

## POLICY WATCH – June 2016

### In This Issue

- California Budget Highlights and Lowlights
  - Is the Budget Really Balanced? Budget Impacts on Education
  - Renters Rising?
  - Transportation Fail!
  - And Whose Hand is in Your Pocket Next?
- California Now 6th Largest Economy in the World
- Members in the News



While June is usually the month of weddings and graduations, it is quickly becoming something else. This June we felt the winds of change as the two presumptive nominees for President emerged after the June Primaries. We also saw the impacts of climate change as the southwestern U.S. heated up to record temperatures and the inevitable wildland fires raged. This month also brought us to a new level of economic uncertainty as the very low job numbers (38,000) were announced and the people of the UK voted to Brexit. Fears of a recession heightened for many.

This issue looks at some the ramifications of the state budget and how what was funded, what wasn't funded, play out for the future of our state. NBLC is excited about the Governor's proposal to allow housing that meets affordability criteria to be built "by right." And alarmed that nothing was budgeted to help fix our roads. We fear the growing pension and retiree health care unfunded liabilities which when added to the expenses of our state, belie that the state budget is "balanced."

Fasten your seat belts – it looks like we are in for a bumpy ride as we look ahead to the second half of 2016!

Best,



Cynthia

### California Budget Highlights and Lowlights

#### Is the Budget Really Balanced?

Right on time, the State legislature passed a balanced budget for 2016-2017. Or did they? While the legislators approved at \$122.5 Billion budget, it is debatable whether it is truly balanced. New government accounting rules required that pension and retiree health care liabilities be divulged but not factored into the budget balance sheet.

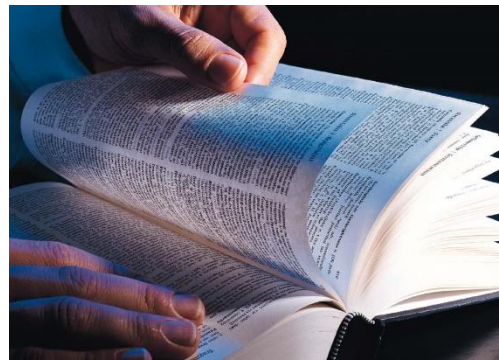
In [California's \\$400 billion debt worries analysts](http://www.sfchronicle.com/politics/article/California-s-400-billion-debt-worries-analysts-6812264.php) (by Melody Gutierrez, San Francisco Chronicle, February 6, 2016, <http://www.sfchronicle.com/politics/article/California-s-400-billion-debt-worries-analysts-6812264.php>), Gabe Petek, a credit analyst with Standard & Poor's, says, "Yes, the state's budget is balanced if you are looking at what they are required to spend cash on this year, but not when you look at their expenses. The high debt and unfunded liabilities of approximately \$400 billion have resulted in

the state's rating lagging behind other states." Gutierrez says, "California saw its bond rating rise last year from A+ to AA-, the highest level the state has had in 14 years. Good bond ratings are a sign of a strong budget and financial management and allow states to pay lower interest rates when selling bonds". "Compared to other states, though, California has one of the lower ratings," Petek said.

And for Petek, the reason is clear. He says, "It's California's debt and liabilities that are concerning financial analysts, particularly the state's rapidly growing unfunded retiree health care costs, which grew more than 80 percent over the past decade. California has promised \$74 billion more in health and dental benefits to current and retired state workers than the state has put aside. Without changes, the state estimates that unfunded liability would grow to \$300 billion by 2047."

"These liabilities are so massive that it is tempting to ignore them," Gov. Jerry Brown said in his State of the State speech. "We can't possibly pay them off in a year or two or even 10. And there is little satisfaction in the notion of chipping away at an obligation for three decades to pay for something that has already been promised. Yet, it is our moral obligation to do so — particularly before we make new commitments."

Public employees in California have retirement plans that are one of the most generous in the nation, covering 100 percent of retirees' medical costs if they worked for the state for 20 years. Currently, the state pays only for the cost of providing care to retired workers, and does not put money aside for those who will retire in the future.



"The pay-as-you-go model is clearly not going to be sustainable over the long haul, particularly with a workforce that is aging," H.D. Palmer said. "Roughly 1,000 people turn 65 in California each day, a number of those are state workers. What does that mean for the state in terms of long-term fiscal planning?"

While last year, the state successfully negotiated with the professional engineers union to reduce their retiree health benefits, that reduction was offset by an increase in their salaries. State Sen. John Moorlach, R-Costa Mesa (Orange County) said offering raises to employees to offset their contribution to their retiree health benefits puts more pressure on the pension system, which pays retirees based on their salaries. Moorlach said he's concerned with the state's pension debt — the teachers retirement system alone faces a \$72.7 billion unfunded liability. The most recent estimate in 2014 for the California Public Employees' Retirement System shows a \$43.2 billion unfunded liability.

