

How We Lost the California Dream, and How to Get It Back

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Presentation Theme

- **Compare CA economic outcomes with quality of governance over two periods of time**
- **(1) 1950s – 1970s, rapid growth, small government budgets**
- **(2) Post-1970s, slower growth, large government budgets**
- **We will see large differences in efficiency, priorities, and accountability of government between these 2 periods**

Presentation Theme

- *Today, we have:*
- *Large inefficiencies*
- *Organization failures within gov't*
- *Costly regulations protecting politically important groups*
- *Government prioritizing spending of pet projects over highly valued, priority items*
- *Failed governance ended CA Dream*

Presentation Theme

- *Why has quality of governance declined?*
- *(1) Lack of accountability, reflecting a sea change in culture within gov't*
- *(2) Lack of incentives within government*
- *(3) Public-private partnership became adversarial*
- *Nonpartisan ideas to help restore the dream*

The Birth of the California Dream

- In 1900, CA just 2 million people, 2.5 percent of U.S.
- Mississippi was larger, Ohio 4 times larger,
- Chicago nearly as large
- 1970, 20 million: nearly 10 percent of U.S. population
- *Just 5.1 million by 1970 if California had grown at the national average.*

How Did We Manage California's Enormous Growth?

- Young population – 50% under 24 years
- Meant relatively few taxpayers, but big budget demands, including:
- *Schools, hospitals, water, roads, utilities...*
- Financed with a per-person state budget just 13% of today's budget!
- *But we found a way to make these investments, & CA flourished*

How Did We Pull This Off? A Successful Vision of State Governance

- **(1) Spending focused on priorities**
- **(2) Very efficient, low cost**
- ***Capital spending was 25% of budget!***
- ***Top-rated schools & universities, major water, road, & utilities investments, creation of new towns and cities***
- ***Gov't facilitated creation of the dream – highly effective public/private partnership***

Shared Bipartisan Vision of Focused, Efficient Government

- **Governor Pat Brown's budget statements:**
- ***"We must invest to accommodate our magnificent growth. Our priority is to protect & invest"***
- ***"We can't abuse taxpayers. We must use their precious tax dollars wisely."***
- ***"Return on our public investments must be at least as high as on private investments."***
- ***California flourished – We realized CA dream***

The California Dream Was Realized

- **Population grew from 7 million to 20 million**
- **Broad economic base (finance, aerospace, entertainment, energy, tourism services)**
- **Top-rated schools and public universities**
- **Top-rated water systems, roads, highways, electrical infrastructure**
- **Housing much more affordable than now (35% premium, compared to 118% premium today)**

California Today: Lots of Spending, But Not Much to Show For It

- **Population declining (500,000 drop since 2020)**
- **2020 population projection (made in 2020) was off by 1 million**
- **Per-person (inflation-adjusted) spending is 7.5 times higher today than 1960s, but...**
- **Basic gov't functions not getting done**
- **What's not getting done? Public investments**
- **Capital spending only 4% of state budget**
- **This doesn't even cover depreciation**

Consequences of Our Failure to Adequately Invest

- ***California infrastructure graded D+ by Society of Civil Engineers***
- ***1,680 Dams in Risky Condition***
- ***70% of our dams over 50 years old***
- ***1 out of 18 bridges structurally deficient***
- ***50% of bridges have exceeded lifespan, including high traffic routes (I-5, I-80, 101)***

Consequences of Our Failure to Adequately Invest

- ***Deficient CA roads cost drivers \$61 billion per year***
- ***Fewer usable miles of roadway today than in 1990***
- ***Commuters burn additional 296 million gallons of gasoline annually, stuck in traffic***
- ***CA road quality is 49th in country, despite 2nd highest state gasoline taxes in country***
- ***Recall Gov. Pat Brown: “Government’s priority is to invest; we can’t abuse taxpayers. We must use their precious tax dollars wisely.”***

California Today: Consequences of Not Investing

- **Oroville Dam 2017 failure (built in 1968)**
- **188,000 were evacuated**
- **Identified for retrofitting in 2005**
- **Cracks in Dam reported in 2013-15...**
- ***\$1.1 billion to fix failed dam***
- ***Compared to estimated \$60 million retrofit***
- ***Why wasn't this investment made?***

California Today: Consequences of Not Investing

- **2018 Santa Barbara Mudslides**
- **23 dead, over \$500 million in damages**
- ***Debris flow basins* not cleared for decades; capture capacity declined 60% - noted in 2005**
- **Insufficient budget, environmental lawsuits**
- **Army Corps of Engineers warned “Danger of loss of life is great”, “Lack of Adequate Maintenance” of debris basins**

California Today: Consequences of Not Investing

- **2023 California Storms**
- **17 dead, \$30-\$34 billion in damages from flooding**
- **Much of California's storm drainage system was built in 1940s or earlier (LA system built in 1915)**
- **California's storm drainage graded D+ by Society of Civil Engineers**

California Today: Consequences of Not Investing

- Many water pipes 60 years or older
- 228 billion gallons of water lost each year due to pipe failures
- No new major water investments since California Water Project (1973)
- Since 1996, voters have approved \$27 billion in bonds for new water projects
- Most of the funding is yet to be spent...

