

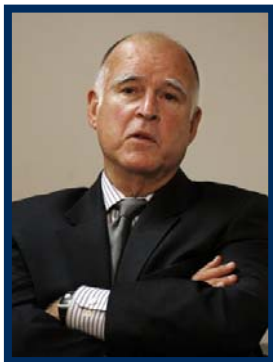
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## Fiscal Reform School

The idea of reform has caught fire across the world. The burning desire to make government work again is on display from the Middle East to Wisconsin to California. Reform at the state level is focusing on aligning the budget to the priorities and fixing broken systems like public employee pensions and retiree health care, taxation, term limits and other ideas. Given the fiscal crises that abound at the local, state and federal level, bringing discipline to the budget has to be a top priority.



NBLC's CEO and President, Cynthia Murray, met with Governor Brown to discuss his budget proposal. Gov. Brown seeks to balance the budget by reducing the deficit of over \$25 billion by cutting expenses and extending the tax increases passed by the Legislature several years ago for five more years. The balanced budget would reflect approximately 50% cuts (\$12.5 billion), 50% extended taxes and other new sources of revenue (\$12 billion).

However, according to Joel Seiler, Fox & Hounds (January 11, 2011), "a recent study by three economists found that, over the past 37 years, nations around the globe reduced debt burdens only when spending cuts were on average 85 percent of a budget solution, with tax cuts only 15 percent. [Andrew Biggs, Kevin Hassett and Matt Jensen wrote:](#)

*On average, the typical unsuccessful consolidation consisted of 53% tax increases and 47% spending cuts.*

*By contrast, the typical successful fiscal consolidation consisted, on average, of 85% spending cuts. While tax increases play little role in successful efforts to balance budgets, there are some cases where governments reduced spending by more than was needed to lower the budget deficit, and then went on to cut taxes. Finland's consolidation in the late 1990s consisted of 108% spending cuts, accompanied by modest tax cuts.*



So, if the study is right and tax increases should be limited to about 15 percent of a deficit-reduction plan, then California's tax increases should amount to no more than about \$4 billion, with spending cuts at \$22 billion. Put

another way, the 85 percent/15 percent ratio signals to investors and creditors that a government really is serious about getting its fiscal house in order, not just soaking taxpayers again for more profligate spending.

As to Brown's actual budget, Esmael Adibi, director of the [A. Gary Anderson Center for Economic Research](#) and Anderson Chair of Economic Analysis said, 'I am a little disappointed with this budget. There is nothing fundamental that was proposed.' He added of a major Brown proposal in the budget:

*One could argue that shifting money to local and state government is a fundamental change, but I don't see it that way. The only outcome is more confusion when it comes to year-over-year comparisons. To make any meaningful comparison now, one has to add up the general fund, special fund and bond fund together and compare the total to previous years. I have tried to do that but I can't find the special fund spending for 2010-11 budget. I have an estimate which I'm not sure about, which is \$30.85 billion. If I use that, I don't see where the \$12.5 billion cut is coming from. At best, the cutback is \$3.5 billion; and that, as you know, is not necessarily a real cut, but rather, it is a cut from planned spending in 2011-12.*



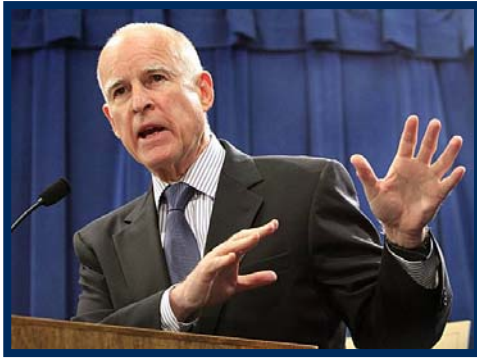
*As for the economic impact of the budget, the temporary tax increases were a drag on the economy. And if the Brown tax increases enacted, they will continue to be a drag. If it does not pass by the voters, then we should expect to see real cuts including reduction in payroll in a meaningful way. That remains to be seen."*

Other suggestions for fiscal reforms come from California Forward: "The state budget should set clear goals, design plans to achieve them, and take action when things go wrong. It's time to apply the best practices from successful businesses and other states to California's dysfunctional budget process, including:

