COLAB SAN LUIS OBISPO
WEEK OF JANUARY 7 - 13, 2018

THIS WEEK

COUNTY MARIJUANA TAX A WOLF IN SHEEP'S CLOTHING?

WHO WILL BE BOARD CHAIR IN 2018?
HILL SOLICITS THE POSITION FROM THE SEWER

MARIJUANA LICENSING SNAFUS

SLOCOG TO PICK ITS PRESIDENT & VP

PLANNING COMMISSION DEALING WITH PERMITS/EXTENSIONS

DIABLO CLOSURE RATE INCREASES AND LOCAL BENEFIT COSTS VOTE AT CPUC

LAST WEEK

NO BOARD OF SUPERVISORS MEETING

SLO COLAB IN DEPTH

SEE PAGE 15

How to Reduce the California State Budget by $40 Billion

By Edward Ring

THIS WEEK'S HIGHLIGHTS

Board of Supervisors Meeting of Tuesday, January 9, 2018 (Scheduled)

Item 1 - Reorganization of the County Board of Supervisors: Election of Chairperson and Vice-Chairperson for 2018 term. There is likely to be controversy on this item, as 3rd District Supervisor Adam Hill was considered by some to be next in the rotation last year. The Board majority appointed 1st District Supervisor John Peschong on a vote of 3/2, Hill and Gibson dissenting. Hill is currently the Vice-Chair.

The staff write-up states:

Historically the Board of Supervisors meets the first Tuesday of the New Year to elect the Chairperson and Vice-Chairperson to preside for one year. On February 3, 2015 The Board of Supervisors updated Section IVB of the Rules of Procedures to include processes regarding electing the Chairperson and Vice-Chairperson. Section IVB is referenced below:

"*At the first regular meeting of the calendar year after the swearing-in ceremony, a Chairperson and Vice-Chairperson shall be elected by majority vote of the Board and such Chairperson shall preside for one year. The process for nominating the Chairperson and Vice-Chairperson shall be on a rotation basis. If the person nominated for Chairperson or Vice-Chairperson declines the nomination, she or he shall be rotated on the list. It is intended, but not mandated, that the Supervisor elected as Vice-Chairperson will succeed the Chairperson in the following year. In the absence or inability to attend by the Chairperson or Vice-Chairperson, a Chairperson pro tem shall be selected by the members present.*"

Based on the changes to the Rules of Procedure in February 2015, the appointments have been as follows:

2015: Chair, District 5; Vice Chair, District 4

2016: Chair, District 4; Vice Chair, District 3

2017: Chair, District 1, Vice Chair, District 3

Welcome to the Sewer: Hill, per the list above, is waiting in the wings. Hill has been posting derogatory comments referring to the Board majority as an "unholy trinity" and the COLAB Government Affairs Director, Mike Brown, as a "satanic Svengali" on his Facebook pages. These have been picked up and amplified on other sites. He has also republished a Russel Hodin, New Times cartoon promoting his false and malicious accusations. ***Svengali*** *is a fictional character in George du Maurier's 1895 novel Trilby. Svengali is a man who seduces, dominates, and exploits Trilby, a young English girl, and makes her a famous singer.*[1] The statements are shamelessly nasty, sexist, and harassing, in violation of the Board's adopted anti-harassment policy.

Hill and his leftist partisans are becoming more and more desparate. COLAB's continued exposure of their failed policies and arguments is dangerous to their heretofore hold on the County bureaucracy and ultimate reelection. Since they have no real policy arguments, they resort to personal attacks. Those who disagree with them are "satanic."

So much for the Board of Supervisors "civility policy." Welcome to the sewer.

Item 9 - Contract with the Government Finance Officers Association (GFOA) to Review County Financial Systems. The item requests the Board to approve a new and unbudgeted $80,000 project to contract with GFOA to conduct a review of the County's financial system. GFOA is the not-for-profit professional membership association of government financial executives, particularly municipal, county, special district, and state chief financial officers.

The County's enterprise-wide financial systems include accounting, budgeting, payroll, personnel, and a variety of subsystems generically known as Systems Application Products. According to the

[1] Wikipedia, the free encyclopedia, January 2018.

write-up the current system was installed in 2006 and is ripe for a review. The primary reason for conducting the project is stated as:

While many of the core accounting and payroll processes function well the nature of incoming change tickets and department requested enhancements or modules indicates a need to review current functionality and business processes to better meet today's needs.

This project should not be left to the technical/professional staff alone, but needs to be viewed also in the context of the usefulness of the existing system from a number of larger public policy standpoints including how effective the systems are in supporting:

- Public Transparency
- Citizen access
- Policy and operational analysis
- Accountability
- Strategic Planning
- Performance Management (organizational)
- Geographic and spatial display of financial data.
- Ability of non-technical, non-financial experts to use the system and its sub-modules. To this end the future system should look like Amazon, which has fabulous slice and dice capacity, wide integration, and ability for customers to analyze choices in terms of quality, functionality, and cost. It's easier to buy a Mercedes on Amazon than to file an application for a permit for an extra bedroom with most local governments or to pay your property tax on line.
- To this end the Board might consider adding an independent expert voluntary citizen advisory panel to the project, which would include non-County employees with expertise in large-scale enterprise-wide financial systems and public policy development.

