POLICY WATCH – March 2012

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Pension Reform Coming?

Latest news out of Sacramento is that Democratic leaders Senate Pro Tem Darryl Steinberg and Assembly Speaker John Perez have agreed to take up pension reform by June in advance of approving the budget. The Governor's office and Republican leaders have been actively pushing legislative approval of the 12 point plan. Unfortunately, the scuttlebutt is that the Democratic leaders have trouble with the first four points of that plan. And if those first four points aren't part of the pension reform bill when it is adopted, it will likely kill the support of the business leaders. Here are the first 4 points of the Governor's Plan:

1. ***Equal Sharing of Pension Costs: All Employees and Employers***

   While many public employees make some contribution to their retirement – state employees contribute at least 8 percent of their salaries – some make none. Their employers pay the full amount of the annual cost of their pension benefits. The funding of annual normal pension costs should be shared equally by employees and employers.

   My plan will require that all new and current employees transition to a contribution level of at least 50 percent of the annual cost of their pension benefits. Given the different levels of employee contributions, the move to a contribution level of at least 50 percent will be phased in at a pace that takes into account current contribution levels, current contracts and the collective bargaining process.

   Regardless of pacing, this change delivers real near-term savings to public employers, who will see their share of annual employee pension costs decline.

2. ***"Hybrid" Risk-Sharing Pension Plan: New Employees***

   Most public employers provide employees with a defined benefit pension plan. The employer (and ultimately the taxpayer) guarantees annual pension benefits and bears all of the risk of investment losses under those plans. Most private sector employers, and some public employers, offer only 401(k)-type defined contribution plans that place the entire risk of loss on investments on employees and deliver no guaranteed benefit.

   I believe that all public employees should have a pension plan that strikes a fair balance between a guaranteed benefit and a benefit subject to investment risk. The "hybrid" plan I am proposing will include a reduced defined benefit component and a defined contribution component that will be managed professionally to reduce the risk of employee investment loss. The hybrid plan will combine those two components with Social Security and envisions payment of an annual retirement benefit that replaces 75 percent of an employee's salary. That 75 percent target will be based on a full career of 30 years for safety employees, and 35 years for non-safety employees. The defined benefit component, the defined contribution component, and Social Security should make up roughly equal portions of the targeted retirement income level. For employees who don't participate in Social Security, the goal will be that the defined benefit component will make up two-thirds, and the defined contribution component will make up the remaining one-third, of the targeted retirement benefit.

   The State Department of Finance will study and design hybrid plans for safety and non-safety employees, and will fashion a cap on the defined benefit portion of the plans to ensure that employers do not bear an unreasonable liability for high-income earners.

3. ***Increase Retirement Ages: New Employees***

Over time, enriched retirement formulas have allowed employees to retire at ever-earlier ages. Many non-safety employees may now retire at age 55, and many safety employees may retire at age 50, with full retirement benefits. As a consequence, employers have been required to pay for benefits over longer and longer periods of time. We have to align retirement ages with actual working years and life expectancy. Under my plan, all new public employees will work to a later age to qualify for full retirement benefits. For most new employees, retirement ages will be set at the Social Security retirement age, which is now 67. The retirement age for new safety employees will be less than 67, but commensurate with the ability of those employees to perform their jobs in a way that protects public safety.

4. ***Require Three-Year Final Compensation to Stop Spiking: New Employees***

Pension benefits for some public employees are still calculated based on a single year of "final compensation." That one-year rule encourages games and gimmicks in the last year of employment that artificially increase the compensation used to determine pension benefits. My plan will require that final compensation be defined, as it is now for new state employees, as the highest average annual compensation over a three-year period.

The proposals are divided into two groups. The constitutional amendment Brown offered broadly outlines the pension changes more narrowly defined in the language to change state law. The governor's plan won't go forward without two-thirds of the Legislature voting to put the constitutional changes on the Nov. 6 ballot, which would then need voter approval from a majority.

