



December 19, 2008

Honorable Arnold Schwarzenegger
Governor
Office of the Governor
State Capitol, 1st floor
Sacramento, CA 95814

Dear Governor Schwarzenegger:

At the request of the bipartisan leadership of the California Legislature, the Public Policy Institute of California recently assembled a diverse group of state leaders to consider the extraordinary conditions facing California. The California Economic Recovery Task Force convened on December 17, 2008. I am writing to describe the goals, recommendations, and process of this group and to inform you of next steps.

Goals

From the outset, PPIC's vision for the task force has been ambitious but realistic: to identify priorities and areas of consensus, to consider new ideas, to share a range of perspectives about the impact this economic crisis is having on our state, and to meet the request to report back to the state's legislative leaders by the end of the year.

As a nonpartisan, independent institute, PPIC strives to inform and improve public policy, raise public awareness, and provide elected officials and others a more informed basis for developing policies and programs.

At the same time, PPIC is a private operating foundation. We do not take or support positions on any ballot measure or on any local, state, or federal legislation. Nor do we endorse, support, or oppose any political parties or candidates for public office. The recommendations and conclusions of the California Economic Recovery Task Force reflect the views of the task force members, and do not necessarily reflect the views of the staff, officers, or Board of Directors of the Public Policy Institute of California.

Recommendations

In keeping with PPIC's mandate, task force members focused their discussion on broad priority setting rather than on particular legislative actions. All 12 task force members participated in the discussion, and each of them expressed grave concern regarding the current economic crisis and California's response to it. The group—made up of state leaders in business, labor, academia, and community work—strongly agreed upon the need for bold, urgent action on the part of our elected officials. Members came to consensus around three central principles for undertaking economic recovery in these extraordinary times.

Mark Baldassare

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Plan for federal dollars

The opportunity for California to receive federal funds is historic, unprecedented — and essential. With powerful leaders in Washington — including two senior senators and the Speaker of the House — California is well-positioned to make the most of this opportunity. However, task force members emphasized the need for a clear plan for these federal dollars, warning that the lack of such a plan will severely limit the state's ability to recover. Members stressed the importance of presenting the state's needs in a unified and coherent fashion, with all elected officials in agreement on a plan. Members also noted that this necessity — to represent the needs of the state clearly, cogently, and urgently — is all the more pressing given that other states are making their plans and competing with California for federal funds for their state projects and budget needs.

A variety of federal issues are particularly pressing for California. Specifically, the task force highlighted the need to stem foreclosures, to improve access to credit in targeted areas, and to invest in energy efficiency and renewable energy sources. Members emphasized the need for federal intervention to help “re-set” thousands of mortgages that will experience unaffordable rate hikes in coming years. Similarly, the group felt that an urgent federal response is necessary to improve frozen credit markets, especially because the lack of access to funds is a serious problem for state and local governments — and for the small businesses and start-up companies that are engines of employment growth for our state's economy.

In general, task force members agreed that the potential for California's leadership in pursuing bold, innovative economic recovery actions is high, but only if the state's elected officials make an organized and disciplined effort, with a focus on the economic realities at hand.

Set the stage for long-term growth

With full acknowledgment of the formidable challenges ahead, task force members agreed that economic recovery actions taken today should not simply take the form of stopgap measures but should also help to move the state toward important long-term goals. In fact, California now has the opportunity to play a national leadership role, particularly in developing infrastructure projects that support environmental goals. The task force also highlighted regulatory reform and education as two important areas of concern.

In thinking about long-term growth, task force members were unified in their sense that any action — short- or long-term — that would affect the state's environmental leadership or the health and safety of its residents would be an unacceptable compromise. For instance, the group agreed that any delay in regulating diesel truck emissions should not be on the table, despite the short-term negative economic impact of this regulation.

Prioritize infrastructure and “green” projects. Task force members identified infrastructure investment as a primary example of both addressing immediate needs and creating long-term sustainable growth. The task force recommended that the state consider infrastructure investment in two phases. The first phase would consist of projects, such as road repair, that are ready to begin as soon as possible and would create jobs today. The second phase would encompass projects that take more time to plan, but could raise California's long-term productivity and help the state achieve environmental goals — for example, building a smart electricity grid. Across the board, task force members supported investment in numerous “green” projects. While some, like weatherization of homes and public buildings, could start right away as phase one projects, many need more planning and are more appropriate as phase two projects.

Consider regulatory reform. Two important points on this topic emerged: Find ways to spend faster on infrastructure projects and develop more flexibility in the system. In this regard, the group saw potential economic opportunities in making changes in state

contracting policies. For instance, exploring best practices for “design-build” construction contracts—contracts that most other states allow—for transportation projects could satisfy the need for more speed and flexibility.

Invest in education. Finally, task force members voiced concern over the state’s investments in education and the long-term economic impact of any deterioration in school quality. In particular, the group noted the future workforce skills gap—that is, the difference between the demand for highly educated workers and the likely supply of such workers—and emphasized the need for investing in education facilities and education programs at all levels.