Inasmuch as the project is probably a precursor to a larger effort to update and enhance the County's financial systems, such an adjunct could be prudent. The community may well include corporate CFOs, CIOs, and others with expertise, which could be a valuable resource to the project team. For example, what could a top executive from Mind Body (a very successful SLO headquartered operator of financial software and management systems) contribute to the vision of that effort? After all the primary customers are ultimately not just the county bureaucrats but the Board of Supervisors and ultimately the citizens.

As the Amazon site says:

More about Amazon Vehicles

Amazon Vehicles is a car research site that makes it easy for car shoppers to get the information they need when shopping for cars. With Amazon Vehicles, you can view specifications, images, videos, and customer reviews for thousands of new and classic car models. Amazon Vehicles simplifies car shopping. You can search for vehicles by body styles such as convertibles, coupes, crew cab trucks, extended cab trucks, full-size vans, hatchbacks, minivans, regular cab trucks, *sedans, SUVs, and wagons, or you can browse by makes like Chevrolet, Chrysler, Ford, GMC, Honda, Hyundai, Kia, Nissan, and Toyota. Amazon Vehicles makes it easy to search for vehicles based on towing capacity, seating capacity, color, MPG, or other criteria, and at Amazon Vehicles, you will find thousands of customer reviews and rating*

What about the County? How much do we spend on the homeless, what are the components, and how much do they cost? What are the performance measures for each of the components? What are the unit costs? Under the current system, it took staff months to come up with a very general cost picture for a Board report on homeless costs and over a year to present a geographic tally for the Public Service Fee collections and expenditures. The system needs to allow citizens, elected officials, and non-expert staff, and others to pull the data in minutes on their own. Anything less is simply preserving the obsolete bureaucratic magisterium. This doesn't mean public access to live transactions but that they can use the data which accumulates as a byproduct.

Item 14 - Request to approve renewal of the Energy Watch Partnership Program: 1) to extend the PG&E contract through June 30, 2018 and accept funding in the amount of $285,075 from PG&E; 2) to extend the SoCal Gas contract through calendar year 2020 and accept funding in the amount of $63,350 from SoCal Gas; and 3) approve a resolution extending the Position Allocation List for corresponding Limited Term. This is a rate payer funded program which you fund in your electric and gas bills. In effect it is a tax hiding in your utility bill. One part of the write-up states that the County is saving $330,000 per year in utility costs. How about using that savings to fund some more homeless and affordable housing programs? At least everyone would be paying for it.

Energy Watch (PG&E)	
Administration	$28,350
Marketing	$11,000
Direct Implementation	$177,325
Strategic Energy Resources	$68,400
TOTAL	**$285,075**

Energy Watch (SoCal Gas)	
Administration	$6,300
Marketing & Outreach	$1,000
Direct Implementation	$56,050
TOTAL	**$63,350**

Item 20 - Appointment of members of the Board of Supervisors to various commissions and committees. This item contains the annual process by which the Board members appoint themselves to various statutory Boards and committees. Key appointments are to the California Association of Counties, Economic Vitality Corporation, and local Agency Formation Commission.

TITLE	2017 Appointments	2018 Interest
Adult Services Policy Council	Lynn Compton	Debbie Arnold
Behavioral Health Advisory Board	Debbie Arnold	Debbie Arnold
Cal ID Advisory Board	John Peschong	John Peschong
Carrizo Plain National Monument Advisory Committee	Debbie Arnold	Debbie Arnold
Cal Poly Campus Planning Committee	Debbie Arnold	Debbie Arnold
California State Association of Counties (CSAC)	John Peschong, Lynn Compton (alternate)	Bruce Gibson, Lynn Compton
Community Action Partnership of San Luis Obispo (CAPSLO)	Debbie Arnold	Debbie Arnold
Economic Vitality Corporation	John Peschong, Lynn Compton	Adam Hill, Lynn Compton
Fire Safe Council	Debbie Arnold	Debbie Arnold

First 5 Children & Families Commission	Bruce Gibson	Bruce Gibson
Homeless Services Oversight Council	Debbie Arnold	
Latino Outreach Council	John Peschong	Lynn Compton
Local Agency Formation Commission (LAFCO)	Debbie Arnold, Lynn Compton,	Debbie Arnold, Lynn Compton
Model of Care Partnership Oversight Committee (MOCPOC) Martha's Place	Bruce Gibson	Bruce Gibson
Nacimiento Water Project Commission	John Peschong	John Peschong
National Estuary Program Executive Committee	Bruce Gibson	Bruce Gibson
Psychiatric Health Facility Committee	Lynn Compton	Lynn Compton
Rural Counties Representatives of California (RCRC)	Lynn Compton, Debbie Arnold (alternate)	John Peschong, Debbie Arnold
SB/SLO Regional Health Authority (CenCal)	Adam Hill	Adam Hill
South County Area Transit (SCAT)	Lynn Compton	Lynn Compton
Student-Community Liaison Committee	Debbie Arnold, Adam Hill (alternate)	Debbie Arnold, Adam Hill
Visit SLO Advisory Committee	Lynn Compton	Lynn Compton