- **Planning ahead on spending.** Require the Governor and lawmakers to think long-term about spending priorities and revenues by reviewing a two-year spending plan along with a five-year fiscal forecast before approving the annual budget. Strengthen requirements for quick action when the budget is out of balance.
- **Results and accountability.** Require clear goals for every program to be spelled out in the Governor's budget and improve the legislative process for developing the budget by focusing on results and greater public transparency.
- **Performance review.** Require the Legislature to oversee major expenditures and examine every program at least once every 10 years, looking for ways to improve efficiency and reduce waste.
- **Reduce debt when revenues spike.** Create a process for identifying and using occasional, nonrecurring spikes in revenue for one-time uses, such as paying down debt.
- **Pay-as-you-go.** Require that major new or expanded programs and tax reductions proposed in the budget or legislation identify a specific funding source such as savings, cuts to other programs or tax increases."



But going even further, Michael Marlow's opinion piece, "It's time to cut size of state government," Sacramento Bee (Feb. 01, 2011), says we need to cap the size of government, not just look at cuts and tax increases.



Marlow says, “While half of Brown's proposal – a \$12.5 billion cut in state spending – is on the right track, one has to ask if his plan to extend \$12 billion in tax hikes is a good idea. Is the state of California not taking in enough money? Or is spending out of control? If you take a look at the numbers, it becomes obvious that per-person spending in the Golden State is simply outstripping incoming revenue – and it's a direct result of a dramatic increase in the size and cost of government that took place in the middle of the last decade. The fiscal situation in California wasn't always so dire; at the end of the 1980s, and into the early 1990s, policymakers resisted the urge to expand spending. California even ran a brief budget surplus in 1993.

Everything changed in 1996. The rapid rise of high-tech companies in a state with a highly progressive income tax works wonders for those wishing to grow government. And grow and grow is what government did, as each dollar of new revenue in California was matched by about two dollars of new spending. At the end of the decade, the Golden State had reached a golden ‘new normal’ of \$3,400 in spending per person, up 42 percent from just a few years earlier. Annual spending has exceeded tax revenue in every year since then.

Now, there are two ways to look at this problem. The first is to say the state of California isn't taxing enough. The second is to say that the state of California is spending too much. Are California taxes too low? That's a common refrain amongst the chattering classes: California, they argue, has become ungovernable due to ballot initiatives and the public's unwillingness to pay for the goods and services they desire.

That does not really square with the facts, however. California's taxes aren't the highest in the country, but they're up there: According to the Tax Foundation's 2010 report, California had the sixth-highest per capita tax burden in the nation. These tax rates, combined with onerous regulation, have the consequence of driving voters and businesses out of the state. Recently released census data reveal that in the 10 years through 2008, California had the second-largest net domestic population outflow of any state.



If higher taxes aren't the answer, the only thing that's left is to cut spending – and there is plenty to be cut. But as I argue in my forthcoming book, ‘The Myth of Efficient and Fair Government,’ **more important than deciding which specific programs to cut is deciding on a baseline size of government** (emphasis added). California's deficit is a symptom of a disease that the state contracted back in the mid-90s. We need to have a debate about the appropriate size of government before we discuss spending and taxation within the context of a balanced budget.

Without a constraint on government size, all advocates of additional government spending believe they can get their share of the pie without having to fight over anyone else's share. Social programs can be expanded; public employees can get raises; pensions can be fattened. Our appetites just keep getting bigger. This line of thinking leads to overtaxation, government overreach that provides many services poorly, increasing dissatisfaction with the government, and a shrinking private sector – along with the jobs and taxes that sector generates.

History has shown that without some sort of cap, we are liable to simply tax and spend. And then spend and spend and spend some more. Traditional interest group allies have to learn the hard way to fight amongst themselves to

justify their slice of the capped budget. Instead of raising taxes, we need to think about placing government on a true allowance consistent with a more manageable size.”

And by the way, when Murray met with the Governor, he greeted the group of business leaders wearing a 15 year old sweat suit. Let’s hope the Governor “suits up” in this budget battle and goes beyond just cuts and tax extensions to fight for the reforms so sorely needed.

