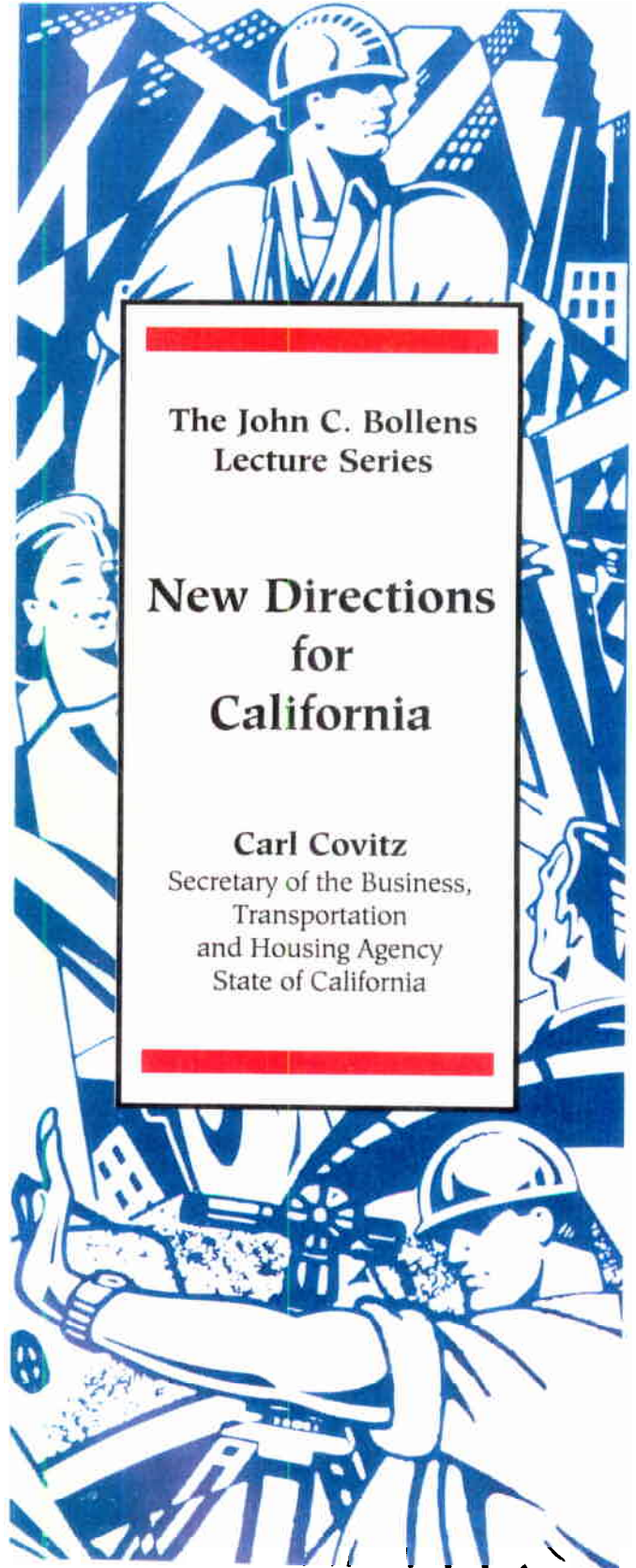


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**The John C. Bollens
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**New Directions
for
California**

Carl Covitz

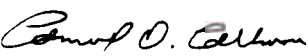
Secretary of the Business,
Transportation
and Housing Agency
State of California

The John C. Bollens Lecture Series




The aim of the John C. Bollens Lecture Series is to bring together the worlds of academic exploration and practical politics so that the work of those who serve the public will be illuminated by discussion of the broader principles and ideas of representative government. Such a synthesis is true to the spirit of the lecture's namesake, the distinguished Professor of Political Science at UCLA, John C. Bollens. Born in 1920 in Pittsburgh, Pennsylvania, John Bollens earned his bachelor's degree at the College of Wooster, his master's degree at Duke University and his doctorate at the University of Minnesota. He began his association with UCLA in 1950 and became a full professor in 1960. He established himself as a most productive and influential thinker on local government. Not only did he write 26 books, including profiles of Mayor Sam Yorty and Governor Jerry Brown, and inspire hundreds of students, but he also held important positions with Los Angeles County, Los Angeles City and the cities of Seattle and Chicago. These positions included Civil Service Commissioner of Los Angeles County, member, Los Angeles Citizens Committee on Zoning Practices, and director, Town Hall Study of the City of Los Angeles' Charter and Governmental Organization, which led to many changes in the City's charter.

