



A Blueprint to Renew California:

REPORT AND RECOMMENDATIONS PRESENTED BY THE
THINK LONG COMMITTEE FOR CALIFORNIA

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*We were honored to have Matt Fong's active participation until his passing

After a year of deliberations, the Think Long Committee for California presents here its integrated set of proposals that we believe will update and modernize the state's broken system of governance.

At a time when political leaders in both Sacramento and Washington seem hopelessly mired in gridlock, the Committee has shown that difficult bi-partisan compromise can be reached if politics is set aside and the public interest is put first.

No government official appointed this Committee. It was not sponsored by any special interest lobby. We came together only as a group of concerned citizens who believe in California's promise.

My thanks first of all goes to the Committee members themselves. They vigorously engaged in the issues over monthly meetings and did the hard work of figuring out a path forward for California. It was not easy to bridge our philosophical divides, especially on the tax plan. But in the spirit of pragmatism and with a long-term perspective that we believe should once again characterize California's political life, we were able to do so. Special thanks goes here to Bob Hertzberg, Gerry Parsky and Willie Brown who headed the tax reform working group and Ron George and Gray Davis for their work on the Citizens Council.

We were honored to have Matt Fong as one of our members. His dedication to public service and the effort he made to participate as part of Committee was an inspiration to us all.

Thanks also goes to the tireless teamwork of Mike Genest, Tim Gage, Brad Williams and Peter Schaafsma who brought their deep knowledge and long experience in state government to bear on our proposals. California Forward, with whom we share broad reform goals, and the James Irvine Foundation, helped fund the research efforts. Appreciation to Andrew Chang for his research support.

Maureen Dear's clear-minded approach and straightforward prose kept us apprised of all the constitutional issues. Julie Wright and Doug Henton's guidance on our jobs, infrastructure and workforce development report was invaluable.

Along with the California Strategies team, Joanne Kozberg's deft sensitivities made it all work by keeping the process moving in such a compressed time period, as did Steven Cahn and Jason Kinney's care with communications and writing.

Google Inc., The Broad Foundation and the James Irvine Foundation, generously hosted several of our meetings enabling us to meet both in Northern and Southern California.

We are very appreciative that Governor Arnold Schwarzenegger and Governor Jerry Brown took time from busy schedules to meet with us. Lt. Governor Gavin Newsom actively participated on our Jobs Task Force and shared with us his very considerable knowledge of the state's economy.

Our thanks goes to the public policy experts who presented their ideas to the Committee for our consideration. These include State Treasurer Bill Lockyer, Legislative Analyst Mac Taylor, Jean Ross, John Cogan, Alan Auerbach, Mayor Antonio Villaraigosa, Michelle Rhee, Joe Nunez, John Mockler, Jim Mayer, Joseph Dear and countless others who we consulted over the months.

Finally, personal thanks to my colleague Nathan Gardels, who spent many hours working with the Committee, our team and important constituencies. He has devoted himself totally to this and other NBI projects. Appreciation, as well, to NBI Executive Director Dawn Nakagawa, who has capably supported all NBI efforts.

This report represents our best efforts for remedying what ails California governance. We hope the public agrees and supports the ideas we have put forth when we take initiatives to the ballot in November 2012. Many of the proposals do not require ballot initiatives. Our hope is that they will prompt debate among citizens and action by the Governor and legislature.



Nicolas Berggruen,
Chair, Think Long Committee for California

Rebooting California's Democracy:

Leaving Gridlock Behind with a Bipartisan Path to the Future

After a year of deliberation and consultation with an array of experts, as well as state and local officials (see list in Appendix), the Think Long Committee for California proposes the following set of integrated structural reforms to “reboot” California’s dysfunctional democracy by installing a new civic software.

While setting in place a long-term framework for good governance over the coming decades, our plan would:

- Create a positive business environment for job creation
- Reduce the personal income tax across the board while retaining California’s progressive tax structure
- Fund education by an additional \$5 billion while fostering reform
- Provide \$2.5 billion to the University of California and California State University systems to keep higher education within reach of California’s families
- Empower county governments and help reduce public safety costs by providing \$1.5 billion in additional funding
- Provide \$1 billion to California cities in block grants to meet their local needs
- Start paying down the state’s “wall of debt” and stabilizing the boom-and-bust budget cycle
- Give Californians real power to make government accountable
- Improve the process for making long-term economic policy

Our integrated set of recommendations range from common sense practices such as a Rainy Day reserve fund to multi-year budgeting; two-year legislative sessions with one year dedicated to oversight; transparency on initiative funding; K-12 school reform; aligning the skills and educational outcomes of California’s master plan institutions with the needs of our cutting edge industry; and speeding up regulatory approval to foster job creation.

But the core of our proposal has three parts:

• *LOCAL EMPOWERMENT. Returning decision-making power and resources when appropriate from Sacramento to localities and regions where the real economy functions and government is closer to the people – and thus more responsive, flexible and accountable.* By generating \$1.5 billion annually for counties to help cover the costs of realigned public safety responsibilities, our plan will help reduce the high costs associated with our state prisons. One billion annually would also be dedicated to cities as block grants for infrastructure or other locally determined needs.

• *AN INDEPENDENT CITIZEN’S WATCHDOG. Creating an independent watchdog for the long-term public interest as a counterbalance to the short-term mentality and special interest political culture that dominates Sacramento.* This impartial and non-partisan Citizens Council for Government Accountability, which would be empowered to place initiatives directly on the ballot for public approval, will ensure that the public’s priorities – excellence in education, world-class infrastructure, a sustained quality of life, opportunities for good jobs and the strengthening of a vibrant middle class through boosting the state’s competitiveness in today’s global economy – remain at the top of the public policy agenda over the long-term. As a non-political quality-control body, the Citizens Council will ensure that California taxpayers get their “return on investment.”

• *A MODERN, BROAD-BASED TAX SYSTEM. Updating California's tax system to mirror the real composition of our modern service and information economy and provide a stable, broad-based tax system that is sustainable over the long term.*

While maintaining California's progressive income tax structure, we would reduce rates for every bracket and reduce the sales tax on goods from 5% to 4.5% while broadening the sales tax at a 5% rate to apply to services, which are more discretionary. Education and medical care would be exempted.

Those with low incomes would receive a sales tax rebate. Those earning \$45,000 and under would pay zero income taxes. The working middle class with incomes up to \$95,000 would pay only 2%. The homeowners' exemption and renters' credit would be doubled. Those making above that amount would pay 7.5%. Because of the 1% surcharge for mental health on millionaires, they would pay a top rate of 8.5%.

A family with income of \$90,000, which would have paid \$1,449 in personal income taxes under the current system, would now pay \$832 – a more than 40% reduction in their state personal income tax. Overall, the reform will maintain California's progressive tax system. Households with Adjusted Gross Income of less than \$20,000 per year would pay an average of \$71 more in direct and indirect state taxes, while those earning more than \$1 million would pay an average of \$11,478.

This combination of cutting the personal income tax and broadening the tax base will help stabilize the boom and bust cycle of the budget while generating \$10 billion in new revenues annually to start paying down the state's "wall of debt," and provide funding for K-14 schools, for CalState and the University of California and for local public safety and other local needs.