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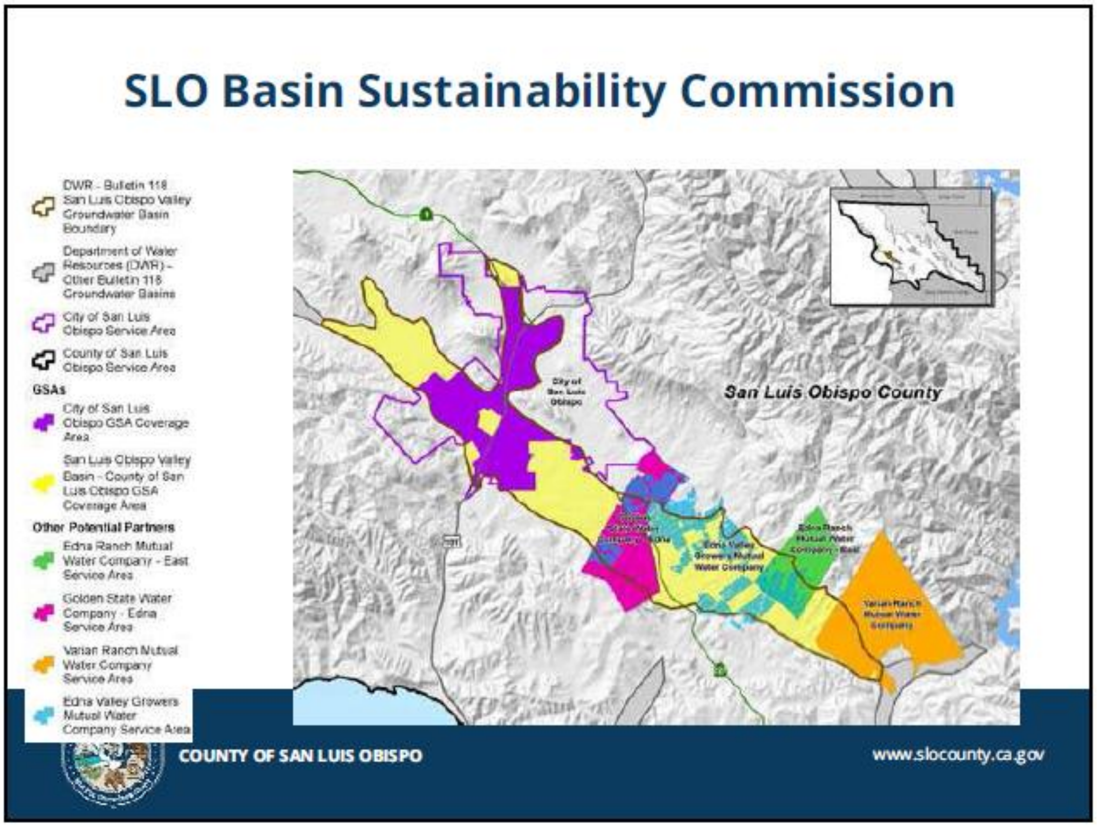
Matters After 1:30 PM

Item 25 - San Luis Valley (Edna Valley) Groundwater Sustainability Administration. The item, when adopted, sets up management structure between the City of SLO, the County, and overlying owner organizations (the Groundwater Sustainability Commission) to prepare a groundwater sustainability plan (GSP) for the valley per the requirements of the State Groundwater Management Act (SGMA). The County, City, and Commission will share the costs of creating the GSP. Approval requires a 4/5 vote. It is not known if Hill and Gibson will support the vote because a portion of the cost is covered by the County. Hill and Gibson believe the overlying land owners should cover all the costs. County costs could be between $910,000 and $1.8 million per year to develop the GSP. This seems excessive, given that the County has been measuring groundwater levels and trends for years. What new information is required that will cost so much money to develop? It is not known how many years the process will take, although it must be completed by 2022.

Supervisors Arnold, Compton, and Peschong have continually pointed out that landowners have paid for years in their Flood Control District taxes for water management and should not be subject to new taxes for SGMA planning.



Item 27 - Marijuana Licensing Snafus. In order for marijuana growers, processors, wholesalers, and retailers to operate, they must have a State license. To obtain the state license, they must have a permit to operate from their local county or city. One problem is that the County permit required is either a minor use permit or a more complex conditional use permit. Obtaining these permits can be time consuming and expensive. Further compounding the problem is the fact that these permits require an environmental assessment under the California Environmental Quality Act. Depending on the findings of the assessment, further environmental work could be required up to and including a full environmental impact report (EIR).

The situation could force existing legal growers out of business. County staff has proffered a potential temporary solution but is not sure if the State will accept it.

One potential option that has been discussed is to respond to State temporary cultivation license inquiries with a letter detailing the status of the applicant. This letter (Attachment 1) would indicate that the applicant is pursuing a discretionary land use permit and that the applicant was previously registered as a cooperative/collective. This letter would require the applicant seeking a temporary State cultivation license to be seeking a land use permit on the same site that was *registered under Ordinance 3334. It is unclear whether the State would accept this response as a local authorization for the purposes of obtaining a temporary State cultivation license. This letter could not be utilized for other cannabis activities seeking temporary State licenses because no other cannabis activities have been previously authorized in the County. Your Board may direct staff to utilize this option, or may provide staff further direction, or take no action.*

A related problem is that in forecasting the budget for marijuana regulatory activities, the staff assumed that permitting would be ministerial – not conditional use permits – and therefore did not budget sufficient expenditures (offset by permit fees) to cover the costs. At some point this will require a budget amendment, which requires a 4/5 vote. Even though the related increases will be offset by permit fees, the situation could become contentious.

As we have said in the past, the cannabis industry may be forced to continue underground until some of these problems are worked out. We have heard from some growers that the minor use permit could cost $13,000 in fees, which could be a substantial barrier for family and small operations.

