



# CITIZEN VOICE™

INVOLVING CITIZENS...PROTECTING THE VULNERABLE

The transcript below is part of Citizen Voice's Nonpartisan Election Project, which is a groundbreaking, unprecedented and ambitious project to bring helpful, credible, easy-to-use, no-nonsense voter information to you, the voter. Citizen Voice is a nonpartisan, non-profit movement that inspires, informs, and involves citizens on behalf of all, and especially the vulnerable, in the public arena. For more information on Citizen Voice's Nonpartisan Election Project, ballot measure summaries, and to learn more about the organization go to [www.CitizenVoice.org](http://www.CitizenVoice.org).

## Proposition 1A

Hi I'm political analyst and Citizen Voice President Gary Dietrich. We're going to talk now about Proposition 1A which will be appearing on the May 19th California special election ballot. It deals with budget stabilization, a rainy day fund, and a temporary extension of current tax increases. Joining us to do that for us today is Joel Fox representing the Yes on 1A side. He's the president of the Small Business Action Committee. And representing the No side today is Jon Coupal. He's the president of the Howard Jarvis Taxpayers' Association. Gentlemen, thanks for being with us today.

Let me give you a quick sense in a nutshell, friends, what this would actually do before we get to our guests. It would be two main things. First, is to establish a so called rainy day fund which would limit spending in years by putting a cap on that, supposedly, as this rainy day fund is established. We'll hear more about that in just a few minutes. And then, secondly, it would extend for several more years the current tax increases on the sales tax, the car tax, and the state income tax. Now let's dive right in and get from you, Joel, why Prop 1A? Why do we need it? Why is it on the ballot this time?

Joel Fox: Well, you know, we have a spending problem here in California and one way to deal with that spending problem is to establish a spending limit. When we've had tax increases in the past under Governor Reagan, Governor Wilson, and now Governor Schwarzenegger, they haven't been to create new programs, they've been because there have been big holes in the deficit and those holes are created when there is excess revenue and the legislature tends to spend it. What this spending limit will do is cut off that excess spending and put that money in a rainy day fund so that money will be available when we have those deficits in our budget and we will have less pressure to raise taxes. So that's the goal behind it. I'll always make a point that there are tax extensions if Proposition 1A passes. So the voters are going to have to decide is it worth the cost of this extension to finally put some controls on spending in some budget reforms. I think the answer is yes.

Gary Dietrich: Okay. And Jon, how do you respond to that initially?

Jon Coupal: Well, first of all, Proposition 1A is a \$16 billion tax increase and the proponents have tried mightily not to raise that point and in fact, the whole process by which this was put on the ballot, in the first instance by the legislature, the ballot title, the ballot label, the ballot summary, were all devoid of any reference of the \$16 billion tax increase. In fact, ourselves, along with a couple legislators submitted a ballot argument against Prop 1A based on the tax argument and the speaker of the assembly rejected that argument and accepted another argument from another legislator, again, ignoring

the \$16 billion tax increase. Very deceptive way in which this has been placed on the ballot. It is a tax increase. It's a massive tax increase. California is now the most heavily taxed state in the nation. And in exchange for budget reform which we think is very weak and full of loopholes. For example, the so called spending limit can be increased whenever there is a tax increase.

Gary Dietrich: Okay, we'll get into the specifics. But that's one of the big contentions. There's really two here as I understand it gentleman. One is the temporary tax increase extended for a year to two years based on whether it's the car tax, sales tax, or income tax. One is, should that continue? The other is, is this really a spending limit? Joel, I want to talk to you about that in a second. Some people have said this isn't a legitimate cap on spending. How do you respond to that? Is it really going to end the excessive spending? This seems to go on year after year and Californians say they're sick of dealing with this budget deficit year after year. Will this really help address that?

Joel Fox: Well, let's take this spending limit, which is a trend line over 10 years and we take a look at what happened over the last 10 years, had this spending limit been in place. Instead of a \$40 billion deficit, which we're facing this year, it would have been about half that. Because of a sour economy, we would have still been in deficit. Plus we would have had about \$9 billion in reserves to place against that \$20 billion hole in the budget. So we're still down about \$10 billion. But remember the legislature and the governor just cut \$15 billion. We could have probably handled this problem without the pressure for tax increases. So in that way it works. Is it as tight a spending limit as we've had here in California in the past? No, it's not, but it's more flexible. Because it's more flexible, I think it will last longer.

Gary Dietrich: Okay. Let's stick with that Jon. Address that one if you could. In your view, will this have the kind of impact that Joel says to help limit spending? I'm sure you folks want to see that happen. So tell me, is this a legitimate spending restraint or not?