Small and medium-sized business proprietorships, "S" corporations and LLC's are the backbone of the California economy. Unlike the large "C" corporations, profits and losses are "passed through" and taxed at the personal income tax rate. Therefore, a PIT cut will boost job-creating business prospects. For example, a business with a taxable income of \$480,000 that

would have paid \$39,452 in income taxes under the current system will pay \$33,114 under the proposed system.

Further, the mandatory single sales factor would be imposed on corporations while, at the same time, California's corporate tax, one of the highest in the nation, would be reduced to make it competitive with other states and foster an improved business climate.

1. EMPOWERING LOCAL GOVERNMENT AND REGIONS

The Committee believes that to make government more efficient and accountable for the long-term, we must identify the core services that government should provide, and then carefully realign funding and responsibility for those services to the appropriate jurisdictions.

Further, our long-term job plan would make state government a consistent and welcoming partner for business. Since California is an economy of distinct regions, any statewide economic strategy that seeks to bolster broad-based prosperity and a healthy middle class of skilled workers must be built "from the bottom up."

While the Committee embraces the principles of de-centralization, devolution and realignment of revenues and responsibilities, we have not endeavored to propose precisely how that should be accomplished. This will be a years-long process involving the Governor, the legislature and city and county governments. It is one that must include all affected parties.

The Committee endorses the Legislative Analyst's Recommendations to Promote the Long-Term Success of Realignment, as proposed by Governor Brown and the legislature, which include:

- Develop local funding allocation formulas with an eye towards the long-term
- Simplify the structure of the realignment accounts to provide financial flexibility

- Enact statutory changes to provide counties with appropriate program flexibility
- Ensure that local fiscal incentives are aligned with statewide goals
- Promote local accountability
- Clearly define the state's role and funding responsibilities
- Avoid state-reimbursable mandates

As detailed in our tax reform plan, we propose an update of California's tax system that will ensure a stable flow of funds to localities to cover their responsibilities, particularly with respect to public safety and infrastructure. If implemented, our plan would generate \$1.5 billion annually for counties to cover public safety realignment. One billion dollars annually would flow to localities as block grants for their discretionary use.

II. THE CITIZENS COUNCIL FOR GOVERNMENT ACCOUNTABILITY

California is caught in a downward spiral. According to the California Deliberative Poll conducted in June 2011, the public believes that nearly 40 cents of every dollar is wasted because government performance is not evaluated or accountable. The public therefore understandably resists investing public resources in the future if it cannot be assured its hard-earned tax dollars are being used to improve Californians' lives. As a consequence, the world is moving on and California is being left behind.

California desperately needs a return to good governance. This means, above all, restoring the public's trust in government's ability both to act effectively, responsively and accountably in the long-term interests of all Californians and to move away from the short-term politics of Sacramento.

The Think Long Committee believes it is not enough for elected political figures to pledge they will pursue good governance. To ensure accountability and to balance the short-term politics of Sacramento, good governance

should also be entrusted to a body of citizens invested with the power to demand performance from their elected officials as well as the power to place initiative proposals, addressing reform in areas such as jobs and education, directly before their fellow Californians for approval.

To this end, the Think Long Committee proposes to establish a Citizens Council for Government Accountability. As this would involve amending the California Constitution, the Committee intends to qualify an initiative measure.

1. PURPOSE: The Citizens Council for Government Accountability – an independent, impartial and non-partisan body – would be established to develop a vision encompassing long-term goals for California's future. It would be tasked with charting, coordinating, shepherding and sustaining an integrated strategy for the state aimed at creating educational excellence, world-class infrastructure, environmental quality and a competitive business climate that generates high-wage jobs. Its purview would include long-term capital spending projects, infrastructure, water, energy and the state educational master plan. The Council also would be tasked with promoting performance and ensuring accountability of state government so that it aligns with and supports achievement of this vision.

In short, its purpose would be both foresight and oversight, balancing the short-term horizon of the legislature and Governor with a long-term perspective that extends beyond political cycles. These goals would ensure that California remains a welcoming place where families and individuals want to reside and work.

2. ROLE AND POWERS: As realignment takes hold in California and more responsibilities move to localities, a leaner state government should increasingly focus on two areas of competence:

- Setting standards, oversight of performance at all levels of government, ensuring fairness across jurisdictions
- Long-term strategic concerns

The Council would play a central role in both oversight and long-term planning. A central function would be to provide a forum where the state's legislative and executive branches, regional organizations, counties, cities, master plan educational institutions and leaders from business, labor and the environmental community would work together on a sustained strategy that transcends election cycles, partisanship, limited organizational boundaries, and short-term thinking.

To fulfill its role the Council would have the following powers:

- Placing initiatives directly on the ballot

The Council would be empowered to develop and place initiative proposals directly on the ballot. This would assist the residents of California in developing a more active voice regarding the long-term future direction of the state, rather than be faced, as is currently true, with only disconnected single-issue or special interest choices. The Council would also work with elected officials, receiving and monitoring information, and proposing legislation.

- Authorization to direct the Secretary of State to publish the Council's comments and positions on relevant proposed initiatives and referendums on the election ballot

The Council would be authorized to comment on relevant initiative proposals with respect to their long-term impact on the state's strategic priorities.

- Subpoena power

The Council would be granted the same subpoena power currently held by the Little Hoover Commission – i.e., “to issue subpoenas to compel the attendance of witnesses and the production of books, records, papers, accounts, reports and documents.”

As such, the Council would not be an added layer of bureaucracy, but an extended voice and proactive watchdog for the long-term public interest and for quality control of government.

3. **MEMBERSHIP/TERMS/VOTING RULES:** The Council would be composed of 13 voting

members and four ex-officio non-voting members. Nine members would be appointed by the Governor. The Senate Rules Committee would appoint two members, one from each of the state's two largest political parties. The Speaker of the Assembly would appoint two members, one from each of the state's two largest political parties. At least two of the Governor's appointees would not be registered in either of the state's two largest political parties. The four ex-officio and non-voting members would include the Director of Finance, the State Treasurer, the State Controller, and the Attorney General, whose duties would include the analysis of initiative proposals.

The Council would seek cooperation with all state agency heads.

Terms would be limited to two six-year staggered appointments. A model for setting up staggered membership can be found in Article VI, section 8, subsection (c) of the California Constitution, which governs the Commission on Judicial Performance. The length of the term is designed to encourage a long-term perspective on issues affecting our state and to cross electoral cycles so as to insulate against political influence or patronage. Members of the Council would receive per-diem compensation and would be reimbursed for all reasonable and necessary expenses incurred in the performance of their duties.

A simple majority of the Council vote would be required to place a statutory initiative proposal on the ballot and a two-thirds vote would be required for a constitutional amendment.

Any member of the Council could be removed by a two-thirds vote of the Senate for malfeasance or corruption.

4. **QUALIFICATIONS:** At-large appointees would be distinguished residents of California with varying experience – such as prominent scholars, former governors, legislative leaders, former justices or judges, university presidents and leaders from industry, labor and community affairs, as well as young business or social entrepreneurs – who have demonstrated a commitment to the state

and are broadly reflective of the economic, cultural and social diversity of California.