Item 28 - Cannabis Taxation Options. The report provides the Board of Supervisors with an opportunity to consider various forms and levels of taxation. The report properly notes that the actual amounts that might be raised are highly unpredictable because the long-term size the marijuana market, price levels under legalized conditions, and demand cannot be forecast. Accordingly the report deals with hypothetical scenarios.

Based on prior Board direction, the report assumes that any revenues raised would be for the purpose of mitigating known and unknown social, health, behavioral and other adverse impacts of marijuana legalization. It does not contemplate its use for other needs, such as infrastructure maintenance, new infrastructure needed to facilitate housing, reduction of pension debt and other pressing needs. Accordingly, the write-up states:

While fees charged to CRBs (Such as business licensing fees, Planning permit fees, and Sheriff background investigation fees) can recover direct costs associated with issuing licenses, inspections, and monitoring of legal businesses, they cannot be used to fund costs not attributable to a license holder such as law enforcement activities related to illegitimate businesses. In addition, fees cannot currently be used to recover indirect costs such as health and social impacts or child and adult education, and community outreach.

Without an additional funding source, the County will not be able to address the risks and adverse impacts of cannabis use in San Luis Obispo County while also maintaining the existing governmental services funded by the General Fund. Accordingly, the Auditor-Controller-Treasurer-Tax Collector (ACTTC) is proposing that the Board of Supervisors consider authorizing and endorsing the creation of an ordinance to place a general cannabis tax measure on the June 2018 ballot for voter approval to help mitigate the known and unknown impacts legalized cannabis has on the San Luis Obispo County.

This logic when juxtaposed with the revenue potential scenarios is somewhat astonishing. The Board item states:

Based on estimates provided by researching other jurisdictions and with the help of SCI Consulting, adoption of a cannabis tax is anticipated to create increased revenue, as shown in the chart below.

TAX ON GROSS RECEIPTS (32 Permits issued)	Low End	Middle	High End
2%	$688K	$1.5M	$3.5M
4%	$1.4M	$3.0M	$6.9M
6%	$2.1M	$4.5M	$10.4M
8%	$2.8M	$6.0M	$13.9M
10%	$3.4M	$7.5M	$17.3M
TAX ON GROSS RECEIPTS (141 Permits issued)	Low End	Middle	High End
2%	$2.4M	$5.7M	$14.0M
4%	$4.9M	$11.6M	$28.0M
6%	$7.4M	$17.3M	$42.0M
8%	$9.8M	$23.1M	$56.1M
10%	$12.3M	$28.9M	$70.1M

In one scenario a 4% tax with 141 permits might raise $11.6 million. This could grow over time if business is good and/or if the Board determines to allow more permits in future years. An expenditure of $11.4 million per year would suggest, in the words of the County, substantial "*risks and adverse impacts of cannabis use in San Luis Obispo County."* Just what does the staff have in mind here? Of course a major mental health and substance abuse jail diversion program could cost millions. On the other hand, mental disease, alcoholism, use of opioids, and other problems leading to incarceration are not marijuana problems in and of themselves.

In the end the Auditor Controller recommends a general tax of 4% on gross receipts of all marijuana businesses.

Strangely, and while the write up as noted above and the preamble to the ordinance couch the reason for the ordinance in terms of mitigating adverse impacts, the actual ordinance would makes the funding totally unrestricted and places it in the general fund.

Thus the preamble states:

The purpose of the Cannabis Business Tax (CBT) is to continue the quality of life in San Luis Obispo County while mitigating known and unknown impacts associated with the legalization of Adult Recreational use of Cannabis and the easing of requirements for the purchase and use of cannabis for medicinal purposes. We anticipate impacts on all levels of law enforcement, mental health services, drug and alcohol services, child and adult public education, child protective services, tax collection, and enforcement efforts of the Planning Department and the Office of the Agricultural Commissioner. Adult recreational use of cannabis is relatively new across the United States and we believe there will be consequences which are unanticipated at this time. This ordinance adds Chapter 3.05 to the San Luis Obispo County Code to impose a County General tax on commercial cannabis businesses in the unincorporated area of San Luis Obispo County as of June 1, 2018.

But the actual text makes it a general tax;

3.05.020 - General tax.

The commercial cannabis business tax is enacted solely for general governmental purposes for the County and not for specific purposes. All the proceeds from the tax imposed by this Chapter shall be placed in the County's general fund and can be used for general governmental purposes. The term "cannabis" or "marijuana" may be used interchangeably throughout this ordinance.

In other words it can be used for just about anything. Plus it can be approved by 50% + 1 vote.

AND

The tax can be raised by a 3/5 vote of any the Board of Supervisors in 2% increments per year to a maximum of 10%.

2. Beginning on July 1, 2020, such tax rate may be increased in 2 percent increments (2%), not to exceed the maximum tax rate of ten percent (10%) per fiscal year on gross receipts. Incremental increases in the tax rate shall occur following an approval by a $3/5^{th}$ vote of the Board of Supervisors at a regularly scheduled meeting of the Board of Supervisors, and occur not more than once per fiscal year. Any decrease in the current amounts established at the time of voter approval of this ordinance will need to be approved by the Board of Supervisors by $3/5^{th}$ vote.

Here and separately from any particular issues related to marijuana is the potential for major revenues, which can be used to increase salaries and benefits, add new programs, add to the number of County staffers, and otherwise expand the power of the bureaucracy and elected officials.