## Midstate Construction NBLC’s Newest Member!



North Bay Leadership Council (NBLC) is proud to announce that Midstate Construction, Corporation, a General Contractor with 76 years of construction expertise, is their newest member. Midstate’s projects include multi-family, office, retail, industrial, hospitality, parking structures, medical, public works and historical renovations. Don Chigazola, Chair of NBLC’s Board, said “NBLC welcomes Midstate Construction. As one of the North Bay’s largest commercial general contractors who has a history of building some of the most important landmarks of the region, we are pleased to have a company of this caliber join us in advocating for economic competitiveness, innovation and workforce housing.”

Midstate Construction was founded in 1935 and is headquartered in Petaluma. The company employs approximately 50 people and had revenues around \$76 million in 2011. Midstate is ranked as the second-largest commercial general contractor in the North Bay. The company’s largest recent project is \$30 million on Santa Rosa Junior College’s Bertolini Student Services Center. It has also built many other North Bay landmarks including a portion of the Petaluma Marina, h2Hotel in Healdsburg, many affordable housing communities, Hamilton Marketplace in Novato, Theater Square in Petaluma and the Pepperwood Preserve. Midstate’s project, h2hotel, was awarded 2010 Hospitality Top Project in the North Bay by North Bay Business Journal.

Roger Nelson, owner and president of Midstate for 33 years, will be the member representative. Mr. Nelson said, “We are joining NBLC because we share the goals of increasing regional prosperity. For 76 years Midstate has tried to improve the communities in which we work and it will be great to collaborate with other NBLC members to achieve those goals.” Mr. Nelson has degrees in economics, civil and industrial engineering, and construction management. He also is a U.S. Green Building Council Leadership in Energy and Environmental Design Accredited Professional, or LEED AP. The alternate will be Monica Soiland, VP, Marketing and Business Development, current Board President of the Petaluma Area Chamber of Commerce and Executive Board committee member for the North Coast Builders Exchange.



Midstate received the Partners In Community Development award from Non-Profit Housing Association of Northern California because of their commitment to provide housing for low-income, special needs, and senior members of our local communities. Midstate has partnered with many affordable housing organizations including Burbank Housing Development Corporation, COTS (Committee on the Shelterless), Ecumenical Association for Housing, Eden Housing, Mercy Family Housing, North Bay Industries, Petaluma Ecumenical Housing, Affordable Housing Associates and The John Stewart Company.



## Innovation Agenda



President Obama has called upon the nation to meet the challenge of the “Sputnik moment” of our times and the need to increase innovation in order to be globally competitive. The President’s recent trip to Silicon Valley and meetings with leading innovators there, further underline his interest in a new innovation agenda. Robert Atkinson, president of the Information Technology and Innovation Foundation, in the New America Foundation blog (February 14, 2011), discusses the administration’s strategy: 1) Investing in the building blocks of American innovation; 2)

Promoting competitive markets that spur productive entrepreneurship; and 3) Catalyzing breakthroughs for national priorities and calls for renewed commitment to spurring U.S. innovation. Atkinson evaluates the President’s plan using the Four Ts: Tech, Talent, Taxes and Trade.

To increase Tech and Talent more federal support for scientific and technological research is needed. “Growth in federal support over the last quarter century has been so anemic that if we wanted to restore federal support for research to 1987 levels (as a share of GDP), we’d have to invest an additional \$60 billion annually!” Those increases need to be coupled with immigration reform to allow high skill students and workers to come to the U.S., and infrastructure improvements, including upgrading our wireless broadband networks. In addition, Atkinson says, “We need to be competitive not just in clean energy, but in a wide range of manufacturing industries, including vehicles, aviation, medical (biotech, pharmaceuticals, and medical devices); IT, primary metals, machine tools and equipment.”



Michael Mandel, “Innovation Policy,” Progressive Policy Institute; Wharton’s Mack Center for Technological Innovation (February 21, 2011) cautions, “Obama does not seem to understand that he is focusing too much on the wrong kind of innovation. Obama placed his major emphasis on clean energy as the major source of innovation-related jobs. By contrast, the biosciences got only the briefest of mentions in both the State of the Union and the budget. Putting more money into clean tech research is certainly important in the long run, and politically appealing today. However, the raw truth is that the U.S. has under-invested in clean tech research until recently, and does not have a competitive

advantage in that area. As a result, clean tech cannot be counted on as a source of well-paying jobs in the near-term future.