Strict conflict-of-interest rules would apply to prevent actual or perceived improprieties. The state has explicit conflict-of-interest laws (California Government Code section 87103) that apply to public officials, and the Council would be required to comply with those laws. Thus, its members would be required to file annual reports, as well as statements of economic interest disclosure documents, both upon assuming and leaving office.

Appointees would be subject to restrictions modeled after the code that apply to judges regarding avoiding the appearance of political bias or impropriety, specifically section A(3) of Canon 5 of the California Code of Judicial Ethics. To this end no appointee shall personally solicit funds for a political organization or candidate; or make contributions to a political party or political organization or to a candidate in excess of five hundred dollars in any calendar year per political party or political organization or candidate, or in excess of an aggregate of \$1,000 in any calendar year for all political parties or political organizations or candidates.

- 5. PUBLIC PARTICIPATION:** The Council would hold regular hearings to obtain public input on its policy proposals and also maintain a “social media window” for direct public consultation and participation.

In short, the residents of California would have direct input in the Council’s policy-making and thus in the Council’s decisions regarding which of the Council’s initiative proposals would be placed before the electorate.

Finally, the Council would facilitate public participation by making use of available technology, including new advances in cloud computing, to render all government operations more accessible and transparent to California’s residents.

- 6. STAFF:** The Council would employ its own independent staff, exempt from civil service

hiring regulations, and have the ability to draw on “loaned” executives and analysts (public and private) to ensure adequate expertise and integration with state and local agencies.

- 7. FUNDING:** The Council would have a continuous base appropriation of no less than \$2.5 million indexed to inflation each year, and this sum would be included each year in the Governor’s proposed budget. This amount is deemed necessary for the Council to attract and maintain a high-quality professional staff. Council members would only receive per-diem expenses. In addition, the Legislature would be able to appropriate whatever additional amounts it deems necessary. This approach – a guaranteed base amount – would protect the independence of the Council because it would not be subject to threatened reductions by the Governor or Legislature.

- 8. Integrating Foresight – The Golden State Strategic Agenda:** California is burdened with numerous planning agencies and planning requirements. The value of the resulting disparate efforts is limited. They are not integrated into a unified plan, and do not drive decision-making, because they are not championed by effective leadership.

The Council would therefore be charged with reviewing regional and statewide plans on an on-going basis and making recommendations for prioritization so these plans are integrated into a common roadmap – the *Golden State Strategic Agenda*.

The Council would be able to draw on the resources of the various governmental institutions involved in planning. To this end the Committee proposes that the following institutions be charged with working with the Council in developing the Golden State Strategic Agenda:

- **Infrastructure.** The Council, with the support of the Department of Finance, would be given responsibility for coordinating the California Infrastructure Plan with the overall state strategic plan.

- Environmental Goals and Policy. The Office of Planning and Research is required to produce a report to guide the state's growth and development, and this responsibility would be coordinated with the Council and integrated into the overall strategic plan.
- Workforce / Human Capital. The Council would coordinate with the relevant education and workforce agencies to develop a workforce that meets the needs of industry, social services, labor, education, non-profits and other sectors of the economy.
- Energy. The Energy Commission is required every two years to produce a comprehensive energy strategy. This plan should be developed in coordination with the Council, and the Council should integrate the energy plan into the overall state strategic plan.
- Water. The Department of Water Resources is required to produce a state water plan (Bulletin 160) every five years. DWR should develop the plan in coordination with the Council, and the Council should integrate it into the strategic plan.
- Transportation. The Department of Transportation produces a comprehensive transportation plan for the state with a 20-year time horizon. Caltrans should develop this plan in coordination with the Council, and the Council should integrate it into the strategic plan.
- Strategic Growth Council. This cabinet-level body coordinates executive branch activities related to "smart growth," administers grants, and provides technical support to local governments. It would advise the Council on creating an overall integrated plan.

9. Integrating Oversight: The Council would be assisted by the Little Hoover Commission and the Bureau of State Audits in obtaining detailed review of state programs. The following is therefore proposed:

- Little Hoover Commission. The Commission's authorizing statute would be amended

to encourage the Commission, as part of its reviews, to assess the effectiveness of agencies, including their efforts to achieve the goals and objectives of the Council's strategic agenda.

- Bureau of State Audits. The Bureau, as part of its audits, would be encouraged to assess the effectiveness of agencies, including their efforts to achieve the goals and objectives of the Council's strategic agenda.

III. A BROAD-BASED TAX SYSTEM FOR THE FUTURE

Purpose

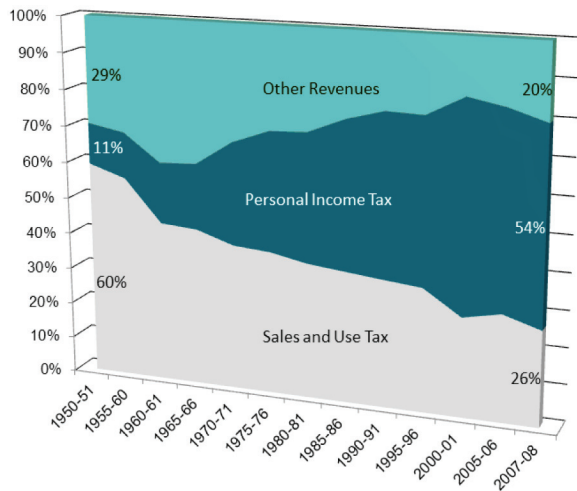
This initiative is designed to position California for future economic growth by reforming the tax code to improve the business climate, create budget stability and increase funding for state programs critical to long-term economic growth.

Problem

There are many causes for California's chronic budget shortfalls. Some of these are beyond the control of state policy makers, such as the international and national business cycle and the spending pressures that result from an aging population. State government itself, however, bears some of the blame because of its volatile and outdated tax code and its inability to make sound, long-term budget decisions. Together these problems helped create a boom-and-bust budget cycle in perennial crisis, massive state debt and anemic economic and jobs growth.

Over the past 60 years, California's economy moved from one that was fueled by agriculture and manufacturing to one that is increasingly driven by services. As this occurred, our tax revenues became less reliant on sales and use tax and more driven by Personal Income Tax. In 1950, Sales and Use Tax comprised almost 60 percent of all state revenues; today, it accounts for about 25 percent. Personal Income Tax accounted for a little more than 10 percent of total state revenues in 1950; today, it accounts for more than 50 percent.

Figure 1
California State Revenues by Source



SOURCE: California Department of Finance

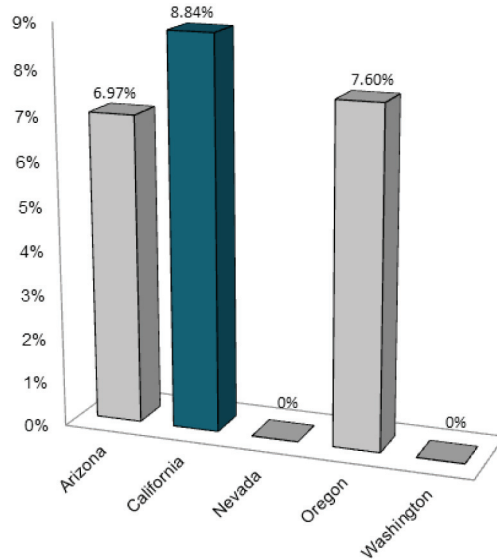
This came to a head in fiscal year 1999-2000 when the dot-com boom resulted in massive, but temporary, increases in capital gains and stock options. In this environment, a tax code overly reliant on the most volatile component of the economy – high-end earners – caused revenues to soar by 23 percent in a single year.