The changes would kick in Jan. 1, 2013. Labor agreements that contradict the governor's plan would prevail until the pacts expire. The statutory language includes these proposals:

- Ends additional retirement service credit purchases, or "airtime."
- Forfeits all or part of pensions for elected officials or civil servants convicted of a felony associated with their offices or jobs.
- Ends retroactive pension enhancements.
- Ends "pension holidays" for employers and employees.
- Mandates that all employees pay "at least one-half" the normal costs for defined benefit plans or the defined portion of a hybrid plan. Employers may not pick up the employee share.
- Limits the hours and wages for retirees who return to government work.
- Calculates benefits based on a 36-month average of an employees' wages.
- Narrows the definition of wages that can be included for pension calculation purposes.
- Establishes a hybrid pension system for new hires. It would replace 75 percent of an employee's income after 30 years of service and a "normal" retirement age of 57 for public safety employees or, for all other workers, 35 years of service at age 67.
- Sets 5 years and 52 years old as the minimum length of service and age that safety classes can qualify for retirement, 57 years old for all other groups.
- Eliminates seats on the CalPERS Board of Administration now occupied by a member of State Personnel Board and an insurance industry representative
- Gives CalPERS board membership to the Department of Finance director.
- Adds an independent health insurance expert and a representative from a contracting agency to the CalPERS board, both appointed by the governor.
- Adds three public representatives to CalPERS' board, two appointed by the governor and one jointly appointed by the Assembly speaker and the Senate Rules Committee.

- Sets 25 years of service as the threshold to receive 100 percent of the state's retiree health benefit. Applies to new hires only.

Read more here: http://gov.ca.gov/docs/Twelve_Point_Pension_Reform_10.27.11.pdf

The Governor's 12 point plan has been endorsed by the Marin County Board of Supervisors. While the Plan is great progress, it isn't all that needs to be done to make the public pension system sustainable. The recent change in the rate of predicted return from 7.75% to 7.5 demonstrates how vulnerable the state, counties and cities are to being able to make the payments for a pension system that is consuming more revenue than ever possible to provide.

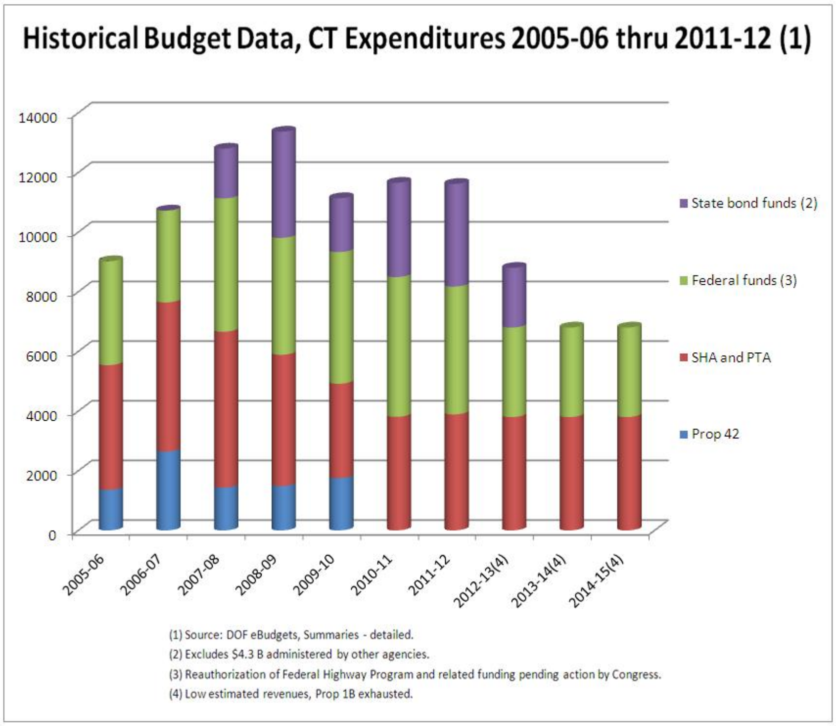
In other news, the independent effort to put an initiative on pension reform has been suspended. The following is a statement from Dan Pellissier, president of California Pension Reform: "California Pension Reform is suspending its effort to qualify an initiative for the 2012 ballot after determining that the Attorney General's false and misleading title and summary makes it nearly impossible to pass. We will continue to push our elected representatives to reform our broken pension system and if they fail, we will focus on qualifying an initiative for 2014. **California taxpayers face more than $240 billion in pension debts that grow every year, a brutal math problem that requires courageous leadership instead of the special interest politics that is blocking meaningful reform today."**

Infrastructure Investment is Key to Jobs Growth & Competitiveness

Transportation is one of NBLC's top public policy issues. Anyone who travels in California feels it – the bumpy ride. Anyone who sits in gridlock knows it – our transportation infrastructure is not keeping up with the population increase. Highways and freeways built in California's glory days under Gov. Pat Brown no longer meet the demand and have been so poorly maintained that they are crumbling under the daily traffic. The American Society of Civil Engineers gave the U.S. a "D" on its report card for infrastructure. There are estimates that there are billions of dollars of projects needed to bring the U.S. infrastructure up to where it needs to be to be globally competitive.

