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California State Senate

SENATOR
DARRELL STEINBERG
PRESIDENT PRO TEMPORE



May 12, 2011

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
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

Ladies and Gentlemen:

Thank you for your letter yesterday that underscored united business support for a budget deal through a “financial workout plan.”

The Senate Democrats know that the state’s persistent budget problems are a major drag on the California economy. We heard from CEOs who told us the single most important thing policymakers could do to make California a good place to do business is to pass a balanced budget on time. We think that closing the budget gap—permanently—will provide a major economic boost by eliminating fiscal and economic uncertainty, establishing more stability to the bond markets, and showing the world that California can, in fact, successfully address major public policy problems.

With respect to your suggested “Five-Point Plan,” we agree with much of its content:

Spending Control and Budget Reform: We concur that California needs honest, balanced budgets that don’t rely on borrowing or gimmicks. That’s why we are supporting Governor Brown’s budget plan, and why we adopted \$14 billion in budget solutions in March

that are now law. In addition, last year we passed ACA 4, a constitutional amendment that restrains spending of unanticipated revenues and requires the Legislature to build a prudent reserve fund prior to spending funds on new programs. ACA 4 passed the Senate last year on a bipartisan 29 to 7 vote. That measure is scheduled to go before the voters in 2012.

In addition, we supported prior measures designed to restrain spending and build up “rainy day” funds, such as ACA 1 and SCA 13. Those measures became Proposition 1A which was, unfortunately, defeated on the May 2009 ballot.

We concur with your call for greater use of performance measurement and multi-year forecasting. We have supported such measures in the past and two bills on these subjects are before the Senate now.

Given this history of support, as well as our passage of ACA 4 last year, we are unclear why our Republican colleagues are pushing for a new spending restraint measure today.

I am also compelled to point out there are a number of “myths” about state spending. Under the budget we are supporting, General Fund spending per \$100 of personal income would be at the lowest level since 1972-73. We have already enacted billions of dollars in permanent, ongoing cuts to numerous programs, but most especially to health and human services programs. In addition, the largest single factor resulting in our fiscal imbalance over the past decade has not been a spending program, but rather the Vehicle License Fee (VLF) reduction totaling tens of billions of dollars that was pushed through by the prior Governor.

Finally, as you know, one of the primary reasons we have had so much difficulty enacting honest, gimmick-free budgets in California has been the proliferation of restraints placed on the Legislature through the initiative process. I hope the business community will carefully consider its position on such measures in the future.

Job Creation and Regulatory Reform: We share the business community’s view that our state’s unemployment rate is unacceptable and we must improve California’s regulatory climate. We support policies promoting new high wage jobs and reducing duplication, overlap and outdated regulations. We also support careful but comprehensive reforms to CEQA.

In the past four months, the Senate passed a comprehensive Jobs and Clean Energy bill package that will result in thousands of new high-wage in-state jobs. That package had the strong support of business groups, including the Silicon Valley Leadership Group. Additionally, the Senate is advancing legislation to streamline regulatory bureaucracy and require all state agencies to perform an immediate review of their regulations to weed out duplicative, overlapping, and outdated regulations. Another measure we are supporting will be amended to incorporate new comprehensive CEQA reforms to streamline environmental review. And we are supporting legislation to streamline regulations affecting siting of new renewable energy projects and setting a hard 60 day deadline for agencies to act on permits for those projects.

Like you, we also believe California's wondrous and clean environment is worth protecting for health, aesthetic, and economic reasons. Our environment is an asset we should use to promote California to potential employers and new industries. We should not, however, try to emulate the environmental policies of states like Texas, which ranks first among the states in the amount of toxic chemicals and carcinogens polluting its air and water.

You noted the need to fix redevelopment and enterprise zone programs, but you urge the Legislature to preserve their job generation capacity. We agree. We should point out, however, that both redevelopment and enterprise zone programs are major sources of the state's fiscal problem (through additional state costs for schools and loss of state tax revenue). Two respected non-partisan institutions, the Legislative Analyst and the Public Policy Institute of California, have raised serious questions about whether redevelopment and enterprise zones actually help with job creation and retention.

Pension Reform: We agree about the need for pension reform. That's why Senate Democrats have supported major pension reform in the past, and continue to support reform. Last year we passed a series of major pension reforms, the most significant of which was SBx6 22. That bill will save the state hundreds of millions of dollars annually, and is projected to save a total of \$13 billion over the next 30 years.

This year, we are again supporting major pension reform, including a number of reform measures currently before the Legislature.

With respect to pension reform, we also think that a number of myths exist. Costs for pensions and retiree healthcare are hardly a major contributor to our budget problem. And state pensioners are not getting rich: the average CalPERS pension is a modest \$24,000 per year.

Finally, with respect to the calls by our Republican colleagues for pension reform, it should be noted that 40 percent of the Senate Republicans refused to support last year's major pension reform bill (SBx6 22), a measure authored by the prior Senate Republican leader and sponsored by Governor Schwarzenegger. In addition, the Senate recently passed a series of new employee labor agreements that will save hundreds of millions of dollars while also instituting additional pension reforms. Only two Senate Republicans supported that measure.

Government Closer to the People: Your letter called for support of shifting more responsibilities from state to local government through "realignment." We wholeheartedly agree. That's why the Senate Democrats introduced the concept and led the charge for "realignment" in the development of the 2010 budget. That effort was not successful, but we are happy Governor Brown took on this challenge and we are proud of our support again this year.

We have already passed a major bill (AB 109) to realign public safety responsibilities from the state to the counties, and that measure has been signed by the Governor. It has very broad support from virtually every county and local law enforcement organization, including

the associations of counties, sheriffs, probation chiefs and police chiefs. Unfortunately, this measure passed the Legislature with only Democratic support—not a single Republican voted for it.

We know there is much follow-up work necessary on “realignment.” That’s one of the primary reasons that I established the Senate Committee on Governance and Finance this year, which has responsibility for work in this area.

Extension of Temporary Taxes: We agree with your call to extend the existing taxes and avoid an “all-cuts” budget that would bring lasting devastation to our state and citizens. Extension of the taxes is essential to actually accomplish another of our joint goals: paying for “realigned” programs transferred from the state to counties. But most importantly, extension of the taxes is essential to permanently address our persistent budget problem.

We are supporting the Governor’s call for a five year extension, which we hope will provide sufficient time for the state’s economy and revenue picture to fully recover. However, anything less than five years will not meet the imperative of putting California on firm fiscal and financial footing. We urge you to support extension for at least five years as well.

I very much appreciate the business community’s support and assistance in closing our budget gap. My caucus and I look forward to continuing to work with you on this and other issues.

Sincerely,

A handwritten signature in black ink that reads "David Steinfeld". The signature is written in a cursive, flowing style with a large, sweeping flourish at the end.

Senate President Pro Tempore