State policy makers made the mistake of “bad practices in good times” by using the temporary surge in revenue to permanently expand spending commitments and further narrow the tax base. When the inevitable crash came, the state resorted to one-time fixes, borrowing and gimmicks to address the shortfalls that plagued California for the remainder of the decade, thereby helping to create what Governor Brown has termed a “wall of debt” and a long-term structural budget deficit.

Between fiscal years 2007-08 and 2008-09, just as the latest recession was starting to be felt, the state’s economy, as measured by Personal Income, grew at an anemic 3 percent, but General Fund revenues plummeted by 19 percent. This was the flip side of the revenue volatility associated with a tax code overly reliant on one segment of the economy.

Beyond national and international conditions, California’s recovery from recession is being impeded by the state’s high corporate tax rate in part and because of the uncertainties created by the state’s budget debt and structural deficit. Today, California has the highest corporate tax rate when compared to the top tax rates of other western states. In the longer term, economic growth also depends on stable and adequate funding of services such as education and public safety.

Figure 2
Comparison of Top Marginal Corporate Tax Rates



SOURCE: Federation of Tax Administrators, February 2011

Solution

To find a way to reduce the wall of debt, reduce budgetary volatility and improve the state’s business climate while increasing revenues to ensure a return to stable and adequate funding of critical services, the Think Long Committee believes that we need to reform and update the present tax code.

California’s \$2-trillion economy is no longer dominated by manufacturing and agriculture, but is primarily composed of services and information activities. Yet, California’s tax code is so outdated that nearly \$1 trillion – that is, roughly half – of the state’s economic output is not taxed.

While we tax the sale of a donut eaten in a coffee shop, we don't, for example, tax the sale of legal, consulting, accounting or architectural services. In essence, those who produce goods such as donuts or machinery are subsidizing those who produce services and information.

To address these issues, the Committee proposes to broaden the tax base while reducing personal income taxes across the board and bringing the corporate rate down to a competitive level in line with other states. However, the new tax code will have to produce a sufficient increase in revenues to reduce the state's budgetary debt and in the longer term provide stable and growing funding for the services that are essential to long-term economic growth such as education, public safety and investment in infrastructure.

With these goals in mind, the Think Long Committee proposes the following reforms:

- **Broaden the tax base to include services.**

- The new sales tax on services would be at a rate of 5 to 5.5% and would apply to all services, to businesses as well as to consumers, except for health care and educational services. Current projections show that the rate will need to be 5 1/8% to achieve the revenue gains targeted in the initiative. If the revenue increases turn out to be more robust than estimates, the rate could end up being less than 5%.
- To ease the transition to the new tax system, the tax rate would be phased in over a two-year period as follows:
 - 3% effective July 1, 2013, allowing 7 months after the enactment of the initiative on the November 2012 ballot for tax officials, businesses and consumers to prepare for the new tax.
 - 4 % effective January 1, 2014, but the rate could be as high as 4.5%.
 - 5% effective January 1, 2015, but the rate could be as high as 5.5%.

- **Broaden the tax base by reducing deductions from the Personal Income Tax (PIT) and lowering tax rates on the PIT, the corporation tax (Corp) and the sales tax on goods**

- The measure would eliminate most credits and all itemized deductions except for mortgage interest, property taxes, charitable contributions and R&D. Taxpayers would receive an expanded standard deduction, equal to \$45,000 for joint filers (\$27,500 for single filers).
- It would also make mandatory the use of the single sales factor formula to apportion multi-state corporate profits.

- **Reduce marginal tax rates in the PIT while simplifying the code, reduce rates imposed under the corporation tax and the sales tax on goods.**

- The current tax rate structure would be streamlined, with the number of tax brackets being reduced to two.
- Under the revised structure, beginning in 2014 there would be no personal income tax on joint filers with incomes up to \$45,000 because of the standard deduction (\$45,000 joint; \$27,500 for single filers). A tax rate of 2 percent would be applied to income of joint filers up to \$95,000, and a 7.5% rate would apply to incomes above that amount. The 1% surcharge for mental health on those with incomes over \$1 million would remain, making that effective rate 8.5%.
- Low-income households would receive a sales tax rebate offsetting most of the direct and indirect impact of the new sales tax on services on the average household with similar income.
- The tax rate on corporate income would be reduced from 8.84% to 7% – below the national average.

The reduced PIT rates will have a positive impact on small and mid-sized businesses, most of which are organized as proprietorships or "pass-through"

businesses, such as S-Corps and LLCs and thus pay personal income tax instead of corporate tax.

While reducing all tax rates, these changes would retain the PIT's progressive nature. Overall, the proposal would lower the PIT paid across all income groups of taxpayers. The state sales tax rate on goods would be lowered from 5% to 4.5%.

Additionally, we would double the homeowners' property tax exemption from \$7,000 to \$14,000 with an equivalent expansion of the renters' credit.

On average, households with adjusted gross incomes up to \$1 million would pay additional direct and indirect taxes ranging from \$71 to \$806 per household. Households earning more than \$1 million would pay an additional \$11,478.

The Committee's proposal would maintain the state's progressive tax structure with the top 5 percent of earners paying 62 percent of all personal income tax collected by the state.

- In the first year, revenue gains could only be used to repay the state's budgetary debt in two key areas:

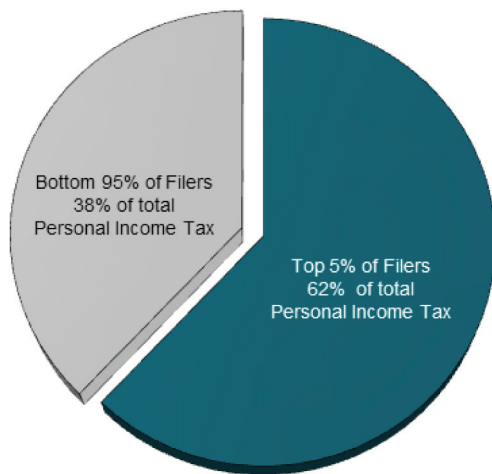
- In 2005, the people authorized Economic Recovery Bonds (ERBs) as a way to refinance the debt from the prior years. Ultimately the state sold the entire \$15 billion of ERBs. The outstanding balance will be down to about \$4.3 billion by 2013-14 and the first priority for the increased tax revenues from this initiative will be to retire the remaining balance of this budgetary debt.
- In the budget and cash-flow crises of the last few years, the state delayed payments to K-14 schools, required by Proposition 98, from one year to the next, totaling over \$10 billion. The next priority for the revenues generated by this initiative will be to increase funding for schools by \$5 billion annually, with the first year's payment going to help reduce the amount of deferred payments.