Jon Coupal: No, it's not. We think it's unfair to say if this had been in place 10 years ago, it would have solved the problems. The fact of the matter is, it wasn't in place. We did have a spending limit at one point in time. It was called the Gann spending limit and as soon as it began to take effect, the political forces in Sacramento repealed it through a series of initiatives, both Prop 98, the education funding, and business backed Prop 111, which blew the cap off the limit. So we had a limit, and it was done away with. This is a point that we've made, and a point that Board of Equalization member Bill Leonard has recently made in a column. And that is, it's an academic question as to whether or not, had this thing been in place. At one time we did have a limit with the Gann spending limit. That was effective. It actually resulted in some rebates to the taxpayers but the political forces got rid of it. So, given the uncertainty of it, we have to ask ourselves whether it's worth a \$16 billion tax increase for a poorly written, ambiguous, and loophole ridden spending reform?

Joel Fox: Let me go back to the original point I made. When I'm talking about these spending limits, yes, I agree we had tougher spending limits. I agree, they had one in Colorado too. Both of them disappeared because they were so tight that the voters themselves didn't want to accept them. This one is more flexible and it deals with the reason and the cause why we've had the pressure for tax increases in the past, and that's because of the excess revenue that was spent wildly when it should have been controlled. This kind of spending limit does. So it's not as tight a spending limit as we've had in the past with the Gann limit, but it will work much more effectively. It won't disappear. The Gann limit is gone. It's not effective anymore.

Gary Dietrich: Yeah, Jon, I guess this is going to be my next question to you is on the spending limit. Can you get one? One that you would like? I guess that's the political question. Is half a loaf better than no loaf? I guess that's the question I'd like you to answer today.

Jon Coupal: Sure. The answer is yes. I think the voters of the state approved the Gann spending limit back in 1979. Given the dissatisfaction with their political class right now, we think the time is right for a real spending limit. We'd like to come back with a real reform. What I think is different is that the force, the ability to change it in the future, may be somewhat limited, if we have a real cap. I don't think the voters are ready for a cap that can be automatically increased whenever there's a new tax. And in one which many economists say actually has built in incentives for higher taxes built into it. Because if we do bump up to the limit, if the only way we can get around it, under the parameters of the limit itself, is to raise taxes, then that is a built in incentive to raise taxes even higher.

Gary Dietrich: And the reason you're saying that is, and I don't want to get too wonkish here, for the average person real quick, some spending limits people have wanted to base on the increase of personal income in the state, or population in state, so you could increase it by those bases. This is based on actual dollars that come in. So you're saying if they raise the dollars that come in, then the allowable spending that comes in... So if you raise taxes, you'd have more dollars, it gives you a higher spending limit. Is that the bottom line there?

Jon Coupal: Well, actually, the additional taxes aren't trended in; it's an immediate increase in that limit. That limit, by the way, isn't an average. They use a very complicated regression analysis, which I won't go into. You talk about being wonkish, but I think it's critical that people actually crunch the numbers. The people that we've seen who've actually crunched the numbers in the past have told us that under this reform we'd have available spending of \$107 billion for next year on revenues of now appearing at about mid-90s. That's about a \$20 billion gap in the limit and available revenue. That's no spending discipline at all. If the trade off is \$16 billion and higher taxes, that's a really easy question to answer.

Joel Fox: But this limit is only supposed to, is designed to effect when there is excess revenues. So if we have a down economy like we do now, it's not going to come into play because you just don't have the revenue to spend. On Jon's point that he's brought up a couple of times, that the limit goes up when you raise taxes, I'll ask you to look at a long view. Yes, the limit may go up when you raise taxes, but how often have we raised taxes in California? The argument that is being presented is that we'll raise taxes all the time. We still have the two-thirds vote in effect to raise taxes. The last tax increase before this one was 17 years ago. Wouldn't it have been good to have that limit in place over the course of those 17 years to take away the pressure to raise the taxes? So I think how you look at this limit and the way it plays out is the way the taxpayers will benefit in the long term.

Gary Dietrich: Joel, I want to ask you a question. You represent the Small Business Action Committee. Why is Small Business behind this? Give us a rationale for the average Californian. Why would business folks want to be behind this?

Joel Fox: Well, the cost of this comes in two ways. One of course is, we spend a lot of time talking about this, and that is the taxes that will be extended. The other is, what happens if 1A fails? What is going to be the result? A lot of people in the business

community feel that what's going to happen is the taxes and revenue are going to come in different forms.

Gary Dietrich: So if they can't get it this way they're going to get it another way.

