We must heed the warning from the Commission that "the stakes are too high to continue to make temporary changes at the margin."

#### **4. GOVERNMENT CLOSER TO THE PEOPLE**

Over the last 30 years, decision-making and budget authority has increasingly moved from local government to the state capitol. Governor Brown has proposed reversing this trend by shifting more responsibility to local government. Counties and cities understandably want assurances that new responsibilities will be matched with permanent funding sources that don't rely on additional local taxes. Realignment should be based on the principles articulated by the bipartisan organization California Forward: The new structure should focus on improving public outcomes and it should align fiscal and program authority with the level of government responsible for delivering the service. A smaller state bureaucracy must focus on helping community agencies be effective. There should be incentives for regional cooperation, and a more dynamic way to reorganize local governments to encourage efficiency and accountability.

#### **5. EXTENSION OF TEMPORARY TAXES**

Next week, the State Department of Finance will issue their latest revenue estimates. Every indication is that the numbers will be higher than the January estimates. While that will help, expectations are that the remaining budget gap will be in excess of \$10 billion. Plugging that gap with cuts alone would leave lasting adverse effects to the fabric of California's public safety, education and safety net programs. The improving economy also means the tax extensions may not be needed for the five years requested by the Governor, giving both sides room to agree on a sensible term for tax extensions that enable the reforms described above to take effect and the economy to fully recover.

Pollsters tell us that voters approved Proposition 25 last November because they are tired of the instability created by our constant budget crisis. They want a balanced budget that does not rely on gimmicks and is completed within the constitutionally prescribed June 15<sup>th</sup> date. We urge the Governor and the Legislature to respect voters and taxpayers by giving us an honest budget plan by June 15<sup>th</sup>, along with a structural reform plan that puts California back on the right track. That's a workout plan we are willing to support in the voting booth.

Respectfully,

Coalition for a California Financial Workout Plan

Silicon Valley Leadership Group, Los Angeles Chamber of Commerce, Bay Area Council, Orange County Business Council, Friends of the San Joaquin Valley, San Francisco Chamber of Commerce, Oakland Metropolitan Chamber of Commerce, Sacramento Metro Chamber, Los Angeles County Economic Development Corporation, Fresno Business Council, Business Council of San Joaquin and San Gabriel Valley Economic Partnership.