- Beginning in 2014-15, the additional \$5 billion going to K-14 education will be provided in exchange for eliminating another major piece of the state's budgetary debt, the Proposition 98 maintenance factor. While the maintenance factor represents an obligation to permanently increase K-14 education funding by about \$10 billion, this initiative exchanges that long-term and uncertain future obligation for a near-term, permanent, discretionary increase in funding for schools. This amount will grow over time as an improving economy increases the revenues from the new sales tax on services.

- Beginning in 2014-15, the remaining \$5 billion in new revenue will be allocated as follows:
 - Up to \$2.5 billion for higher education.
 - Up to \$1.5 billion to counties for the recently enacted Public Safety realignment.
 - Up to \$1.0 billion to cities as unrestricted revenue

Figure 3

Estimated Percentage of Personal Income Tax That Would Be Paid by Top 5 Percent of Filers

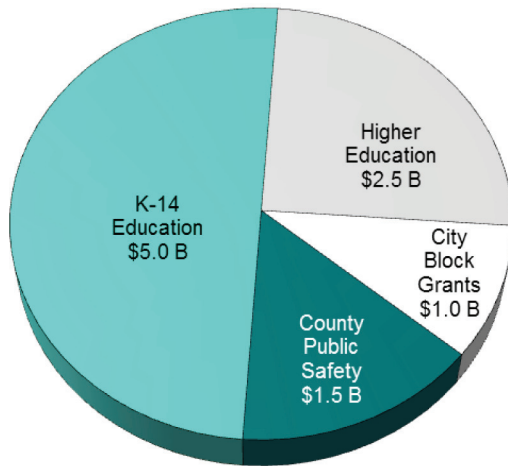


SOURCE: Think Long Committee

With the available new revenues – which we expect to reach \$10 billion when fully phased in – we propose the tentative following uses:

Figure 4

Summary of Additional Funding
(Total: \$10 Billion)



SOURCE: Think Long Committee

- The remainder of the increased revenues will go to offset the revenue losses resulting from the tax reforms.

IV. BUDGET AND OVERSIGHT REFORM

California's budget and budget process no longer operate reliably to support critical public programs. The general fund budget, which is over-reliant on personal income tax and capital gains, is notoriously volatile. As California's economy swings from boom to bust with the national and international economies, the state's budget swings from being flush to multi-billion dollar deficits. Health, social service and education programs funded in good times have to be cut back in bad times – when they are needed most.

Instead of adopting common sense reform – like a rainy day fund reserve already in place in many states – California lawmakers have exacerbated budget problems through poor planning in good times, and through smoke and mirror gimmicks or borrowing in bad times.

Further, the review or oversight of state programs is insufficient to ensure that California taxpayers are getting the results promised by their representatives. The Legislature spends little time engaged in a constructive dialogue with the Executive Branch over the goals of state programs and how to ensure that programs are achieving those goals.

The Think Long Committee has developed a set of budget reforms that aim to change the “budget culture” in Sacramento to focus on long-term results and performance.

1. **Rainy Day Fund.** The boom and bust cycle of California's revenue system creates a highly uncertain climate for business, leaves a frayed net of social services, and plays havoc with education funding. This system contributes as well to the reliance on budget gimmicks and temporary solutions during lean times because, as it has demonstrated repeatedly, the Legislature has little discipline when it comes to restraining spending when revenue growth is high.

A Rainy Day Fund is a straightforward, common-sense answer to these problems. A pending ballot measure, Assembly Constitutional Amendment 4, is scheduled to go before the voters in 2014. This measure seeks to accomplish two important goals: create and protect a Rainy Day Fund for the state's budget and prohibit unexpected revenue spikes being spent for ongoing state programs.

The reserve will, first, help to stabilize the budget, and, then, be available only for one-time purposes such as investment in infrastructure projects. The Committee advocates the Rainy Day Fund as proposed in ACA 4 be included along with its other proposals on the ballot for November 2012, and not be delayed to 2014.

2. **Multi-year budgeting.** The Committee supports efforts to adopt a long-term perspective on state budgeting. Too often, a supposedly balanced budget is really a fiction and obscures the problems that will arise in later years due to the use of one-time solutions, budget gimmicks and rosy estimates. While multi-year budgeting has proven ineffective in the past because of the state's highly volatile economy, in the future a

multi-year budget plan would establish a more predictable and stable budgeting process if used in concert with a Rainy Day Fund and the Committee's tax reform proposals.

The Committee is supportive of requiring the budget to be balanced over a two-year period, and of publication of revenue and expenditure estimates for the succeeding three years. Reform group California Forward has developed a proposal that effectively addresses these objectives that the Committee supports. The Committee is also supportive of efforts to institute performance-based budgeting to ensure that the state's revenues are expended as effectively and efficiently as possible.

- 3. Legislative oversight in two-year session.** A Constitutional Amendment is needed to require the Legislature to focus on budget oversight. To insure that state programs are meeting their intended goals, the Committee proposes having the first year of the two-year session focus on regular session legislation, and the second on budget oversight and performance review, with only urgency legislation allowed. An exception would be made for legislation that passes its house of origin in the first year.

In addition, the Committee believes that oversight and accountability in the legislative process would be improved by requiring that all regular session legislation be in print for 7 days prior to passage in either house. This would effectively establish an amendment deadline of one week prior to the end of a session, so that bills not amended by that deadline could only be considered by the house in their then-current form. The practice of "gutting and amending" legislation has become too prevalent and prevents any adequate vetting of legislation by affected parties. A shorter period in print of 3 days should be required for legislation accompanying the budget and the budget itself. Emergency legislation could still be enacted in a special session without meeting these requirements, as has been done in the past, when necessary.

- 4. Pay-Go for legislation and ballot measures.** California has trouble restraining its spending, both in the Legislature and at the ballot box. Many proposals are enacted into laws that were never considered in the budget process, where ideally the tradeoffs and priorities of the state would be reconciled. In order to limit the damage caused to state finances by off-budget spending, the Committee supports the concept of Pay-Go.

The principle behind a Pay-Go proposal is that proponents of legislation or initiatives costing more than \$25 million would have to include other provisions sufficient to credibly establish how the cost of the measure would be offset.

For example, an initiative that required new spending for parkland operations might include a provision increasing vehicle license fees. A measure granting a tax credit might be offset by a provision eliminating another special tax credit of roughly the same value. In other words, if an initiative measure is determined to cost more than \$25 million, after considering the proposed offsets, it would not be placed on the ballot. If a legislative measure is determined to cost more than \$25 million because of insufficient offsets, it would not be allowed to pass either house. An exception would be made for legislative bond measures because of the importance of funding the state's infrastructure plans.

- 5. Modify term limits.** California's imposition of term limits, originally aimed at addressing problems the voters saw with having "career legislators," has had a number of unfortunate side effects, including the present dearth of expertise and knowledge among elected leaders. Allowing for longer terms for legislators, while still maintaining the voters' desire for an absolute limit on service, will improve the experience of elected officials' and the quality of their judgment but still keep them accountable to their electorates.

A June 2012 ballot measure, sponsored by Californians for a Fresh Start, a group including the Los Angeles County Federation of Labor and the Los Angeles Area Chamber of Commerce, would reduce term limits from 14 to 12 years, but allow an elected official to serve all 12

years in either the Assembly or the Senate or a combination of both. This measure is consistent with the Think Long view, and the Committee will support it.