Joel Fox: There's still a democratic majority. They're still going to try to get revenue in different ways. Permit fees, targeted taxes particularly on business, and schemes that Jon and I agree on, schemes that have been introduced in the past that we think are unconstitutional. But who knows, would they call a tax a fee and would they play games? We believe there's going to be a lot of damage to the economy as a result if 1A fails, because we don't think simply that the legislature will just throw up their hands and say, okay, this has been turned down so we're going to make massive cuts.

Gary Dietrich: So you think, swallow the pill now, get the medicine down now, because it could be worse later.

Joel Fox: Isn't it interesting that half of our opposition thinks that this is not a worthy spending limit and the other half, the unions, think the spending limit is too tight. So we think this was right in the middle.

Gary Dietrich: We'll get to that in a minute. There's a real interesting case in this election, as you well know, of strangle political bed folks. But Jon, I want to give you a chance to respond because you guys usually let the business guys, political speaking, you're usually together on this stuff. So give us a sense of why that's not the case this time.

Jon Coupal: Well, the predictions of financial Armageddon we believe are overstated. In fact, there was an exchange between Commission Curt Pringle who's sitting on the Commission for the New Economy and Mike Genest, the Director of Finance. He asked him outright, what is the impact if 1A fails? And Mike Genest said no impact on this budget year or next because we got the tax increases for that. So it's kind of disingenuous we think to hear the proponents now that they see the polling in this thing really in trouble, starting to raise a little bit of scare tactics here.

Gary Dietrich: So you're saying that the impact wouldn't come for a couple of years because the current taxes are already in effect for the next two.

Jon Coupal: Yes. The current taxes are as you pointed out, are through this budget year and 09-10. So we have that revenue. And, by the way, we think the damage has already been inflicted. These tax increases have accelerated California's economic decline. We had net domestic outmigration of California's most productive individuals of about 1.5 million people in the last 8 years. Where did they go? Texas, Florida, Utah, low tax states, pro-business states. You don't attract businesses by increasing taxes and you don't attract businesses by retaining the taxes that you've already imposed. We think the best thing that Californians can do for the business climate is to tell people we have to suffer through these taxes that have already been adopted but we're going to stop them as soon as we can. That's the kind of message that is sent to the business community, that we think the business community will respond to.

Gary Dietrich: Quick response, Joel.

Joel Fox: These are temporary taxes, the fairest they're going to come down with permanent fees. And let's not forget that this budget problem has not been solved by the taxes already created. Legislative analyst says there is already an \$8 billion hole

and it may be larger so there is a concern. Yeah, we need a much friendlier business climate. I absolutely agree and that's one of the ways we're going to get out of this mess in California and we've got to start making some changes. But this is a temporary fix right now and we'll put in place the first step of that reform and that's the spending cap that will work in the long term.

Gary Dietrich: Jon, I have to ask you this, because, some of your so-called allies in this, some may not be working hand in hand, but it's real interesting, as Joel points out, that not only you guys on kind of the hard core let's not raise taxes type, joined this time in the fight with people who don't want a spending limit at all. So I think the question out there politically speaking is, and I don't want to say you're being used, but the people who don't want any spending limit and are typically your big foes, how does that play out?

Jon Coupal: Well, first of all, let's look at the interest of how they've lined up. The biggest financial supporter of Prop 1A is one of the unions, the California Teachers' Association and why is that? Because Prop 1B is tied to Prop 1A. Prop 1B is the \$9 billion extortion payment for 1A. The reason why some of the other unions have come in opposition to 1A is not because they realistically believe this is a control on spending. Anybody who looks at this closely realizes it is not going to control spending at all. So what is their real motivation? The CTA got their \$9 billion in SCIU and the faculty association, the CCPOA, the prison guards, were all left at the train station.

Gary Dietrich: So basically it's a union fight and they don't want CTA to win.

Jon Coupal: It's a union fight and they view the slice of the pie, the pie is only so big and they didn't get a slice and they're not happy about it.

Joel Fox: Well, that's sure not what the unions said at the Democratic Convention this past weekend. They really do think that this is a tough spending limit and they don't want anything to do with it. They don't even like the philosophy of spending limits.

Gary Dietrich: Alright, gentleman. We're going to have to leave it here, but a classic California battle, my friends, over taxes in California and it's not going to go away, but a very important one there's no question about it. I encourage you to take part of the special election May 19th here in California. If you need more information, visit us back here at [citizenvoice.org](http://citizenvoice.org) where you'll not only find this in video and audio form, but written transcripts in English and Spanish of this conversation and other voter helps as well. That's [citizenvoice.org](http://citizenvoice.org). Thanks for being with us.

Citizen Voice  
1215 K Street, 17th Floor • Sacramento, CA 95814  
(916) 503-3194  
[www.CitizenVoice.org](http://www.CitizenVoice.org)