Balance the budget

The primary mandate for task force members was to focus on economic recovery—however, all members were united in the view that California’s budget crisis is one of the state’s greatest economic challenges and that steps to mitigate that crisis should also be considered part of any economic recovery program. All task force members agreed that the state must have a balanced budget, despite the fact that some budget-balancing measures will run counter to economic recovery strategies. On this topic, the task force laid out three central recommendations:

Choose budget-balancing actions that do the least harm. Members agreed that such actions would need to take the form of tax increases and spending cuts but, given the depth of the current downturn, specific fiscal actions should be considered in light of the overall goal of economic recovery. Tax increases should be broad and temporary, with the least possible negative effect on new consumer and business spending. Spending cuts should have the least possible negative effect on overall unemployment.

Pursue permanent, fundamental budget reform. The group was extremely concerned about the annual cycle of state budget crises and agreed that these crises posed a serious threat to the state’s long-term economic stability. The state’s inability to make critical decisions will ultimately undermine opportunities for economic development, raise the cost of borrowing, and create costly uncertainty for business. The task force emphasized the critical importance of the Commission for the 21st Century Economy and recommended that state leaders give it serious consideration. Of course, the California Economic Recovery Task Force cannot endorse or support specific proposals from this commission, especially since it has not yet met, but task force members noted that the commission’s bipartisan make-up and its focus on crucial issues are both highly significant.

Use federal funds to help with the current budget gap. Members felt strongly that state officials should make a case to the federal government for help in closing California’s budget gap. A grant from the federal government would reduce the tax increases or spending cuts that the state would otherwise have to make.

To sum up, the California Economic Recovery Task Force was unified in its support of the above recommendations and hopeful that California’s elected officials would find them useful in meeting the extraordinary challenges now facing the state.

Some background on the making of the California Economic Recovery Task Force

All members of the California Economic Recovery Task Force voiced satisfaction with the outcome of the day's deliberations. This diverse group of state leaders, which balanced Republicans and Democrats, business and labor, north and south, coast and inland, worked together in a cordial, determined, and constructive manner to fashion broad ideas for economic recovery. This section provides a brief overview of how this group came together.

When announced on December 1, 2008, the California Economic Recovery Task Force received public, bipartisan support from Senate President Pro Tem Darrell Steinberg, Senate Republican Leader Dave Cogdill, Assembly Speaker Karen Bass, and Assembly Republican Leader Mike Villines. Staff from all four leadership offices were invited to the December 17 meeting; ultimately, staff from the office of Dave Cogdill attended.

In advance of the meeting, PPIC staff developed a plan for assembling the task force, consulting with its members, convening a one-day meeting at PPIC's San Francisco offices, and reporting conclusions back to the legislative leadership. This plan was designed to maintain bipartisan participation, to work with the timeliest economic data, and to deliver informed recommendations.

Beginning in mid-November, PPIC began to identify task force candidates, whose names were shared with all four of the leadership offices. Candidates were chosen to provide a variety of professional backgrounds, to represent key economic sectors, to reflect the state's many regions, and to offer partisan balance. PPIC invited Kathleen Brown, senior advisor and head of public finance for the west region at Goldman, Sachs & Co., and Daniel Young, president of the Irvine Community Development Company, to co-chair the task force—intentionally selecting bipartisan leaders with extensive experience in both the public and private sectors. PPIC selected its president and CEO, Mark Baldassare, to preside over the meeting.

To help task force members prepare for the meeting, a team of PPIC researchers prepared a task force briefing book—this book was sent to the legislative leadership at the same time that it went to task force members. Economist Jed Kolko, lead PPIC researcher on the project, then contacted each task force member for an initial one-on-one conversation. These interviews offered an early sense of the policy ideas and the possibility of consensus among task force members. They also helped prepare the agenda for the task force's one-day meeting. When task force members came together on December 17, they all had a similar starting point for coming to the recommendations offered above.

Conclusions and next steps

California and the nation are facing an economic crisis of historic proportions. California's particular situation is exacerbated by its budget crisis and by the depth of the housing price decline in many of its regions. As a nonpartisan state-focused think tank with broad expertise in California's economy, PPIC offers excellent resources for assisting state elected officials in these extraordinary times. The ability of our staff to draw together a panel of state leaders, to provide trustworthy, thorough, and up-to-the-minute analysis, and to convene a wide-ranging discussion of California's options allows us to fulfill our mission to inform and improve public policy in the state.

We hope that the recommendations provided above offer some useful guidance as the state moves forward with its economic recovery plans. PPIC has provided all materials related to the task force to the all four legislative leaders and plans to send these materials to key members of the California congressional delegation and other interested parties. PPIC will also issue a press release regarding these recommendations and will make this information public on our website.

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In closing, I would like to thank you for your interest in the California Economic Recovery Task Force and for your willingness to seek independent, nonpartisan advice as you grapple with the historic challenges now facing our state.

If you have any questions or suggestions, please don't hesitate to be in touch with me.

Sincerely,

Mark Baldassare