One suggestion would be to add a provision to the proposed tax ordinance that any amounts not required to mitigate the negative impacts of marijuana (as certified by the CEO) be placed in a capital reserve for the sole purpose of maintenance and/or creation of new capital facilities, including roads, parks, public buildings, and/or facilities that would allow for the creation of more housing. A problem is that such a provision would require a 2/3 vote, but to allow an open ended source of staff, salary, and benefit raising revenue is ever so temptingly dangerous.

Remember and per the Auditor Controllers analysis, a 10% tax on a relatively small number of businesses could yield $70 million per year. Again who knows if the market will sustain such a level of activity, but the ordinance needs to be crafted to protect the public in case it does.

See the PowerPoint for more details:

http://agenda.slocounty.ca.gov/agenda/sanluisobispo/8254/Q2FubmFiaXMgVGF4IFByZXNlbnRhdGlvbi5wZGY=/12/n/88455.doc

California Public Utilities commission Meeting of Wednesday, January 11, 2018 (Scheduled) – 9:30 AM

Item 46 - Application of Pacific Gas and Electric Company for Approval of the Retirement of Diablo Canyon Power Plant, Implementation of the Joint Proposal, And Recovery of Associated Costs Through Proposed Ratemaking Mechanisms. The item is on the consent calendar. The recommendation of Administrative Law Judge Allen is posted verbatim for a vote of the full Commission. It can be accessed at the web site:

http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M201/K486/201486791.PDF

The vote was originally scheduled for December 14, 2017 but continued to January 11, 2018.

Background: On November 8, 2017, Public Utilities Commission (PUC) Administrative Law Judge (ALJ) Peter V. Allen rendered his recommended decision with respect to the PG&E Joint Proposal (JP) for the closure of Diablo to the full Public Utilities Commission Board. The Commission has the final decision making authority.

Key Provisions recommended by the Administrative Law Judge for approval by the Commission include:

1. The retirement (closure) of the Diablo Nuclear Power Plan.

2. Rejection of the proposed energy replacement program is rejected and deferral to a separate set of proceedings (the Commission's Integrated Resource Plan – IRP proceedings), which would take place in 2019. PG&E had originally proposed a series of phased acquisitions of huge amounts of "green" energy over many years to replace the 2400 MGW generated by Diablo.

3. Partial approval of the proposed $352.1 million Employee Retention and Transition Program ($160.5 million instead). The ALJ found many provisions in this portion of the proposal to be "overly generous."

4. Complete rejection of the proposed Community Impacts Mitigation Program (CIMP), $85 million, as being unfair and illegal.

If the Commission sustains the ALJ's recommendations, the plant may have to be closed sooner than later. Among the casualties will be an annual $22 million in local property taxes and almost $1 billion in direct, indirect, and imputed economic annual losses to the San Luis Obispo County and northern Santa Barbara County economies. PG&E proposed payments to local jurisdictions to mitigate the losses between now and 2025 could be rendered null.

Readers should not lose sight of the fact that this recommendation is the result of a rate setting process in which PG&E seeks $1.7 billion in customer rate increases, primarily to pay for acquisition of huge amounts of "green" energy to replace the electricity generated by the power plant, $1.3 billion. The community impacts mitigation program, $85 million; employee retention program, $364.4 million; and $18.6 million for lost license renewal coats are significant but are ancillary to the big energy cost issue.

Planning Commission Meeting of Thursday, January 12, 2018 (Scheduled)

There do not appear to be any major policy matters on this agenda. Instead it contains a number of requests for permit extensions and several cell tower applications.

San Luis Obispo County Council of Governments (SLOCOG) Meeting of Wednesday, January 10, 2018 (Scheduled) – 8:30 AM.

The meeting appears to be organizational. The President and Vice-President will be selected and members will be assigned to a number of committees, local, State, and national. Currently Supervisor Lynn Compton is the Chair. Traditionally it will rotate to a city member for the next year. There are no actual policy items.

PAST WEEKS' HIGHLIGHTS

No Board of Supervisors Meetings on Tuesday, December 26, 2017 or January 2, 2018 (Not Scheduled)

The Board did not meet on Tuesday, December 26, 2017 or Tuesday, January 2, 2018, as those dates encompassed its winter recess and the Christmas and New Year's holidays. The next meeting will be on Tuesday, January 9, 2018 as detailed above.

COLAB IN DEPTH

IN FIGHTING THE TROUBLESOME, LOCAL DAY-TO-DAY ASSAULTS ON OUR FREEDOM AND PROPERTY, IT IS ALSO IMPORTANT TO KEEP IN MIND THE LARGER UNDERLYING IDEOLOGICAL, POLITICAL, AND ECONOMIC CAUSES AND FORCES

How to Reduce the California State Budget by $40 Billion

By Edward Ring

As of a few days ago, high-wage earners have a new reason to leave California: their state income taxes are no longer deductible on their federal income tax returns.