We who know and worked with Professor Bollens as students, colleagues and friends began this lecture series as a legacy not only to the man, but to his unique brand of scholarship.


Edmund D. Edelman
Supervisor
Los Angeles County


Marvin Braude
President Pro Tem
Los Angeles City Council


David Wilson
Professor, Political Science
University of California, Los Angeles
Chairperson, Lecture Committee

Seventh Annual John C. Bollens Lecture

Carl Covitz

New Directions for California

It's really an honor to be here at UCLA. We have a very warm spot for this institution. Although I am not an alumnus, my wife is, and in addition to my having been an instructor at the graduate school, UCLA has always played an important part of our lives.

Tonight I'd like to share with you some of the background of what I am attempting to do. There is a wide range of activity underway in Sacramento today.

Just so that you know a little bit more about my background, and the perspective that I bring to the job, I did spend time in Washington in the federal government, and I have had other civic responsibilities in the City Housing Authority and the County Crime and Delinquency Commission. But I consider myself really from the business community, and so that is my perspective. I come to the government and the Governor's cabinet as a member of the business community. I have had some level of public service, but it is almost a sabbatical from time to time that I return to public service.

So, let me tell you a little bit about business, transportation and housing. We have now 40,000 employees. It was, at one time, 30. We have a \$6 billion dollar budget. And, in spite of the budget crisis that we found ourselves in, very little of that has any effect on my agency because my agency is funded by non-general fund sources; gasoline taxes; bond initiatives that have already been passed; Department of Motor Vehicle fees, and things of that sort. In fact, of the entire state budget, I represent perhaps less than one-half of one percent of general fund expenditures. Included in the areas of my responsibility, we have quite a number of state-funded housing programs and we also administer a large amount of federally-funded programs that the federal government funnels through the state.

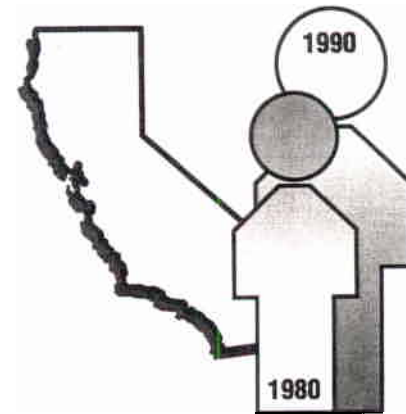
In the transportation component, I am responsible for CalTrans, known to you all for its freeway activities. In addition, there is significant activity in rail. All the rail programs in the state are controlled by CalTrans, both passenger trains as well as light-rail. I am also responsible for the Department of Motor Vehicles, the California Highway Patrol, and the Office of Traffic Safety.

The last category, business, includes all the business regulatory agencies, the Corporations Commission, the Banking Commissioner, the Savings and Loan Commissioner, DRE (Department of Real Estate); Alcoholic Beverage Control, all the regulatory agencies that have any effect in the business environment, and the Department of Commerce. The Department's primary function is economic development, domestic trade, international trade, even tourism. Tourism is perhaps the second most important industry in the state of California, generating some \$50 billion a year of revenue.

Recently, there was the Governor's Conference of Tourism in Sacramento, and we had the entire community visit with us at the state level and network amongst themselves. The Governor spoke to the group, as I did, and it was interesting to observe this industry. There is fun and games in it. In fact, there is quite a similarity between Sacramento and Disneyland. Both of them seem to leave the real world behind and enter the world of fantasy. Both Sacramento and Disneyland are filled with adventure. Both Sacramento and Disneyland have lots of fireworks. Both Sacramento and Disneyland have a full cast of characters including Goofy, Dopey and Dumbo. But seriously, both are places where dreams can actually come true.