The California Business Roundtable found that "Despite a 50 percent increase in population and miles driven over the past 20 years, California has only increased lane capacity on its highways by seven percent. And according to the census bureau, California ranks 48th in investment in highways and 40th in overall infrastructure investment based on personal income. A new state report shows California is hundreds of billions of dollars short when it comes to fixing its roads. It is a funding gap that could delay more than 3,000 safety improvements. The report by the California Transportation Commission reveals it will take more than $500 billion through 2020 to maintain crumbling roads, outdated freeways and public transit. The problem is the state will barely have half the money. "We're looking at close to $300 billion that we don't know where it's going to come from, to address those needs," says California Transportation Commissioner Jim Earp.

NBLC recently met with other transportation leaders in Sacramento to discuss transportation funding. Many say it is time to look at raising the gas tax, which is currently 18 cents a gallon for the state and another 18 cents for the feds. It has not gone up since 1994. At the very least, some experts say it should increase with inflation. "So, when you look at not having raised the gas tax and when you look at the fact that the cost of building has more than doubled since then, the relative value of that gas tax has really, really declined," Earp says. Stay tuned for proposals on how to generate new revenue for transportation improvements. Prop 1B funds are dwindling and the gas and sales tax revenues are falling with greater fuel economy and no inflator. The chart below shows that as our needs are increasing our sources of funds are diminishing. Whether it is an increase in the gas tax, Vehicle License Fee or Vehicle Mile Traveled Fee, the only way to begin to make the overdue safety and demand improvements is to find new funding sources and to create more public/private partnerships that will stretch those dollars as far as they can go.



According to the Public Policy Institute, in California, between 1980 and 2000 there was a 6% increase in highway lane miles but an 87% increase in miles driven. The Road Information Project (TRIP) released a report that states while the average urban motorist in California are paying around $550 each year in additional operating costs as a result of driving on roads in need of repair. In the Bay Area, that cost rises to an average of $656/year! The Bay Area also rates in the top 10 metropolitan areas with the highest percentage of major roads and highways with unacceptable pavement quality. California still spent about 30% less than the national average on highways, roads and transit.

During the last ten years, the state has spent about $56 billion on highway infrastructure. This includes payments to contractors for construction work, and staffing to design and oversee projects built as part of the state's highway system. This sum does not include spending by the California Department of Transportation (Caltrans) on routine maintenance of the state's highways Caltrans spends only a small portion (10 percent) of its total budget on maintaining the state's transportation infrastructure. Poor maintenance appears to be contributing to the increasing need to completely rebuild portions of the state's highways, which is significantly more costly than making routine repairs. (LAO Report)

According to Transportation California:

Transportation-related Construction Creates Good Jobs

- Every $1 billion invested in transportation in the state creates more than 18,000 California jobs, many of which are high-paying, especially in the growing logistics industry.
- Dollars invested in transportation return substantial tax revenues, as workers, contractors and suppliers pay income, sales and other tax levies. For every State dollar spent on transportation projects, the State would see an additional $0.97 in indirect and induced spending in the economy.
- Construction dollars are reinvested in the general economy rapidly.

(Source of Job Creation Data: California Infrastructure Coalition Economic Benefit Assessment)

Transportation Construction Spending Benefits the Economy

- The $5 billion spent on road construction in California in 2000 produced $28.5 billion in individual and societal benefits in California. (TRIP)
- The U.S. Dept. of Transportation/Federal Highway Administration found that every dollar spent on highway construction results in $5.70 in economic benefits created by: reductions in travel time due to less congestion, improved safety, reduced vehicle operating costs because of smoother roads, and reduced road maintenance costs and reduced vehicle emissions because of improved fuel efficiency as a result of less congestion and smoother roads.

NBLC Meets with Senator Rubio on CEQA Reform

Watch for 2012 to be the year for pushing reform of the California Environmental Quality Act (CEQA). NBLC met with Sen. Michael Rubio to discuss his bill to reduce abuse of CEQA, a law passed 40 years ago before other environmental protection agencies existed like the State Water Control Board, Air Board, and many others. Many surveys of businesses cite excessive regulatory burdens as a disincentive to grow, stay or come to California. If California seeks to be a center for innovation, it needs to get its regulatory house in order. Sen. Rubio asks that we share incidences where CEQA has been abused and the impact that it had on infrastructure improvements, educational facilities, community-based organizations and the local economy. Some reforms to be considered are:

- Limit the ability of plaintiffs to recover attorneys' fees from defendant cities and project applicants. (Incredibly, California law only affords plaintiffs the opportunity to recover their attorneys' fees.)
- Limit standing to bring CEQA lawsuits to designated entities.
- Streamline CEQA review for development projects that are consistent with regional plans.
- Strengthen the ability of agencies to use Mitigated Negative Declarations when approving certain projects.
- Eliminate review in a project's CEQA document of environmental impacts that are addressed by the permitting regulations of other environmental agencies.