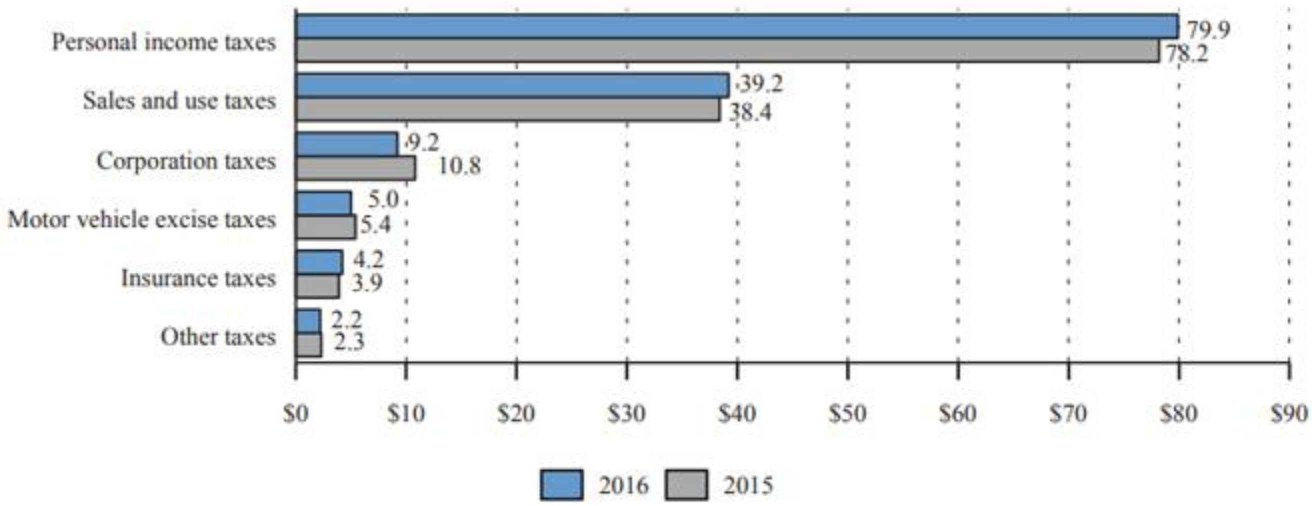
Can California's union-controlled state legislature adapt? Can they lower the top marginal tax rates to keep wealthy people from leaving California?

The short answer is, no, they cannot. They cannot conceive of the possibility that California's current economic success is not because of their confiscatory policies, but in spite of them.

Earlier this year California's union controlled legislature approved a gas tax increase that will increase state tax revenue by about $5.0 billion per year. Next in their sights is changing property taxes to a "split roll" system, whereby all commercial properties will no longer be protected from steep tax rate increases. Also under consideration is extending sales taxes to services, along with taxes on water, marijuana, and, who knows, maybe even robots.

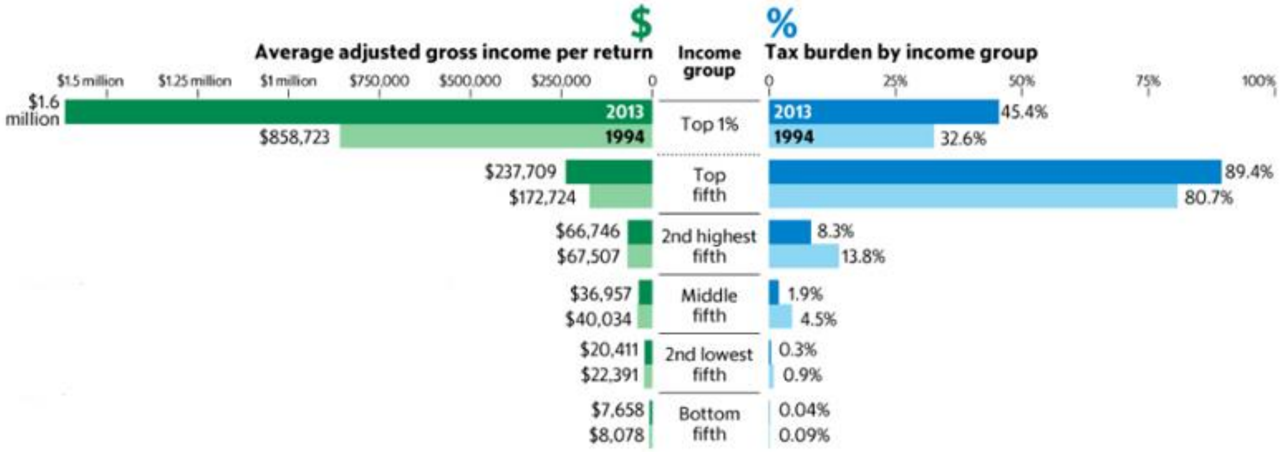
These new taxes have attracted a lot of attention, but in reality California's state government derives most of its tax revenue, 58%, from personal income tax. In recent years personal income taxes have contributed as much as 65% of the California state government's total tax revenue. California's top marginal income tax rate of 13.3% is by far the highest in the U.S. Oregon has the 2nd highest rate, at a much lower 9.9%. The impact of this can be seen on the chart depicted below, which is taken from the State Controller's most recent annual financial report for the fiscal year ended June 30, 2016. As can be seen, state income taxes accounted for 58% of all tax revenue in the most recent fiscal year for which we have data. Nothing else even came close.

California Tax Revenue By Source – 2015 and 2016



When around 60% (or more) of all state tax collections depend on how much money individual residents make each year, revenue can be volatile. A recent analysis by the Franchise Tax Board, as reported in the Sacramento Bee, showed that the top 1% of California taxpayers by income paid 45% of the total income taxes collected. This means that in the last fiscal year, the top 1% paid 26% of ALL taxes collected in the State of California. If you extend that comparison to the top fifth – those Californians who earned on average over $237K in 2013, it can be seen they paid nearly 90% of the total income taxes collected, or 51% of ALL taxes from all sources.