California Today: Consequences of Not Investing

- **Senator Feinstein: “We have same water infrastructure as when population was 16 million”**
- ***Semi-regular drought brings water rationing, damages state agriculture, creates uncertainty***
- ***California suffers damages when it rains, and when it doesn't rain...***
- ***Why haven't we made investments?***

California Today: Consequences of Not Investing

- **9 of 10 biggest CA fires since 2012**
- **\$422 billion losses from 2022 Camp Fire alone**
- **Over 2,000,000 properties now at risk**
- ***Since 2005, California's greenhouse gas reductions offset by wildfire emissions***
- ***Doesn't include particulate emissions and their impact on health and mortality***
- ***High value priorities are not being addressed***

California Today - Failed to Invest in Infrastructure

- ***4,600 miles (46%) of LA sidewalks are broken & identified as an injury risk***
- ***Inadequate repair budget, LA faces 400 personal injury litigations annually from those injured on sidewalks***
- ***Pat Brown (1961) – “Government’s priority is to protect and invest” - basics aren’t getting done***

California Today - Failed to Invest in Public Services

- **Employment Department's 40-year old IT system crashed in 2020, 1.5 million unemployment claims backlogged for months...**
- **...While \$32 billion paid in fraudulent claims**
- **As many as 60 different claims sent to 1 address**
- ***In private sector, IT system wouldn't be obsolete***
- ***Because competition incentivizes efficiency***
- ***We need to improve incentives & accountability in government***

California Today - Failed to Invest in Housing

- **California is 49th in construction & affordability**
- **San Francisco & Silicon Valley highest income...**
- ***But only 18 percent of SF & Silicon Valley households can afford median-priced home***
- ***2/3 of households can afford median-priced home in rest of country***
- ***Why aren't we building enough housing?***

California Today - Extremely Expensive for Many

- **CA living costs 45% higher than national average**
- **4th highest electric costs, 2nd highest gas prices**
- **34% live in poverty or near poverty**
- **At least 25% of country's homeless in CA**
- **13 million Californians on Medicaid – would be 5th largest state in U.S.**
- **Qualify for Medicaid if income under \$41,000 (family of 3)**
- ***California Dream unattainable for most***

How Did We Lose Our Way?

- ***Shared principles of governance changed***
- **Began late 60s/early 70s, reflecting political & cultural changes, and birth of *Environmental Movement***
- **We made the mistake of not addressing environmental damages**
- **But Environmental Movement became highly politicized**
- **It now dominates much of what can – and can't – be done in the state**

Environmental Policy Not Adequately Disciplined by Economic Principles

- ***California Environmental Quality Act (1970)***
- ***“...Adopt all feasible measures to mitigate environmental impacts of development”***
- **Feasible doesn't mean practical. Or in the best interests of society.**
- **CEQA inconsistent with central principle of economics – we face tradeoffs.**
- ***Over time, we gradually abandoned fiscal responsibility and an efficient public sector***

CEQA & California Housing

- *CEQA reduced housing supply, increased construction costs*
- **CEQA “weaponized to fight development”**
- *Between 1940 & 1970, California housing cost 35 percent more than rest of country*
- **Because supply grew with demand**
- *After 1970, construction dropped & house price premium rose to 80 percent by 1980*

Housing Prices Rise - Supply is Constrained by Regulations

- **Today, CA home to 10 of 11 most expensive housing metro areas in country**
- **10 of 12 most expensive rental**
- ***CEQA and other regulations are major factor in reducing supply and increasing construction costs***

Today's California Housing Crisis

- *Median CA Single-Family Home: \$716,000*
- *Median CA Condo: \$500,000*
- **Rest of country single-family home: \$328,000**
- **CA price premium increased to 118%**
- **If premium remained 35%, then median CA home price would be \$443,000 today**

CEQA Creates Enormous Inefficiencies

- **Newhall Ranch – 60,000 population planned community near Valencia**
- ***Plans submitted in 1994***
- ***25 years to resolve CEQA-related lawsuits***
- ***Community size scaled back significantly.***
- **First homes might be available in 2023**
- **Enormously inefficient and socially costly**
- ***There have been calls for CEQA reform for decades. Why hasn't CEQA been modified?***

Loss of Fiscal Discipline & Efficiency – Building Costs Skyrocket

- **Santa Clara County bought “extended-stay” motel for \$14 million, converting to apartments**
- **This is a “property flip” – adds just communal kitchen, laundry facilities, & some recreation**
- ***At a cost of \$15 million...something is wrong.***
- ***And no one seems to be questioning this.***
- ***Why?***

Loss of Fiscal Discipline & Efficiency – Budget Skyrockets

- **Palo Alto is preserving a mobile home park at a cost of over \$700,000 per space**
- **LA affordable housing is costing \$837,000 per unit to build**
- **SF renovating apartment buildings at cost of \$1 million per apartment**
- **This is not “affordable housing”**
- ***Where is the accountability? Where is the respect for taxpayers?***