NBLC will continue to track legislation on this important issue, which also promises to play a role in business supporting the Governor's proposed tax increases slated to go on the ballot this November.

400,000 Jobs Lost if Property Tax Split

In the CalWatchdog blog, Wayne Lusvardi, says "The **Davenport School of Public Policy at Pepperdine University** is out with a blockbuster new study on the affects of the proposed elimination of caps on commercial property taxes provided for under **Proposition 13**. The study is titled, **"An Analysis of Split Roll Property Tax Issues and Impacts."**

This is also called a "Split Roll" property tax because residential and commercial property taxation would be separated and the base assessed values would be taxed differently, although the tax rate would stay the same. Residential properties would keep their Prop. 13 property tax protections and such protections would be eliminated on commercial and industrial properties. The study concludes that a split roll property tax would:
End up losing 396,345 jobs over the first five years of a new split-roll property tax system. This would increase the current unemployment rate of 10.9 percent to 13.1 percent.

The lost economic output would be $71.8 billion over five years. In other words, ending Prop 13 protections on commercial properties would result in losing about $14.4 billion in economic productivity per year to get about $3 to

$8 billion annually in new property taxes. Stated differently, the private economy would shrink and government would grow.

Government property tax revenues would be susceptible to greater instability – the ups and downs of tax revenues — as commercial and industrial property values are affected by the swings and cycles of the larger economy. This is especially so for retail commercial properties such as shopping centers.
Go to this link for the full story: http://www.calwatchdog.com/2012/03/19/396345-jobs-lost-if-property-tax-split/?utm_source=CalWatchdog+March+19%2C+2012&utm_campaign=CALWATCHDOG+EBLAST&utm_medium=email

Cultivating Genius in the 21st Century

Jonah Lehrer in "Cultivating Genius in the 21st Century," (Wired, March 2012) writes that new ideas generate economic growth, therefore, "It is our creativity that generates wealth. So how can we increase the pace of innovation? Is it possible to inspire more Picassos and Steve Jobses?" Lehrer reveals that, "statistician David Banks wrote a short paper on what he called the problem of excess genius: It turns out that human geniuses aren't scattered randomly across time and space. Instead, they tend to arrive in tight clusters. (As Banks put it, talent 'clots inhomogeneously.') In his paper, Banks cites the example of Athens between 440 and 380 BC. He writes that the ancient city was home to an astonishing number of geniuses, including Plato, Socrates, Thucydides, Herodotus, Euripides, Aeschylus, and Aristophanes. These thinkers essentially invented Western civilization, and yet they all lived in the same place at the same time. Or look at Florence, Italy, between 1440 and 1490. In a mere half century, a city of fewer than 70,000 people gave rise to a staggering number of immortal artists, like Michelangelo, da Vinci, Ghiberti, Botticelli, and Donatello."

Lehrer has a theory why this happened. He says, "The secret, it turns out, is the presence of particular meta-ideas, which support the spread of other ideas. First proposed by economist Paul Romer, meta-ideas include concepts like the patent system, public libraries, and universal education. Furthermore, by looking at what various ages of excess genius had in common, it's possible to come up with a creativity blueprint for the 21st century. The first pattern that becomes clear is the benefit of human mixing. It's no accident that past talent clusters were all commercial trading centers, which allowed a wide diversity of people to share ideas. (Urbanization makes this mixing easier.) The same logic still applies: Research indicates that in the overall population, a 1 percent increase in the number of immigrants with college degrees leads to a 9 to 18 percent rise in patent production. Open immigration policies are a feature, not a bug."

Another recurring theme Lehrer sees is the importance of education. He says, "All of these flourishing cultures pioneered new forms of teaching and learning. Medieval Florence saw the rise of the apprentice-master model, which let young artists learn from veteran experts. Elizabethan England made a concerted effort to educate its middle-class males, which is how William Shakespeare—the son of a glover who couldn't sign his name—ended up getting free Latin lessons. We need to emulate these ingenious eras and encourage rampant experimentation in the education sector, whether it's taking the Khan Academy mainstream or expanding vocational training. As T. S. Eliot once remarked, the great ages did not contain more talent. They *wasted less*."