By contrast, the U.S. does have a competitive advantage in the biosciences, such as biotech. Take a look at the numbers. U.S. companies accounted for 44% of R&D spending by life sciences companies around the world in 2010, according to estimates by Battelle/R&D Magazine. And the U.S. accounts for 70% of government-funded health research around the world. For now, the right innovation and jobs play is to build on the U.S competitive advantage in biosciences. The resources are there: The proposed 2012 budget would continue to fund biosciences research at a high level. President Obama needs to start emphasizing in his speeches that bioscience innovation



is essential for growth and increasing productivity, especially in healthcare.”

The other Ts – Taxes and Trade – are essential to success in the global innovation economy. The President has a two step tax strategy: 1) increase the research and development tax credit from 14% to 17%. Going to 17% would raise the U.S. to 13<sup>th</sup> place in the Organization for Economic Co-operation and Development (OECD) nations. Atkinson says if the U.S. is serious about winning the global competition the rate should be higher: 20% minimum with 30% ideal, moving the U.S. into the top 5 nations.

And 2) close the tax loopholes and use the savings to lower the corporate tax rate. Atkinson worries, “this ‘broaden the base, lower the rate’ approach would make the U.S. less competitive, not more. Tax simplification would reduce taxes on industries that face virtually no international competition (e.g. utilities) while raising them on industries that compete every day for global market share. The end result would be more movement of U.S. jobs offshore.”

What is needed is not simplification, but “generous tax credits on investments in new capital equipment and software.”



As for the last T – Trade – Atkinson applauds Obama’s desire to double exports in five years but fears that without a “coherent agenda to combat foreign innovation mercantilism” that can’t happen. He points out that China’s manipulation of its currency makes it hard for the U.S. to compete. Atkinson pleads, “If we fought foreign innovation mercantilism with one-quarter of the effort we put into fighting terrorism, the U.S. economy would be in dramatically better shape.”

We are dealing with tight budget times, but as President Obama said, “Cutting the deficit by gutting our investments in innovation and education is like lightening an overloaded airplane by removing its engine. It may make you feel like you’re flying high at first, but it won’t take long before you feel the impact.”

## Upcoming Events

**Event:** Dialogue on Governmental Reforms and Empowering Community Government



**Hosted by:** NBLC and California Forward, the non-partisan, non-profit government reform "Think and Do Tank"

**When:** **March 24:** Registration 7:00 a.m.; Program 7:30 – 9:30 a.m.

**Where:** Infineon Raceway, Drivers’ Lounge, Sonoma (Main Gate, Highways 112 & 37)

**RSVP:** Sonia at [stanner@northbayleadership.org](mailto:stanner@northbayleadership.org) or (707) 283-0028

**Event:** **The Business Edge: Jane Applegate - Growing Your Small Business 201 Successful Ways!**

**Hosted by:** NBLC and Dominican University’s Institute for Leadership Studies

**When:** **April 21:** 7:30 registration & breakfast; 8:00- 9:00 presentation & Q & A

**Where:** Dominican University, Creekside Room, San Rafael

**Tickets:** \$25.00, includes full breakfast. To purchase tickets, go to <http://www.dominican.edu/academics/businesslead/leadership/leaddevelopment/businessedge.html>

**RSVP:** 415-485-3202 or e-mail [ILS@dominican.edu](mailto:ILS@dominican.edu)

Join Jane Applegate, one of America's most respected small business management experts, successful entrepreneur and author, for an interactive presentation focused on boosting sales and raising your business profile in 2011. Applegate will share practical and innovative strategies for maximizing profits, cutting costs, streamlining operations, integrating marketing strategies, managing employees, and taking full advantage of new technology. She will offer new insights from her recently updated 201 Great Ideas for Your Small Business. Let her help you tackle your toughest business challenges!