California Income Tax Burden by Income Group – 2013 vs 1994



When you have the top fifth of your wage earners paying more than half of ALL taxes collected in your state, you definitely don't want those folks moving to other states. California has really great weather, but there are a lot of reasons to leave: An inhospitable business climate, a global economy with burgeoning new opportunities in many low tax regions, and an increasingly virtual work environment which means you don't have to live within 50 miles of the California coast in order to attract venture capital or find business partners.

Just for the sake of argument, here are ways to cut expenses in the state budget, in order to keep California's state government solvent without punishing the wealthy, or, worse, losing them to other states and nations.

HOW TO REDUCE THE CALIFORNIA STATE BUDGET BY $40+ BILLION

(1) Reduce Costs for Prisons – $2.0 billion or more: California now spends over $75,000 per year per prisoner, a cost that has doubled since 2005. In Alabama, it costs less than $15,000 per year per prisoner. If California contracted with the State of Alabama to have them house its 130,000 prisoners, that would save California taxpayers $7.8 billion per year. If doing business with Alabama is unpalatable, how about right across the border in Nevada? The State of Nevada spends under $18,000 per year to house their prisoners – sending California's prisoners across the Sierras to Nevada could save taxpayers $7.4 billion. Obviously relocating California's prisoners to other states is an extreme solution. But there are many other less extreme, bipartisan solutions to lower prison costs, including alternatives to incarceration.

(2) Cut Ratio of Administrators to Faculty in Public Universities – $2.0 billion or more: In 2000 California's UC System employed around 4,000 administrators and 7,000 faculty. Only 15 years later, in 2015, the UC System employed 10,500 administrators and 9,000 faculty. Just assuming for a moment that the administrative overhead in the UC System wasn't already bloated in 2000, the UC System could reduce their administrative headcount by over 5,000 administrators, and save at least

$500 million per year. Do the same thing in California's much larger Cal State and Community College systems, and you can probably achieve total savings of around $2.0 billion per year

(3) Outsource CalTrans Work and Eliminate Redundant Positions – $2.5 billion or more: CalTrans is set to consume $12.8 billion of the State 2017-18 budget. As recommended by State Senator John Moorlach after an audit of the agency, just eliminating 3,500 redundant positions would save $500 million. But competitive outsourcing of roadwork contracts could save much more. CalTrans only outsources 10% of its roadwork, whereas, for example, Arizona outsources 80% of their roadwork. It is common to take competitive bids from private contractors to do public road maintenance and upgrades – CalTrans is the exception. A very expensive exception.

(4) Fund all CalTrans Work With Proceeds from Bullet Train Financing – another $10 billion per year for ten years: Ok, this isn't entirely fair. Bonds are deferred taxes. But just imagine if instead of paying for a train that will never make any meaningful contribution whatsoever to relieving the congestion on California's roads and freeways, all that money *was* used to improve the roads? Redirecting Bullet Train funds – which are destined to total well in excess of $100 billion – into CalTrans projects would save taxpayers nearly 100% of CalTrans budget for a decade or more.

(5) Slash State Agency Headcount and Pay/Benefits by 20% – $6.5 billion: In 2015 the average pay and benefits for the 154,000 full time employees of state agencies was $116,887. Eliminating 20% of these jobs would save taxpayers $3.6 billion per year. Reducing pay and benefits for the 123,000 remaining state employees by 20% would save another $2.9 billion – their average pay package would "only" be $93,500 per year after this reduction. Is this feasible? Recent history proves that it is. In 2009, cash-strapped California state agencies implemented "Furlough Fridays," which functionally achieved both objectives described here – there was a 20% reduction in work being performed, and state workers collected 20% less in pay. And guess what? The state government continued to function.

(6) Reform Pensions – $2.1 billion: When you talk about pensions, it is understating the problem to restrict the discussion to state agencies. Local cities, counties and school district pensions combine with state agencies to produce an unfunded liability that – depending on who you ask – ranges between $200 and $700 billion. Moreover, pension reform might be subsumed under the preceding Option #5. Nonetheless, here are the numbers for state agencies: Taxpayers contribute, on average, $21,900 towards each state workers pension, representing 26% of their pay. Just lowering that to a contributory 401K equivalent to 10% of pay would save at least $2.1 billion per year. In reality, because these pensions are so underfunded, getting control of pension benefits would actually save much more than this estimate.

(7) Face Reality and End the "Sanctuary State" – around $20 billion: According to the United Nations, there are now over 250 million displaced refugees in the world. Right behind them are another 1.2 billion individuals living in extreme poverty. America, with only $330 million residents, is not nearly capable of absorbing even a fraction of these multitudes, much less California with not quite 40 million residents. Yet California has thrown open the doors and foots the bill, betting that the tech boom and asset bubble will last forever. A study by the Federation for American Immigration

Reform estimated the cost of undocumented immigrants to California taxpayers at over $25 billion per year – $14.4 billion for education, $4.0 billion for health care, $4.4 billion for justice and law enforcement, $0.8 billion for public assistance, and $1.6 billion for general government services. This scrupulously footnoted study, published in Sept. 2017, got virtually no coverage in the media. What did receive extensive media coverage was a study promoted by the Institute on Taxation and Economic Policy that estimated the total state and local taxes paid by California's illegal immigrants to equal nearly $3.0 billion per year. Net cost and potential savings: $22 billion. At the least, California should stop being a magnet state for undocumented immigrants, and instead should help craft then adhere to a realistic national policy.