And Lehrer's final thought is that the "meta-idea involves the development of institutions that encourage risk-taking. Shakespeare was lucky to have royal support for his odd tragedies, while Renaissance Florence benefited from the willingness of the Medicis to support new artistic forms, such as the use of perspective in painting. Many of these ventures failed—Shakespeare wrote several bad plays—but tolerating such failure is the only way to get a *Hamlet*. We've never needed geniuses more than we do now. The good news is that we can learn from the creative secrets of the past, from those outlier societies that produced Shakespeare and Plato and Michelangelo. And then we should look in the mirror. The excess is not an accident."

UPCOMING EVENTS!

The Business Edge - A Breakfast Briefing

Michael Sandel- What Money Can't Buy: The Moral Limits of Markets

Wednesday, May 16, 2012
7:30 – 9:30 a.m.
Tickets are $25 each
Creekside Room, Caleruega Hall, Dominican University of California

Join Michael Sandel to discuss his new book *What Money Can't Buy: The Moral Limits of Markets.* Sandel takes up one of the biggest ethical questions of our time: Isn't there something wrong with a world in which everything is for sale? If so, how can we prevent market values from reaching into spheres of life where they don't belong? What are the moral limits of markets?

NBLC's Economic Insight Conference

California's Bright Future … *Sunglasses Required*!

Sheraton Hotel, Petaluma

7:30 a.m. – 9:00 a.m.

May 31, 2012

Registration Opens April 17th

Learn why California, and the U.S., have a bright future and what choices need to be made to ensure that American remains resilient and a world economic leaders. The future's so bright you need "shades!"

MEMBERS IN THE NEWS

Infineon Raceway Breaks Guinness World Records® Record
More than 70 cars convened at Infineon Raceway on Tuesday to break the Guinness World Records® Record for Most Cars Performing Donuts Simultaneously.

Buck Institute for Research on Aging welcomes two new Board of Trustees
Fay Hartog Levin, the former Ambassador to the Netherlands, and local civic leader E. Lewis Reid have joined the Buck Institute Board of Trustees.

Kaiser Permanente's Pat Kendall honored with North Bay Children's Center's "Champion for Children" Award
North Bay Children's Center's Board of Directors has established a "Champion for Children" award recognizing individuals in the community who make a difference in the lives of children. We are excited to announce that Patricia Kendall, Medical Group Administrator for Kaiser San Rafael, is the first recipient and will be honored at the NBCC's Sausalito House party on May 5th.

NBLC Members among 2012 Forty under 40 Winner Winners
The Business Journal announced the winners of its sixth-annual Forty under 40 awards today. NBLC members chosen on the basis of their leadership in companies and organizations as well as their participation within the community across the North Bay included Aleisha Dobbins, **BioMarin Pharmaceutical Inc**., Naveen Kumar, MD, **Kaiser Permanente** San Rafael, Ethan Lee, **Burr Pilger Mayer**, Oscar Pardo, **Perry, Johnson, Anderson, Miller & Moskowitz, LLP**, Lino Ramos, **Infineon Raceway**, Heather Resseger, RN, **Santa Rosa Memorial Hospital**, Kelly Steele Jordan, **Nelson Staffing**

BioMarin Helps Promote Awareness of Rare Diseases at Capitol
At the State Capitol, Dr. Richard Pan (D-Sacramento), in partnership with CHI, the California Healthcare Institute, presented an Assembly resolution recognizing Feb. 29, 2012 as Rare Disease Day for the families and healthcare professionals caring for millions of Californians living with nearly 7,000 rare diseases.

Dominican University's Venture Greenhouse Celebrates its One Year Anniversary
One year ago, the Venture Greenhouse launched with its first beta clients. After one year our experiment in green business acceleration appears to be a resounding success. The Venture Greenhouse successfully graduated its first two clients, Next Phase Solar and Illumalighting (now Evolvelectric).

Read more online at www.northbayleadership.org/news

NORTH BAY LEADERSHIP COUNCIL

Who We Are

Twenty one years ago, business leaders founded the North Bay Leadership Council on a simple premise: We can accomplish more by working together. Today, the Council includes over 43 leading employers in the North Bay. Our members represent a wide variety of businesses, non-profits and educational institutions, with a workforce in excess of 25,000. As business and civic leaders, our goal is to promote sound public policy, innovation and sustainability to make our region a better place to live and work. For more information: Call 707.283.0028 **/ E-mail** info@northbayleadership.org

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