V. INITIATIVE REFORM

The initiative culture as it exists in California today may resemble James Madison's worst nightmare.

Passions are inflamed rather than cooled.

Confrontation replaces compromise as minority factions (special interests) battle one another with rival initiatives. In 2009, Ronald George, at the time California's chief justice, worried publicly about the effect on liberty: "Has the voter initiative now become the tool of the very types of special interests it was intended to control, and an impediment to the effective functioning of a true democratic process?"

-The Economist, April 23, 2011

Abuse of the initiative process undermines the capacity of representative democracy to function effectively. The following proposals for reform are targeted at curbing these abuses to ensure that the initiative process remains a vital recourse of the public will – not a tool of special interests or an unwieldy blunt instrument for "budgeting at the ballot box." Set forth below are a series of reforms to the initiative process intended to improve the process and restore it as an instrument that can be used to serve the broadest interests of Californians. The Citizens Council for Government Accountability, proposed elsewhere in this report, provides for an innovative use of the initiative process also designed to further ensure that the initiative process remains a mechanism of good governance in the public interest.

1. Transparency. Voters are often unsure who an initiative's proponents and opponents are. The public would be better served by having clear information regarding the sources of support and opposition for ballot measure campaigns. The Committee proposes requiring the Secretary of State to include in ballot pamphlets a list of the five top contributors of \$50,000 or more in an initiative campaign (both in support and in opposition), and to provide the total amount of

their contributions. In addition, in the months following publication of the ballot pamphlet, the Office of the Secretary of State should be required to update this information regularly on its website.

2. Indirect Initiative/Legislative review when qualified. Given the complex issues faced by our society, efforts to bring about reform by initiative have inevitably been hampered by drafting errors. As history has shown, there have been a number of occasions when an initiative measure could have been better drafted and serious implementation difficulties avoided had it been possible to correct potential errors before placement of the measure on the ballot. The Committee supports the principle that the Legislature should work with initiative sponsors in a collaborative instead of confrontational spirit to achieve the best policy outcome – as long as the Legislature acts consistently with the objectives of the proponents.

The Committee supports a Constitutional Amendment to allow the Legislature to review pending initiative proposals and fix flaws, legal or otherwise, or propose an alternative version, contingent upon final approval by the proponents of the initiative measure. The Committee is also generally supportive of a Constitutional Amendment that would allow the Legislature to amend an initiative after adoption by the voters, in a manner consistent with the objectives of the initiative.

Article VI, Section 10, subdivision(c) of the California Constitution presently provides: "The Legislature may amend or repeal referendum statutes. It may amend or repeal an initiative statute by another statute that becomes effective only when approved by the electors unless the initiative statute permits amendment or repeal without their approval."

This constitutional provision should be amended to read: "The Legislature may amend or repeal referendum statutes. It may amend an initiative statute by another statute in a manner that furthers the purpose of the initiative, and may otherwise amend or repeal an initiative statute by

another statute that becomes effective only when approved by the electors unless the initiative statute permits amendment or repeal without their approval.”

The California Supreme Court made clear, in invalidating a legislative amendment to the initiative at issue in *Amwest Surety Ins. Co. v. Wilson* (1995) 11 Cal.4th 1243, that if an initiative states that any legislative amendment must be consistent “with the purpose of the initiative,” any action by the Legislature that constitutes an alteration rather than a clarification of the initiative, and does not further its purpose, will be invalidated. Presumably the courts would follow the same approach if the “furthers the purpose” language were contained in the Constitution rather than in an authorization contained in an initiative.

3. Number of signatures to qualify based on voters registered in the last general election.

Although the state’s population is steadily rising, the number of voters participating in the election process is not, so that it is becoming relatively easier to qualify an initiative measure. The number of signatures required to qualify an initiative should be based on 5 percent of registered voters eligible to cast ballots in the last gubernatorial election in the case of a proposed statute, and 8 percent in the case of a proposed Constitutional Amendment. The Committee also supports electronic signature gathering if the Secretary of State can credibly verify these signatures. The Committee further supports legislation to extend the time period allowed for the collection of signatures from 160 days to 365 days.

4. Allow ballot measures that amend the Constitution in general elections only.

The Committee supports the principle that amendments to the Constitution should be submitted to the electorate only in general elections, where there is a likely turnout of voters higher than at primary elections. A Constitutional Amendment is by definition something too important to be considered at a low-turnout election. Statutory measures should

continue to appear on both primary and general elections, in order to avoid “overloading” the general election ballot.

VI. JOBS, HIGHER EDUCATION AND ECONOMIC GROWTH

The Committee believes that restoring economic vitality and job growth to California requires both streamlining burdensome regulations on business and facilitating public investment in a well-educated workforce and infrastructure, from smart energy grids to the broadband information highways of the future.

A guiding objective of the state’s long-term strategy should be to build a vibrant, job-creating business climate that can sustain a solid middle class while continuing to make California a welcoming place where families and individuals will want to reside.

As it continues protecting California’s environment and working conditions, our state government must also be a proactive facilitator and partner for job-creating businesses, laying out the red carpet, rather than, too often, tying up potential growth with red tape.

Such an approach is essential to re-establishing a manufacturing base in California and for expanding exports in the coming decades when most growth will take place in emerging economies led by China.

The Think Long Committee proposes the following recommendations, drawn from its “Jobs, Infrastructure & Workforce” report (see Appendix), to start us down this path:

1. Streamlining / improving customer service.

A significant hindrance to business in California, one that is both real and perceived, is a scheme of regulations that are onerous and conflicting. While essential regulatory and permitting functions must be maintained, the state’s multiple layers of regulation, overlapping jurisdictions and disparate agencies – particularly when conjoined with federal and local regulation – make expansion or location of businesses time-consuming and costly.

The State can reduce the costs of doing business by eliminating duplicative and outdated government regulations. User-friendly, transparent and consistent regulations can foster economic growth by building confidence and certainty while reducing costly lawsuits and lengthy regulatory processes generated by unclear or conflicting standards.

To this end, we propose creating the position of a “one-stop permitting” ombudsman whose focus would be to improve the customer service experience of those doing or seeking to do business in California by simplifying permitting and cutting through red tape.

The recent enactment of AB 29 (Perez) is a promising first step consistent with the Committee’s proposal to consolidate disparate existing economic development functions into a strengthened central authority in the Executive Branch. Enacting SB 617 to strengthen the Administrative Procedure Act is another.

Serving as the single point of contact for business assistance, this new office would focus on offering “one-stop service” to companies seeking to locate and expand in California. Other states have successfully employed this approach. This office would also work with the state’s diverse economic regions to encourage them to develop and implement customized strategies focusing on each region’s unique challenges, mix of industries and distinct assets. It also would carry out the regulatory functions of an Office of Economic and Regulatory Analysis, as suggested by the Little Hoover Commission in its October 2011 report, “Better Regulation.”

2. Accelerating the CEQA permitting process.

California’s Environmental Quality Act (CEQA) is landmark legislation that has served over the years to protect California’s most precious and treasured asset.

Like any law or regulation, however, CEQA can be abused, and working through its regulations can be time-consuming and cause years of delay in job-creating projects.