Gutierrez said that "Bond debt also has risen substantially in California, with the state's reliance on borrowing for infrastructure resulting in 1 of every 2 dollars spent on those projects going to pay interest, according to the Department of Finance. Bonds are approved by voters and generally used to pay for infrastructure, such as building schools and roads." This staggering debt service severely limits the amount of improvements that can be done in a state that needs its infrastructure desperately.

"From 1974 to 1999, California voters approved \$38.4 billion of general obligation bonds. Since 2000, voters approved more than \$103.2 billion. The state is paying on \$86.8 billion in bond debt with another \$32.3 billion expected to be issued in the coming years, said Gutierrez."

Exacerbating this bond debt, voters will be asked this November to approve a \$9 billion school construction bond. In addition, the state has \$77 billion in deferred maintenance needed to fix roads, highways and bridges, which Democrats are seeking new fees and/or taxes to fund.

This mountain of debt is a tremendous concern to the fiscal sustainability of our state. Not showing these debts in the budget is a sleight of hand that hurts the ability to address our pressing need to invest in our infrastructure and be transparent with the taxpayers who foot the bill. Calling the state budget balanced is neither true or wise.

### **Budget Impacts on Education**



By law, about half the budget goes to K-12 schools and community colleges. In addition, the budget allocated funding above that amount as follows, according to [Investing in our future—from early education to higher education](http://www.cappaonline.com/state-budget) (<http://www.cappaonline.com/state-budget>):

Funds Child Care and Preschool Rate Increases. Provides rate increases that will grow to over \$500 million primarily to increase rates for child care and preschool programs to reflect the rising costs of the state minimum wage laws. Also provides funding, growing to \$100 million annually, to add nearly 9,000 full day preschool slots.

Local Control Funding Formula Increase. Provides \$3 billion to further implement the LCFF Incentivizes Full Day Kindergarten. Begins process of developing financial incentives for school districts to provide full day Kindergarten.

Anticipates creation of “Blue Ribbon Commission on Early Care and Education. Anticipates the Speaker will establish a “Blue Ribbon Commission” including state leaders and early care and education experts from throughout the state to develop options for improving services for children 0-3 and for implementing Universal Pre-K for all 4 Year-olds <http://www.cappaonline.com/state-budget>

The Legislature also designated an additional \$200 million for a workforce training program that takes aim at the looming skills gap across the state's regions. "This is a victory for both California employers and community college students. In our travels around California, we heard loud and clear about the need for more skilled workers in California," said Van Ton-Quinlivan, vice chancellor for workforce and economic development at the California Community Colleges. "Enhancing career technical education and workforce training to meet the demands of our regional economies and the statewide labor market will benefit students, communities, and the entire state."

Sixty percent of the funding will go directly to the community colleges and 40 percent will be invested in regional consortia in which colleges and employers can work together to help identify ways to address unique needs in their regional economies. Each region will determine what those unique needs are.

[In California Lawmakers Approve Budget Without Additional Funds for After School](http://blogs.edweek.org/edweek/time and learning/2016/06/california-lawmakers-approve-budget-without-additional-funds-for-after-school.html?cmp=eml-enl-eu-news3) (by Marva Hinton, June 22, 2016, Education Week, <http://blogs.edweek.org/edweek/time and learning/2016/06/california-lawmakers-approve-budget-without-additional-funds-for-after-school.html?cmp=eml-enl-eu-news3>), we learn that requests for increases in after school program funding was ignored despite increased enrollment and costs for teachers due to minimum wage boosts. “That means elementary schools will continue to receive grants of

\$112,500 annually through the state's After-School Education and Safety (ASES) program, and middle schools will receive \$150,000. At both levels, schools are required to provide a 33 percent local match. These schools are reimbursed at the flat, daily rate of \$7.50 per student. Advocates for these programs had been pushing for a \$1 per student increase in the reimbursement rate."

ASES programs serve more than 400,000 students a day. The daily reimbursement rate they operate under has been the same for nearly a decade, but costs continue to rise. California's minimum wage grew to \$10 an hour this year and is set to increase to \$15 an hour by 2022.

"We were disappointed that the governor failed to see that no matter what we do in our education system to level the playing field for the most underserved students in California it won't be effective if we're not providing learning opportunities during after-school and summer hours," said Jessica Gunderson, senior policy director at Partnership for Children and Youth. "We know students spend only about 20 percent of their time in school, and the other 80 percent is really the key driver in the opportunity and the achievement gap."

