

# Solutions To California's Budget Crisis

*By Greg Pettis*

California's current budget crisis has heightened the need to prioritize how money is spent in the state and has offered an opportunity for sensible solutions. At this moment in time the Governor's current budget plan intends to cut \$4.4 billion in funding for public schools, \$1.4 billion from health care funding and release 22,000 prisoners from our correctional facilities.

In the short term, these budget solutions will threaten public safety, worsen the achievement gap and threaten the health and economic security of seniors and families struggling to make ends meet.

As bad as the short-term consequences, failing to address our budget problems will devastate California's long-term economic competitiveness and compromise what the rest of the world has come to know as the California Dream.

We can do better.

I am running for the Assembly because we need experienced leadership that can protect our children from these devastating budget cuts and lead our corner of the state to a more equitable and prosperous future.

## **Education:**

It's instructive to grasp the overall demographic trends in the California educational system.

- Full-time workers without a high school degree earned roughly \$20,000 in 2006, which is less than the federal guideline for poverty for a family of four.
- Less than 7 in 10 students registered for 9<sup>th</sup> grade graduated from high school in 2005-2006.
- About 3 in 10 jobs created between 2004-2014 will require a B.A. or more.
- New studies suggest that the demand for college educated workers will outstrip supply
- California ranks 34<sup>th</sup> in spending per pupil in the US.
- California ranked 48<sup>th</sup> in teacher to student ratio in the US in 2005-2006.

These statistics demonstrate that even after the passage of Proposition 98, state government hasn't heeded the public's desire to adequately fund public schools and address serious access and achievement issues that plague our schools.

That isn't to say that the state is solely responsible because some school districts are clearly dealing with rapidly changing demographics better than others, reinforcing the point that strong local leadership is also required.

For example, a recent article in the Los Angeles Times touted a four percent increase in the number of nonnative speakers advancing to higher-level work, gains that were similarly reported in the Los Angeles Unified School District. Unfortunately, we've also seen school districts like our own Coachella Valley Unified facing takeover by the state due to students' declining test scores.

Accountability has become a watchword when it comes to education funding, and the public rightly must have confidence that their tax dollars are being well spent, but who will be held accountable if the legislature cuts over \$4 billion from our schools?

While cutting educational budgets may seem like a viable short-term solution to some, the reality is that with each passing day under a cut budget students fall further behind. This inevitably creates a situation in which a generation of Californians is not able to compete for adequate work, or pay for their health care and housing.

### **Health Care:**

A widely circulated statistic is that at some point over the last year, seven million Californians went without health insurance. Millions more are underinsured. These are people whose only health care option is the emergency room and we all pay the costs in higher premiums.

Cutting \$1.4 billion from the health care system will decimate clinics that accept Medi-Cal reimbursement that have been the safety net for millions in the state.

At the same time, the impact of budget cuts and the lack of a federal health insurance plan will drive an increase in demand for services provided by clinics. Much like education, cutting funding from health care will make us pay now AND pay later.

### **Imperial and Riverside County:**

A detailed examination of these counties will provide granular evidence of how educational and health care budget cuts will impact California.

#### Imperial County

- Roughly 35,000 students in Imperial County would be hit by educational cuts resulting in a reduction of funding by about \$640 per student
- About 1,800 low- income kids would be dropped from the CalWorks Program
- 49,000 low- income Med-Cal people who most likely would suffer from a decrease in health care services due to budget cuts
- Close to 1,000 low- income children will lose Med-Cal coverage due to increased paperwork

Riverside County mirrors many of these statistics.

- Roughly 384,000 students in Riverside County would be hit by educational cuts resulting in a reduction of funding by about \$620 per student
- About 8,700 low- income kids would be dropped from the CalWorks Program
- 306,000 low- income Med-Cal people who most likely would suffer from a decrease in health care services due to budget cuts
- Close to 7,720 low-income children will lose Med-Cal coverage due to increased paperwork

These statistics underscore the harsh reality of what budget cuts mean to communities. The goal of these numbers is to provide not only an aggregate account, but a humanizing account of how budget cuts will hurt individuals both immediately and in the long term. Unfortunately, the proposed budget cuts will make some of these statistics much worse.