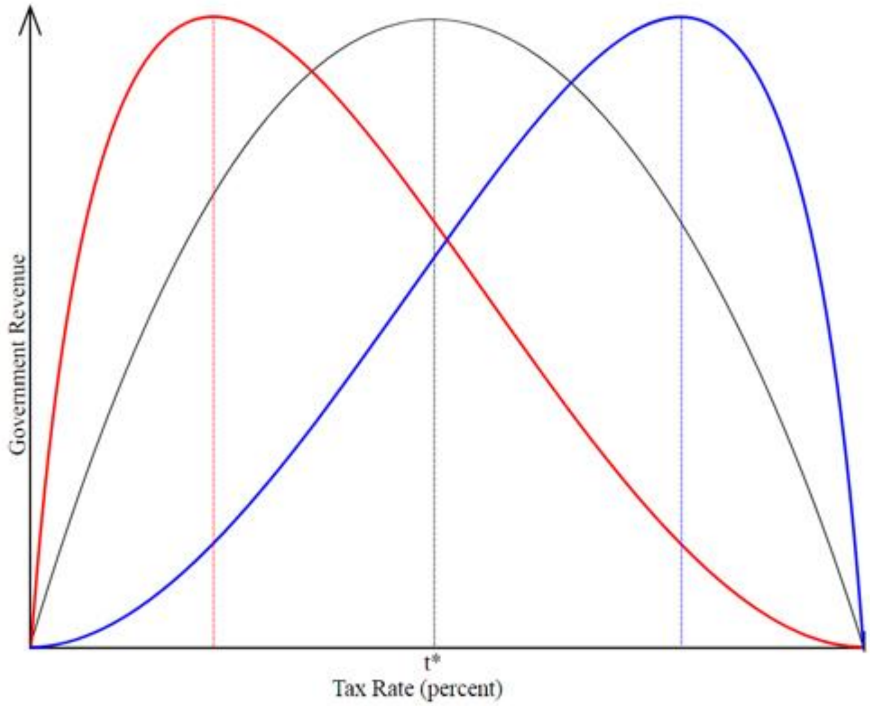
The most powerful special interest in California, government unions, wants nothing to change. They are hostile towards corporations and individual wealth. They have strong incentives to want inefficient, expensive prisons, universities, and infrastructure projects. They have strong incentives to expand all government services to accommodate destitute immigrants. Why? Because the more government workers are hired and the more taxpayers' money is wasted, the more dues paying government union members they acquire.

Joining these government unions are California's powerful Latino Legislative Caucus and their allies in the identity politics industry, who recognize a huge political opportunity by spewing separatist demagoguery, nurturing a bleak, tribal paranoia in the collective minds of recently arrived immigrants. Also joining these government unions are left-wing oligarchs and the monopolistic businesses they control, who see in an expanded government and a hostile business climate a chance to prosper through legislated scarcity and mandated product choices. And, of course, the asset bubbles produced by contrived shortages add precarious value to the pension funds and increase property taxes.

So these solutions, while eminently practical, may never see the light of day. But California's voters should understand that around $40 billion could be cut from the state budget if California's government was ran in the interests of the people, instead of in the interests of government unions and their elitist allies. If $40 billion were cut from California's state budget, not only could the new gas tax be repealed, but the top marginal tax rate could be dropped to under 10%. And as any student of the Laffer Curve knows, that might actually keep California's wealthy from leaving; it might even cause income tax revenue to go UP, as fewer high income individuals feel the need to shelter or defer their taxable earnings.

The Laffer Curve

Depending on where you are on the curve, lowering taxes can raise tax revenue.



This article first appeared in the December 28, 2017 California Public Policy Center website. The California Policy Center is a non-partisan public policy think tank that aspires to provide information that will elevate and enlighten the public dialogue on vital issues facing Californians, with the goal of helping to foster constructive progress towards more equitable and sustainable management of California's public institutions. Learn more at CaliforniaPolicyCenter.org. Edward Ring has over 20 years' experience in business and politics, primarily with start-up and early stage organizations. From 2010 through 2016, he was Executive Director, then President of the California Policy Center. From 2007 through July 2010, in partnership with AlwaysOn Media, Ring designed and launched their "GoingGreen" conferences, held in San Francisco and Boston, attracting clean technology entrepreneurs and investors from around the world.

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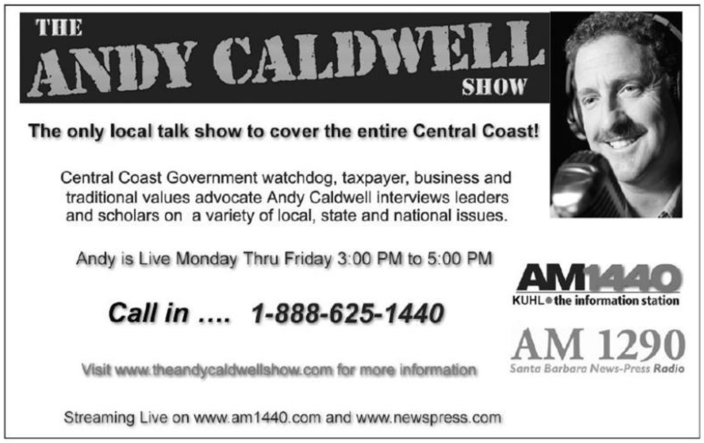

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(Revised 2/2017)