More than 670 after-school providers responded to a survey the Partnership for Children & Youth conducted this winter, and 29 percent of those getting state funds said they're likely to shut down in the next two years if the state doesn't give them more money to operate.

Leaving education on a high note, the recent Supreme Court decision upholding affirmative action for public universities is terrific. Given that one of every two students under 18 years old in California is Latino, it will help correct the inequities in admissions for Latino and African American students. The decision affirms that student body diversity is an important element of the academic mission.

The Campaign for College Opportunity (<http://campaign.r20.constantcontact.com/render?m=1104016133108&ca=f57c3dd4-b83c-4cbf-84d3-ae75efc8c2d7>), writes, "In the twenty years since California banned the consideration of race in university admissions with the passage of Proposition 209, racial inequities in college access have persisted and grown over time. In the last twenty years, admission rates for Blacks and Latinos at the University of California (UC) declined by 37 and 32 points, respectively, compared to 25 points for Whites. And, despite a quadrupling of Latino applicants to UC Berkeley and UCLA, there was relatively little change in the number admitted between 1994 and 2015. The mismatch between applicants and admits is evidenced by the fact that less than one-third of Black applicants gain admission to seven of the UC's nine undergraduate campuses and less than one-third of Latino applicants gain admission to six of the nine UC campuses.

"Today's ruling by the Supreme Court is a message to California and all state's that the consideration of race in college admissions is essential to protecting and ensuring access to higher education. The ban on affirmative action in California has hurt the ability of Latinos and Blacks to find their rightful spots at our state universities and that hurts our state's economic future," said Michele Siqueiros, president of the Campaign for College Opportunity.

### Renters Rising?

The housing crisis in California is given short shrift in the budget. The approved budget does not provide funding for affordable housing but identifies \$400 million outside the budget process for affordable housing programs, with lots of strings attached. The funds would be appropriated later this year once the Legislature approves a version of Brown's "by right" zoning proposal, which would limit local governments'

say over proposed development that includes affordable housing units. It has drawn opposition from localities, environmentalists and labor unions. These discussions could continue throughout the summer.

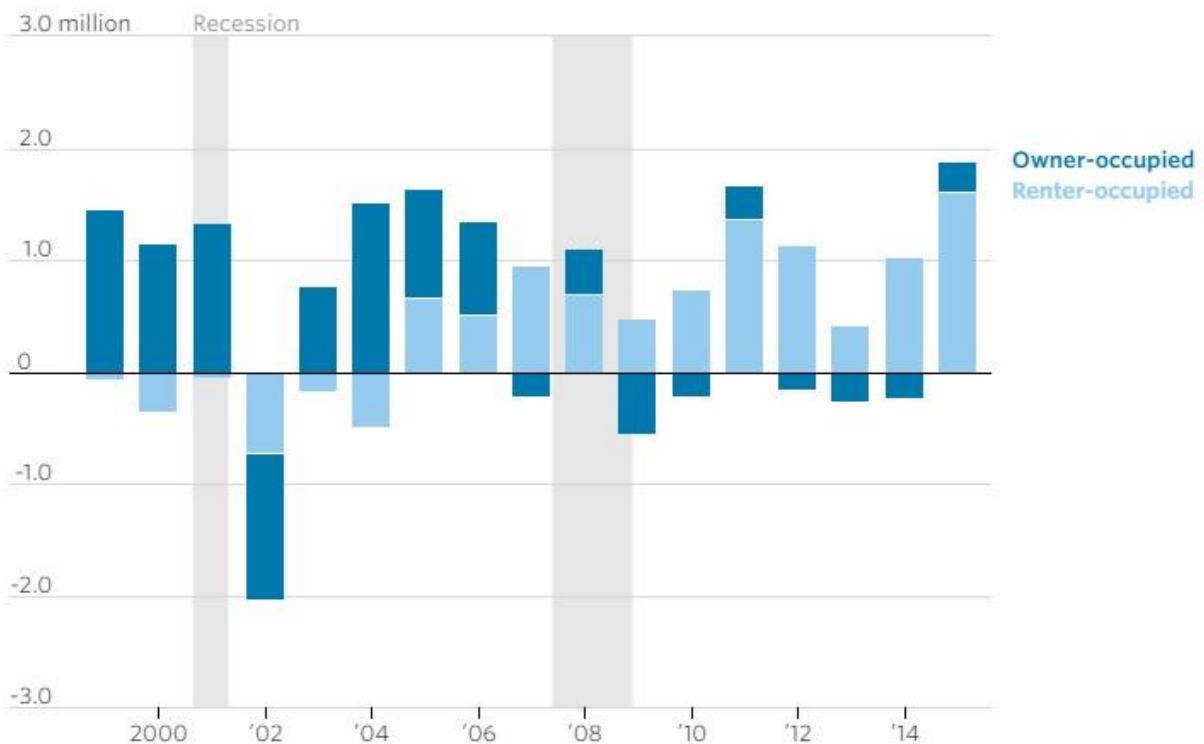
The budget does provide the following for homelessness support that can benefit local communities:

- a. "No Place Like Home", (partially funded by Prop 63 funds) will create housing for those suffering from mental illness and homelessness with a one-time \$45 million funding augmentation
- b. Homeless Assistance Program, will contribute \$2.4 million from General Fund dollars in 2016-2017 with a January 1, 2017 implementation date, and continue to allocate \$2.7 million in on-going funds.

In a related item, The Wall Street Journal reports that there has been a big shift from home ownership to renting, which is contributing to the increasing rental rates. Check out this chart to see the change:  
Household formation chart

### Household Formation

The number of occupied housing units, change from one year earlier



Source: Census Bureau

THE WALL STREET JOURNAL

### Transportation Fail!

Again, the legislators failed to do anything to improve transportation. This is such a fail! Each delay in maintaining the states infrastructure increases the costs and the danger to the public. It is a failure even more so when there is actual money that could have been provided to help reduce the backlog of projects. At a time when California is being praised for becoming the 6<sup>th</sup> largest economy in the world, it is an embarrassment for the state's roads to be worse than many third world countries who have far less resources.

The budget does include a \$10 per year increase in the vehicle registration fee that funds the Department of Motor Vehicles and California Highway Patrol. It's effective April 1, 2017, which will go towards non-infrastructure programs such as reducing the number of CHP officers on patrol and closing DMV field



offices. Unlike taxes and many fees, which require a two-thirds vote of the Legislature, this fee requires only a majority vote.

Dan Walters (Sacramento Bee - <http://www.sacbee.com/news/politics-government/politics-columns-blogs/dan-walters/article85640732.html>) theorizes that doing nothing might make fixing our roads such a disaster that the legislature would be forced to act. He said, "One could argue that something is better than nothing, but if the something consumes all the political energy and makes further progress impossible for at least 10 years, maybe we should allow the crisis to reach the stage where doing a real fix is inescapable. Maybe doing a little bit is just political cover.

Walters continues, "It should be noted, too, that this tokenism, if enacted, would do nothing about expanding capacity to handle the inevitable increase in traffic that accompanies population growth. We are already No. 1 in congestion, but the prevailing ethos in Sacramento, as laid out in a new Brown administration transportation plan, is to avoid adding capacity, in hopes of compelling Californians to shift from cars to mass transit – even though transit systems are, overall, losing patronage, not gaining it."

And Walters noted that the Republicans don't want to vote for new taxes to fund improvement. He says, "Republicans appear to be demanding reforms, such as an overhaul of the California Environmental Quality Act, although it could merely be an excuse to avoid voting for taxes. However, Democrats are unwilling to change CEQA, even as they give certain favored projects – including sports arenas and a new legislative office building – exemptions. It's really quite a mess – traffic gridlock on roadways, confusion in the public and political gridlock in the Capitol."

And who could disagree with the assessment?

#### And Whose Hand is in Your Pocket Next?

The state has a surplus and the budget is approved. But... there are many new proposals to raise taxes and fees coming this November. Feeding the alligator is a full time job in Sacramento!

In [California Legislature approves \\$171 billion state budget](http://www.latimes.com/politics/la-pol-sac-california-pass-budget-20160615-snap-story.html) (by Chris Megerian, Los Angeles Times <http://www.latimes.com/politics/la-pol-sac-california-pass-budget-20160615-snap-story.html>) he reveals that the budget adopted is not sustainable and there are several efforts to bring in new revenue. Megerian says, "The governor successfully convinced lawmakers to stash an extra \$2 billion into the rainy-day fund, bringing the total to an estimated \$6.7 billion by next summer. The budget includes another \$1.75-billion cushion in case revenue runs lower or spending is higher than expected." But he notes, the need for more revenue is producing numerous ballot measures for the fall election.

"One measure," he says, "supported by the California Teachers Assn., would extend higher taxes on the wealthy, producing an estimated \$5 billion to \$11 billion per year. The money would go to public schools, community colleges and government health programs. The taxes were originally raised by a ballot initiative, Prop 30, that Brown championed in 2012, which was supposed to be temporary."