The Committee believes that the balance between CEQA and new or expanded business opportunities can be enhanced by a series of reforms to the current law. These include:

- Limit “standing” by tightening current requirements. Petitioners should be able to bring a CEQA lawsuit only if they have, and can demonstrate in court, a legitimate and concrete environmental concern about a project, as well as the absence of a competitive commercial or economic interest on their part in the project.
- Allow challenges to local agency CEQA decisions to be filed directly with the Courts of Appeal. Provide expedited access to quickly resolve CEQA lawsuit challenges in the same way the appeal of decisions by the state Public Utilities Commission are handled (Calif. Public Utilities Code section 1759).
- Require that special training in CEQA matters be included in the mandatory continuing education already required for Court of Appeal justices. It would also be advisable that appellate research attorneys working with these justices on CEQA matters be required to have this subject included in their continuing education requirements. To fund this process, the state should authorize the appellate courts to adopt rules establishing additional fees be paid by those parties seeking expedited judicial review.
- Restrict CEQA alternative analysis projects to locations that are within the same jurisdiction and available for development, in order to avoid unnecessary and irrelevant studies and “anywhere but here” strategies.

Many of these reforms are included in recently enacted AB 900 (Buchanan/Gordon/Steinberg) and SB 292 (Padilla), which create similar CEQA exemptions for a sports stadium and other large job-producing projects.

In addition, SB 226 (Simitian/Vargas), which the Governor also has signed, makes a number of improvements to CEQA, particularly with respect

to renewable energy projects that contribute to low-carbon improvement in California's climate.

California also should create "plug and play" economic zones that are pre-approved for CEQA and other land-use and zoning permits. Working with local zoning authorities, the state initially should target high-unemployment areas such as the Central Valley and the Inland Empire to enable businesses to open, expand and cluster as soon as possible.

3. **Aligning workforce skills with future jobs.**

A strong, well-educated workforce has long been one of California's key strengths, and has provided the state with significant advantages first in a national, and now in an international, economic environment. But that workforce has to have the right training for the right jobs.

The predicted shortage of workers for many of the state's best-paying jobs in the coming decades means California must begin now to match its workforce needs with the skills and training it provides its students and residents.

To this end, the Think Long Committee will seek to work with the Governor and his Senior Advisor for Jobs and Business Development, Michael Rossi, on the following key areas:

- Aligning skills with jobs by promoting career technical training opportunities for students in high school and post-secondary graduates. Partner with industry to develop programs and internships that demonstrate to students how education is connected to career opportunities.
- Encouraging Workforce Investment Boards (WIBS) and their partners to coordinate and collaborate within regional labor markets to avoid duplication and maximize the efficiency of scarce resources, while still maintaining the connection of local WIBS to their local economies. Recent collaborative efforts between WIBS in Silicon Valley and the Partnership for the San Joaquin Valley provide models for this type of coordination.

- Establishing a "jobs consortium" of cutting-edge companies to create a mentoring/internship program for home-grown labor that connects STEM (Science, Technology, Engineering and Mathematics) students in community college, CSUs and UCs to future jobs. The pipeline of rigorous STEM programs in California's PreK-12 curriculum needs to be increased.
- Pressing the federal government to expand access to H1B visas for qualified college graduates and develop a new category of expedited permanent visas for foreign students graduating with advanced degrees in STEM fields to ensure we do not lose those we educate who want to become part of our workforce.

Overall, workforce development across California needs to be better connected with rapid changes in private sector needs and be based on real-time economic expectations. Skill gaps need to be identified and addressed and training and placement program need to be improved including through on-line sites and public information centers.

4. **Renewing the commitment to higher education as a foundation for growth.**

For decades, California's higher education system has been the envy not only of this country, but of the world. More importantly, it has been the incubator for innovative, entrepreneurial thinking and has fueled the growth of cutting-edge technologies. In recent years, however, it has fallen victim to decreased funding from the state, which threatens its ability to attract and maintain quality faculty, provide accessibility and affordability for all students, and preserve its infrastructure.

As noted above, \$2.5 billion in new revenue from our tax reform proposal would annually go to California higher education (including California State University and the University of California). But money is not the sole solution. To enable the state to continue to develop a productive workforce and world-class industries, the Committee encourages the state and higher education leaders to take the following action:

- Guarantee affordability. California should embrace a public policy supporting gradual, moderate and predictable fee increases for all three systems that strengthens the state's commitment to higher education. California has been a national leader via Cal Grants and college/university aid programs, but it is dangerously close to becoming a "barbell" state where access is dominated by high incomes at one end and low incomes at the other. Financial aid packages need to continue to support low-income students. Financially needy middle-income students should be able to receive sliding-scale benefits.
- Improve coordination between the Pre-K through high school system and the various segments of higher education— i.e., University of California, California State Universities and the California Community Colleges. The transfer of students between higher-education systems needs to become a more seamless process.
- Remove barriers to college and university efforts to adopt technological innovations, including proven online learning programs. Eliminate outdated classes, especially at the Community Colleges.
- Assess all secondary-school students for college readiness at the end of their junior year, as already begun by the Cal State University system, and offer remedial classes in their senior year for those in need.
- Adopt policies to shorten student "time to degree" while maintaining the same learning outcomes and educational requirements. Ensure that colleges and universities are providing classes essential for graduation, including on-line course options. Prioritize class enrollment for those students "on-track" for their degree. Consider an excess-of-units surcharge, such as has been adopted in North Carolina, that would impose added fees on units taken beyond the credit hours required for graduation. (It is 50% in North Carolina.)

- 5. Addressing the \$765-billion infrastructure debt.** California faces a mammoth infrastructure challenge – from building a smart energy grid to relieving traffic congestion, refurbishing ports and expanding the broadband information highways of the future.

Closing the state's infrastructure deficit must be a coordinated effort so that the interconnections between localities, regions and the state as a whole are as cost-efficient as possible, even if necessarily driven by local demand. Creative approaches will enable the state to close its infrastructure gap in the most cost-effective way.

BONDS. One way to improve local agency ability to plan for and finance infrastructure would be to adopt the same rules for local infrastructure and transit districts that we currently have for schools i.e., new funding could be approved by local voters by a 55% majority vote, rather than the current requirement of a 2/3 vote. However, consistent with the Committee's belief that costs must be transparent and not hidden, this option, which would be accomplished via an initiative, would also require that new dedicated funding sources for future state General Obligation bonds be approved only if voters also approved a new funding source.

USER FEES. The state should adopt user fees, when appropriate, for infrastructure funding. This can include tolls for peak- hour freeway use and the use of public-private partnerships where the private sector finances and develops public infrastructure in return for user fees. The selection of infrastructure projects should be guided by an objective process and strict cost-benefit analysis.

FAST PERMITTING. One goal of a strategic infrastructure plan would be, as suggested elsewhere in this report, to streamline and shorten the permitting process so the needed infrastructure and related job-creation can get underway without delay.

BROADBAND. The Committee also believes the Public Utilities Commission (PUC) should encourage collaboration among providers to speed broadband penetration throughout the

state and develop model permitting standards. The state should encourage industry to work with the PUC to expand the California Advanced Services Fund to assist the growth of broadband infrastructure, specifically in underserved regions of the state.