### **How to Protect Our Children and Families**

We can protect our children, our health and our public safety. It requires ambitious goals, an honest dialogue and a steady hand to change the way Sacramento does business.

### **Reforming the Tax Structure**

No rational discussion of the budget can happen without acknowledging the patchwork of tax breaks, loopholes and inequities that have helped put us into the current situation.

- Governor Schwarzenegger's \$15 billion dollar Proposition 57 bond debt along with previously authorized bonds are now costing us \$3.6 billion each year, according to the League of Women Voters.
- President Bush's 2001 and 2003 tax cuts have cost the state \$18.2 billion from 2004-2007.
- Almost 73 percent of the corporations doing business in California filed tax returns showing they made no profit and paid the minimum \$800 franchise tax, including 46 corporations with over \$1 billion in receipts.
- Each year Californians benefit from an estimated \$50 billion in tax breaks. Included in this total are exemptions from capital gains for inherited property (\$3.2 billion); income tax deductions on vacation homes and a sales tax exemption on purchases of yachts, private planes and motor homes (\$26 million).

- The poorest fifth of the state's households, with an average income of \$11,100, spend a larger percentage of their income on state and local taxes than do the wealthiest one percent.

## **Solutions To Protect Our Kids**

### **Increasing Government Accountability**

Our State Auditor released a report in January of this year detailing a number of ways in which government could operate more efficiently and save taxpayers millions of dollars. Among the findings that I would like to see implemented are:

- Using bulk state purchasing power to receive a better deal on prescription drugs for state employees
- Ending the practice of no-bid contracts in the Department of Corrections
- Ensuring recipients of grants from the Department of Parks and Recreation are fulfilling the terms of their grants and spending the funds only on allowable purposes.

Streamlining government alone won't solve our budget crisis, but we owe it to the taxpayers of our state to ensure that every dollar that comes in is spent wisely both to increase the public's trust in their government and to stretch every dollar as far as we can before we consider asking the public for additional funds.

### **Cracking Down on Tax Fraud**

Not even the best Hollywood screenwriter could come up with a scenario where 73 percent of our corporations made no net profit. State government is clearly falling down in its duty to track corporate tax fraud.

Our state needs more auditors to root out those who are reaping billions in profits but not paying their fair share. I'll support the hiring of 100 new auditors in our Franchise Tax Board, and expand the web listing of tax delinquencies to those who are caught gaming our corporate tax system.

### **Eliminating Non-Essential Tax Breaks**

Tax breaks are supposed to be designed to help struggling families and seniors on fixed incomes. Unfortunately, our patchwork system has become rife with tax breaks that are

questionable in their economic value to our state and have seriously compromised basic public services that are key to maintaining the fabric of our society--schools, health care and public safety.

We need to go through the tax code line by line, and eliminate all non-essential tax breaks, the most egregious of which is the tax break on the purchase of yachts, private planes and motor homes.

While the housing market is slumping, we don't want to put a burden on working families who are already stretched to meet their mortgages, but for those who can afford to purchase second homes and vacation homes, we need to ask them to pay their fair share by eliminating their tax deduction.

Likewise, in a district dependent on agriculture for its success, we want to do everything we can to support family farms. The reality, however, is that when it comes to property passed down from generation to generation, family farms make up a tiny percentage of inherited property. It's simply fair to ask those who are given so much to contribute to their communities. That's why I would like to see us explore eliminating the non-family farm inheritance tax break.

### **Ending Deficit Spending**

Governor Schwarzenegger convinced Californians to borrow their way out of our last fiscal crisis. Unfortunately, like a credit card, the more we borrow, the higher the monthly payment. We've watched the Bush administration pursue a borrow-and-spend strategy that has put us billions of dollars in debt to foreign countries. Our state shouldn't be following in the federal government's footsteps.

Bond dollars are meant to help rebuild our crumbling infrastructure, not to be a replacement for fiscal discipline that will only constrain our economic competitiveness because it takes critical dollars away from building roads, bridges, mass transit and other public works.

### **Curtailing Legislative Salaries**

The average legislator earns \$116,000, far more than the average family in Riverside and Imperial Counties. While it would make only a modest dent in our budget crisis, I believe in gestures of good faith, especially when we are asking our fellow citizens to sacrifice.