“Another measure would increase the tax on cigarettes by \$2 per pack, raising an estimated \$1.1 billion to \$1.6 billion in revenue annually. It’s supported by labor unions and Tom Steyer, a deep-pocketed Democratic donor and environmentalist, and it’s intended to boost funding for health care and anti-smoking efforts.”

Megerian adds, “A third budget-related measure already has qualified for the ballot: a proposal to authorize \$9 billion in bonds to build and renovate schools and community colleges. The state would incur an estimated \$8.6 billion in interest costs over 35 years, and annual payments were estimated at \$500 million.”

## California Now 6<sup>th</sup> Largest Economy in the World

Alison Vekshin, in [California Overtakes France to Become Sixth-Largest Economy](#), (Bloomberg Politics, June 14, 2016) tells how California has overtaken France as the world’s sixth-largest economy, fueled by strong growth and the U.S. dollar’s gains against foreign currencies, state data released Tuesday show. The most-populous U.S. state, with a gross domestic product of \$2.5 trillion, has also eclipsed recession-plagued Brazil.

“This is the result of both good growth in California and exchange-rate movements of the U.S. dollar versus other currencies,” said Irena Asmundson, chief economist in the California Department of Finance. California grew by 4.1 percent in 2015, compared with a 2.4 percent increase for the U.S. and 1.1 percent for France, Asmundson said.

Governor Jerry Brown, 78, is running the state during an economic turnaround driven by technology companies including Facebook Inc. and Apple Inc., along with agricultural and manufacturing industries that lead the U.S. Since taking office in 2011, Brown steered the state away from fiscal turmoil and persistent deficits to budget surpluses.

Vekshin says, “Last year, California created the most jobs of any state, more than the second- and third-most-populous states Florida and Texas combined. Four of the world’s 10 largest companies are based in California, including Alphabet Inc. and Facebook.”

The impact of Brexit is outlined by the California Chamber of Commerce. “California has a lot at stake,” Allan Zaremborg, CalChamber President and CEO. “We are the sixth largest economy in the world and a major trading and investment state, and no one in California can be immune from dramatic changes in the international economic structure. “This will probably make America and the dollar safe havens for international investments, which unfortunately could make California exports more expensive. Finally, because of California’s reliance on the income tax, market volatility can put the government’s revenues at risk, and that is one more reason to have an orderly transition.”

The United Kingdom is California’s 10th largest export destination, with over \$5 billion in exports in 2015. Computer and electronics products accounted for approximately 26.5% of exports – more than \$1.3 billion. Transportation equipment brought in \$667 million, or 13% while both chemicals and non-electrical machinery each accounted for approximately 8.5 % of the total, with over \$ 436 million in exports each. In 2015, imports from the United Kingdom to California were approximately \$4.5 billion, with top categories being transportation and computers.



California exports to the European Union totaled \$29.2 billion in 2015. California is the top exporting state to Europe. Computers, electronic products, chemicals, miscellaneous manufactured commodities, and transportation equipment are our leading export sectors to the region. European Union countries purchase 17.6% of all California exports.

## Members in the News

### **Sonoma State University President Ruben Armifiana Named Grand Marshal of Toyota/Save Mart 350**

Sonoma State University president Ruben Armifiana, who will retire as the longest-tenured president of the California State University system on June 30, has been named Grand Marshal of the Toyota/Save Mart 350 NASCAR Sprint Cup Series event at Sonoma Raceway.

### **Redwood Credit Union Offers Free Document Shredding Event in Marin**

“Shred-a-Thon” helps community protect confidential information

### **Sonoma State University kicks off groundbreaking of new Wine Spectator Learning Center**

The new structure will be repurposed from the University Commons. The 15,000-square-foot facility will have three state-of-the-art classrooms, some multimedia venues to host seminars and events, a student commons, a faculty-industry hub, and a café.

### **Sonoma Raceway Banners Repurposed as Accessories**

The company, Sonoma-USA, launched a Kickstarter campaign Wednesday to show off its new products and help build business.

### **College of Marin Offers Exciting Summer Programs!**

College of Marin to offer two summer programs

### **Skywalker Ranch Properties Big Rock Ranch Project Approved**

Filmmaker George Lucas received the green light Tuesday to convert 61,162 square feet of office space at his Big Rock Ranch office complex in Lucas Valley into 57 guest units.

### **Redwood Credit Union Wins Four Industry Marketing Awards**

RCU Marketing Department Recognized for Excellence in Four Categories

Read more online at [www.northbayleadership.org/news](http://www.northbayleadership.org/news)



## Who We Are

Over 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 47 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](mailto:info@northbayleadership.org)

[www.northbayleadership.org](http://www.northbayleadership.org)