## **A North Bay Leadership Council's Signature Event!**

### **Economic Insight Conference**

**"Ways to Make Government Work in the North Bay"**

**When:** **June 2:** Registration, 7:00 a.m.; Program, 7:30 a.m. – 9:00 a.m.

**Where:** Sheraton Hotel, Petaluma

**Tickets:** \$30/person; \$240.00/table of 8; Continental breakfast included

**RSVP:** Online at [www.northbayleadership.org](http://www.northbayleadership.org); fax orders to (707) 763-3028. Call Sonia at (707) 283-0028 for more information

**Sponsorships:** Sponsorships are available for this event. Please contact [info@northbayleadership.org](mailto:info@northbayleadership.org) for information.



### **Members in the News:**

**Autodesk Inc.** will acquire Blue Ridge Numerics Inc., a provider of simulation software. Blue Ridge Numerics' CFdesign technology will be added to the Autodesk simulation software portfolio for manufacturers. It will broaden the Autodesk solution for digital prototyping to provide customers with a spectrum of computational fluid dynamics (CFD) capabilities that help automate fluid flow and thermal simulation decision-making for designs, while eliminating costly physical prototyping cycles.

**Fireman's Fund Insurance** has issued more than \$26 million in grants in the past seven years for firefighting equipment and educational tools to departments all over the country, including one this month of \$10,750 to the Novato Fire District to support their Reserve Firefighter Program. The Reserve Program, expected to start this summer, would be an extension of the Scout Explorer program that is already under way for young people about 15-20 years of age. Having three to seven young reserves would help them learn about leadership and responsibility and can really help with future recruiting for full-time firefighters. The grant allows the District to purchase six sets of jackets with high-tech coatings, helmets, gloves and pants, costing about \$1,500 per firefighter for protective personal equipment that fends off flames.

**Redwood Credit Union** (RCU) and Cal State Central Credit Union (CSCCU) have announced plans to merge on April 1, 2011, with RCU being the surviving organization. The Board of Directors for both organizations have approved the merger, and approvals from industry regulators—the National Credit Union Administration and the Department of Financial Institutions—are pending. The joining of the two credit unions will result in RCU serving nearly 200,000 members in the North Bay and San Francisco, with assets exceeding \$1.8 billion.

**BioMarin** topped \$100 million in Q4 2010 for the first time in the company's history. Total fourth-quarter revenues were \$101.6 million. "We have made significant progress on advancing our pipeline and remain committed to investing in future growth in the coming years. Our commercial business is growing steadily, and we continue to see growth opportunities for each of our products," said Jean-Jacques Bienaime, CEO.

**Kaiser Permanente** received the highest customer loyalty ranking in the health insurance sector, based on the Satmetrix 2011 Net Promoter® industry rankings. A new addition to this year's benchmarks, Kaiser Permanente received a Net Promoter Score, or NPS® of 28 percent, more than 30 points higher than the industry average of negative 5 percent. The Net Promoter Benchmark rankings are based on survey responses from more than 22,000 U.S. consumers nationwide. Consumers also rated each company on various aspects of customer experience, including product or service features, customer service and overall value

**Northbay Family Homes** (NFH) and its financing affiliate, the Suburban Alternative Land Trust, last month bought the first two homes in a 20-home workforce-housing program. The NFH program is part of a Marin Community Foundation (MCF) initiative to promote workforce housing and add to the affordable housing stock. MCF awarded the group a \$250,000 grant to start its program to buy, refurbish and return to the market bank-owned homes. In addition to the MCF grant, NFH received funds from the Federal Home Loan Bank of San Francisco, the San Francisco Foundation, Wells Fargo and PG&E.

The MCF grant is part of a \$10 million initiative the organization began in 2009. One of the strategies is to invest in affordable housing, rental and owned properties "that take advantage of specific opportunities"—which includes the large number of foreclosed homes in the county. Novato was a logical place to start the program, according to Blasdell. "About half of [bank owned] homes in Marin exist in Novato."

**North Bay Leadership Council's** President and CEO, Cynthia Murray, will serve on Santa Rosa's Economic Competitiveness Task Force. The task force will proceed in two phases: identifying issues and expanding into a larger group to identify solutions to these challenges. They continue to seek out "innovative, big thinking" individuals and leaders who will add vision and find opportunities for change.

#### About Us



Twenty 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 37 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 20,000. 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](mailto:info@northbayleadership.org)  
Visit Us Online at [www.northbayleadership.org](http://www.northbayleadership.org)