As an Assembly member, I would propose a 10 percent pay cut for all legislators and senior staff until this budget crisis is overcome. Just by cutting my own salary, I would be able to ensure adequate public school funding for two children—a bargain that's too good to pass up.

## **Creating Jobs**

According to the Legislative Analyst's office, California has seen a \$9.3 billion drop in revenues in a three-year period, and the state and national economic downturn has reduced revenue projections by \$1.5 billion.

When Cathedral City faced budget shortfalls, we tightened our belt to balance our budget, but we also grew our economy so we could generate additional revenue for critical public services without resorting to raising taxes.

The results of our efforts were 1,000 jobs in Cathedral City that allowed us to buy new ambulances, paramedic equipment and protect police staffing levels.

We did it, in part, because we didn't turn our backs on children and families. We created a First-Time Homebuyer Program for lower income workers; we invested \$250,000 in the Palm Desert campus of CSUSB so more students could go to college; we encouraged businesses to relocate to our city.

If a city of 50,000 could create 1,000 new jobs, by tightening government's belt and investing in key areas, we can create 100,000 new jobs throughout the state. In the Assembly:

- I'll support expanding the Cal State University system into Imperial County
- I'll encourage the development of green energy jobs that are already bookending the 80<sup>th</sup> Assembly District with wind farms and geothermal energy.
- I'll support micro-targeted loans to the most distressed communities in the Coachella and Imperial Valleys.
- I'll work to improve our transportation system so people who want to enjoy our quality of life can also quickly get to the larger coastal city markets.

Creating 100,000 jobs at the 2005 median income would result in an additional \$110 million in direct revenue to our state with an additional \$330 million in indirect revenue based on a traditional multiplier effect commonly used in economic modeling.

The best part is, we don't have to ask taxpayers to dip into their wallets or stretch further their over-stretched household budgets.

## **Honest Dialogue**

As part of our social contract, after we've made government more efficient, gone line by line through our tax code, cracked down on tax cheats and created 100,000 new jobs, we may have to consider new revenue.

The likely Republican nominee in the 80<sup>th</sup> AD has signed Grover Norquist's "No New Taxes" pledge. This is exactly the sort of irresponsible empty rhetoric that may win a few votes but cost us in the long run as thousands of children will be denied educational opportunity and end up in low-wage jobs without health care, or worse—end up filling our jails.

We need to make a decision on our priorities. That requires reaching out to the public, rather than dictating to them.

In the Assembly, I will call for every member of the legislature to hold a series of town hall meetings throughout their district to honestly engage the public in a discussion about how to restructure the California budget process and create a long-term solution.

Too often, we've ceded wise policy decisions on the state budget to special interest driven ballot measures that are sold on the basis of millions of dollars of television ads rather than sound budgeting principles.

It's time to engage in a dialogue free from pandering and name-calling in a setting where ideas about our budget can be thoroughly vetted and honest input honestly considered.

If we do need to consider additional revenue, charging an extra quarter for a glass of beer or shot of whisky seems like a reasonable tradeoff when the price of doing nothing is drastic budget cuts to our kids.

Taxes on beer, wine and liquor haven't been raised since 1992, meaning a 33% loss of real taxable dollars due to inflation. By charging an extra 25¢ for a shot of whiskey or a glass of beer or wine, we could raise \$3 billion dollars in revenue, according to the Marin Institute, enough to restore 75% of the proposed budget cuts to schools.

## **Conclusion**

People across the political spectrum know that deep cuts to schools, health and public safety harm us all, and in my travels across the 80<sup>th</sup> Assembly District, voters have consistently told me they are looking for a new way of doing business: one that meets with our values and won't be blown away by the smoke and mirrors too often associated with budgeting in Sacramento.

I've put together this proposal because I believe campaigns are supposed to be about experience and ideas. Voters crave more than the typical 30-second sound bites candidates too often substitute for substance, and in this campaign I'm committed to giving them no less.

After 14 years on Cathedral City's City Council, I'm the one candidate in this race who brings a track record of success and a plan to turn our state in the right direction. I look forward to my colleagues in this election to honestly join this debate for the benefit of us all.