Loss of Fiscal Discipline & Efficiency

- **\$300 billion state budget – over \$20,000 per household**
- **7.5 times larger than in the days of Pat Brown**
- **5th highest personal tax burden**
- **3rd highest business tax burden**
- **Per-capita budget 70 percent higher than 2013-14 state budget – have services improved?**
- ***Where is the accountability to taxpayers?***

California Loses Major Businesses as Regulations, Taxes & Costs Rise

- ***Hewlett-Packard, Toyota, Nissan, Nestles, Occidental Petroleum, Schwab, Tesla, Oracle, CB Richard Ellis***
- **Number of business relocations doubled in 2022**
- **Relocating to low-cost states (TX, FL, NV, Tenn)**
- ***CA 49th in business-friendly policies***
- ***CA 48th tax rates***
- ***CA 49th in economic freedom rankings***
- ***Why aren't policy makers addressing these issues?***

Investments Gone Sideways

- ***California High-Speed Rail***
- ***\$33 billion budget to link the state, north to south, central valley to the coasts, 2018 completion, with 220 mph train travel***
- ***Sounded like a winner, but no one was watching the hen house...***
- ***State delegated most aspects of project to consultants, who were large contributors to 2008 state bond issue***

Investments Gone Sideways

- *Today - \$105 billion estimate to build LA to SF leg, but this based on 2019 estimates*
- *There is no chance the full system – the one that was sold to voters in 2008 – will be built*
- *One of the major benefits from project was reduced carbon emissions, but state is banning gasoline-powered vehicles by 2035...*

Investments Gone Sideways

- *Bakersfield to Merced route is planned for completion.*
- *When? 2033 (maybe) at a cost of \$33 billion (maybe).*
- *Imagine voters being asked in 2008 “Would you approve \$33 billion for high-speed rail between Bakersfield and Merced, and it won’t be operative for 25 years.”*
- *“Respect the taxpayer.” Where is the accountability?*

Restoring the Dream

- *No magic wand is needed...*
- *Application of standard economic principles & focused leadership*
- *Incentivize efficiency, increase accountability*
- *Restore principle that budgets are sacred*
- *We can make investments, support growth and do a better job of protecting the environment*

Restoring the Dream - Housing

- ***Remove constraints to building. And build at a lower cost.***
- ***Need CEQA reforms, including eliminating duplicative lawsuits, procedural reforms to eliminate delays, full disclosure of identities of parties.***

Restoring the Dream - Housing

- ***Urban growth boundaries (UGB) and Local Area Formation Commissions (LAFCO) stand in the way of creating new communities.***
- ***These restrict footprint of cities and create boundaries between urban/residential land and greenbelt and agricultural land.***
- ***And new communities (think new suburbs) have substantial advantages in creating new housing***

Restoring Efficiency & Accountability in State and Local Government

- ***2/3 of state budget just for K-12, health and human services, prison system***
- ***All should perform much better – incentivize efficiency & require accountability***
- ***Review compensation standards***
- ***Reward high performance and hold leaders accountable for organizational outcomes***
- ***State worker compensation twice as high as private sector \$143,000 (2019)***

Restoring Efficiency & Accountability- Prison System

- *CA prisons cost \$90,000 per inmate - twice as much as rest of country*
- *Politically powerful union*
- *Compensation twice as high as national average*
- *Resists reforms that would reduce recidivism*
- *Only 3 percent of budget spent on education, job training, & behavioral therapy, combined*
- *Repurpose budget, focus on improving post-prison outcomes, create incentives to do this*

Restoring Efficiency & Accountability- Medicaid (Medi-Cal)

- ***Medicaid - Inefficient, inadequate accountability***
- ***\$4 billion paid in ineligible claims***
- ***2016 review:***
 - ***“Integrity & compliance remain problematic”***
 - ***This was same statement as the 2012 review***
 - ***Poor patient satisfaction – patients increasingly use ER & urgent care for basic health services***
 - ***Health outcomes about same for Medicaid patients and patients with no insurance***

Restoring Efficiency & Accountability- Medicaid (Medi-Cal)

- **2019 State Auditor Report: Medi-Cal ranks 40th among U.S. states for pediatric care**
- **System suffers from “deficient oversight”**
- **Hold leaders accountable for system performance – we see poor performance, year after year, including chronic problems that are never resolved**
- **Increase competition among providers**

Restoring Incentives & Accountability- K-12 Education

- ***CA schools were once top-ranked.***
- ***K-12 today ranked 44th in math, 38th in reading***
- ***Just 1 out of 3 kids at grade level in math and English language skills***
- ***We need competitive merit & specialist-based pay***
- ***Sensible teacher tenure reform***
- ***Create a mindset of innovation***
- ***This was platform of Marshall Tuck (D), who narrowly lost 2018 Superintendent race***

Conclusions

- *There is a better way*
- **Return to what Governor Pat Brown emphasized 60 years ago**
- **Efficiency. Respect the Taxpayer. Prioritize what citizens really want**
- **To do this, we need accountability and appropriate incentives within government organizations**
- ***This will help restore the California Dream***

Thank You!

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