PUBLIC INFRASTRUCTURE ADVISORY COMMISSION. The state should task a fully resourced Public Infrastructure Advisory Commission with establishing a framework for innovative funding mechanisms and developing partnerships. It should do so initially by restoring the balance among local, regional and state interests, which allows local and regional areas to control their own future when considering the approval of infrastructure projects; by incentivizing the 19 transportation “self-help” regions to leverage resources in ways that promote local/regional infrastructure and economic development priorities; and by promoting legislation allowing for best practices (e.g., design/build, public-private partnerships, performance-based contracting) to expedite infrastructure development. The state should empower the Commission to assist local agencies, as well as the state, with multi-sector partnerships.

AN INFRASTRUCTURE SERVICE BUREAU. The state should also create a “service bureau” to work with the Infrastructure and Economic Development Bank to help state and local governments effectively negotiate complex public-private partnership procurement contracts and bundle small infrastructure projects, in order to lower transaction costs. This service bureau, working with professional trade organizations and organized labor, could be a center of excellence providing expertise on matters ranging from assistance with deciding whether a public-private partnership is appropriate to implementing and managing the public-private partnership agreement for a state or local government entity. Ideally the service bureau would be able to charge the entity a reasonable fee for its service. The expertise that could be provided by the proposed service bureau would include:

- Helping to retain experienced professionals to represent the state on any public-private partnership deal to ensure fair negotiations with the private sector.
- Conducting value-for-money analysis of each project to determine whether the project should be undertaken as a public-private partnership.
- Delineating the risks borne by each partner and identifying how the state has shifted risk to its private-sector partner when appropriate.
- Utilizing performance measurements that will allow evaluation of the results of each project.
- Calculating infrastructure costs for all projects, whether undertaken by public-private partnerships or otherwise, over the life of the project, taking into account all costs of building, maintaining, operating and owning the infrastructure over the projected life of the asset.

CONNECTION RENEWABLE ENERGY PRODUCTION. Finally, the state should also encourage utility companies to pursue, consistent with state, local and federal policies, the construction of new power facilities in areas that have a high potential for renewable energy development (e.g., Edison’s Tehachapi project.) Employing a combination of incentives, policies and procedures, the state can significantly reduce barriers to entry for new renewable energy facilities by lowering the cost burden that would otherwise be imposed on interconnecting renewable facilities. Doing so will speed construction of new power transmission lines and help the state meet its clean-energy goals by 2020.

VII. K-12 EDUCATION REFORM

Quality K-12 education is the foundation of any solid middle class society, providing opportunities for upward mobility. This is especially so in a knowledge economy that faces stiff competition globally and where students in other countries from Singapore to South Korea to China outperform California's students. To ensure the state's long-term competitiveness, California schools must be brought up to global standards.

However, the issue of the state's decaying educational system goes far beyond economic and business concerns. At a moment when some argue that the poor quality of California's public schools is "the civil rights issue of our time," serious, systematic and significant reforms are needed. Without improvements to learning outcomes, students in many of the poorer communities of California will remain on the wrong side of the Achievement Gap, trapped in some of the country's worst schools.

The Think Long plan would provide for a steady and growing flow of revenue to education over the coming decades – \$5 billion annually for K-14 schools and \$2.5 billion annually for higher education at California State University, University of California, and California's community colleges. We believe such new funding should not be automatically given to a system that is failing to educate millions of Californians. It instead should be tied to improving performance of K-12 schools, as a result of rigorous evaluation of teachers, as well as curbs on automatic teacher tenure and seniority. We further believe that new financing for education should be designed in such a way as to provide parents, especially the working poor, with the maximum choice over how and where their children are educated.

In addressing these issues, the Committee spoke with a number of education leaders who provided their expertise and perspectives. They and many others have spent their careers researching ways to improve the educational system, and their collective knowledge provides the scaffolding upon which the Committee bases the following key reform priorities:

- 1. Teacher and principal effectiveness.** Modernize policies for recruiting, compensating, retaining and rewarding, and evaluating teachers and principals. Policy changes should include:
 - Meaningful teacher and principal evaluations.
 - Non-seniority based layoffs (i.e., elimination of Last In/First Out hiring and firing).
 - Earned tenure (i.e., based on effectiveness and moving from 2 to 5 years).
 - Ensuring equitable distribution of teacher talent (i.e., equitable distribution of teacher salary dollars across schools within districts).
- 2. Promoting equality and opportunity** for high-quality public charter schools and providing additional high-quality options for students and parents.
 - Utilize a Weighted Student Formula funding model to ensure equality of funding for public charter schools. This would also ensure that the funds are allocated to those in the best position to determine the needs of individual students.
 - Provide financial incentives for growth of the highest-performing public charter schools that serve the most disadvantaged students (i.e., enterprise zones for education).
 - Remove barriers to the expansion of digital learning opportunities (i.e., elimination of seat time requirements, funding based on achieving competency, etc.).
- 3. Providing for strong and useful state, district and school data systems.**
 - Implement statewide student, teacher and administrator data systems.
 - Provide funds at the state level for the analysis of data to ensure that state resources are used wisely (i.e., analysis of professional development programs, identification of best textbooks, etc.).

4. Improving accountability systems while at the same time increasing district-level autonomy to meet accountability goals.

- Create a meaningful school-level accountability system that accurately assesses both improvement in student performance and absolute levels of student performance, and use this system to hold all publicly funded schools accountable for results.
- Give districts greater authority in decision-making, including the flexibility to allocate state funds to meet district priorities. This would require that data on budget allocation and school- and district-level performance be widely disseminated and be easily publicly available.
- For highest performing districts in California, allow for maximum flexibility in utilizing state funds, including all categorical funds.
- Ensure robust state action when a school continually fails to educate students, including the closing of the poorest performing schools.

VIII. PENSION AND HEALTH BENEFIT REFORM

Given the complex issues of long-term public pension and health benefit liabilities, it was beyond the scope and time frame of the Committee's year-long deliberation to address this critical public policy matter. While pension systems are in various states of under-funding in different jurisdictions, they represent an unsustainable burden on many of these budgets, competing for funding with education, infrastructure, job creation and social services.

Estimates of the total unfunded liabilities range as high as \$500 billion. Unless resolved through negotiations between state and local officials and public employee unions all other reform progress is at risk.

On October 27, as this report was being finalized, Governor Brown proposed a package of pension reforms – including a hybrid 401k system, extension of the retirement age to 67 and increased contributions from employees – that he indicated would save taxpayers about half of the projected costs of pensions and retiree health care benefits in the long run. We recommend that the Governor, Legislature and local government officials make it the highest priority to work with public employee unions to find ways to address the long-term costs of pensions and the unfunded liabilities that have already been built up.

These proposals are the result of a consensus by the members of the Think Long Committee for California. Having in common the ambition of a unanimous position, this report is therefore approved without implying that each member completely agrees with every individual proposal. However, what we all agree on is that, as a whole, these reforms, if implemented, will go a long way toward restoring good governance to California. Maria Elena Durazo abstained on the final recommendations. Matt Fong passed away during the course of the year.





A Blueprint to Renew California:

REPORT AND RECOMMENDATIONS PRESENTED BY THE
THINK LONG COMMITTEE FOR CALIFORNIA

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