It was mentioned that I was also in Washington. I spent some time in the Reagan Administration. There is also some similarity between Sacramento and Washington. Washington is truly a beautiful city. It was designed by the French architect, Pierre LeFant. However, it tends to go around in circles. Sacramento, on the other hand, has a downtown area that is all square. And perhaps that's where the similarities end.

But on a serious note, there are a number of very, very serious issues that face the state today. We are blessed in California with a population increase,



From 1980 to 1990, California's population increased by 6,000,000 people or 26%

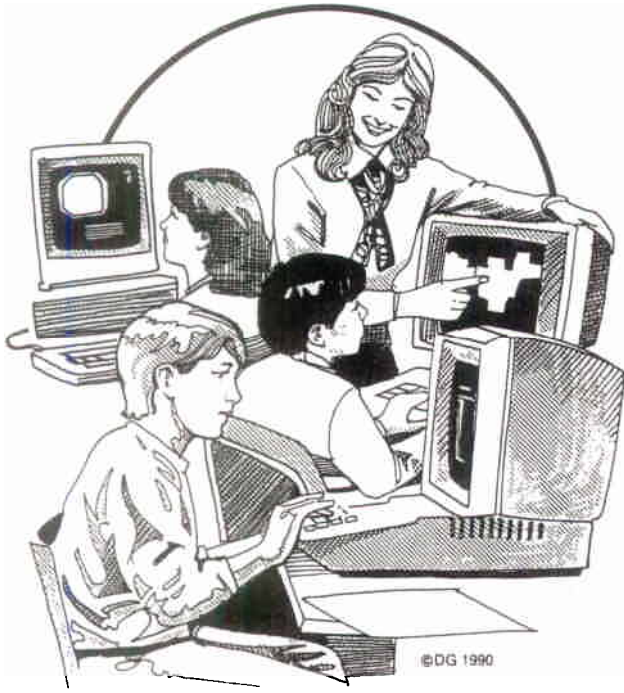
and in the last decade, there has been a 26% increase in the state population from 1980 to 1990. Six million people came to California. That is as if the entire state of Massachusetts moved to California during that period of time. We today have more population than New York and Pennsylvania combined. And it is increasing. It is continuing at a rate of 2,200 people a day. Perhaps more immediately following the Rose Bowl Parade, when on January 1st it's warm and sunny in Pasadena, and it's cold and snowy elsewhere and people decide to come.

We have no problem in the state attracting people. They come. Our problem is to provide jobs and social services for those people. And that is, in fact, the "Twin Peaks" of today's crisis: the budget problem and the drought, one of which is easily solved and I'll leave to you to decide which one.

In the budget crisis, with this tremendous influx of people that come to California, it has required a tremendous increase in social services, services that we are required to provide.

Since 1985, spending for schools in the state has increased 75%, spending for families with dependent children has increased 115% and spending for prisons has increased 200%. During those years, the general fund has increased 64%. We currently are faced with a \$13 billion shortfall. That is an enormous amount. That shortfall, our deficit in the state of California, is larger than the state budget in 45

states. That's only our deficit. The problem in dealing with the magnitude of that is the categories in which we are mandated to spend. In our general fund,



California now spends more than half its annual budget on education, including K-12 public schools, community colleges and a world-class university system.

budgets and expenditures, K-12 and higher education, community college systems, represent 51% of our spending. Health and Welfare represent another 32% of the spending. That includes Aid for Families with Dependent Children, Medi-Cal, public health and mental health services. The last significant category is the corrections system (prisons), and that represents 7.4% of the spending in the state.

All of these total more than 90% of the spending, in those three categories alone. These are mandated requirements for spending by legislation, federal requirements and judicial requirements. And that leaves discretionary spending less than 10%.

What to do in that kind of a situation? The federal government has three choices: They can reduce spending; they can increase taxes; or they can do nothing. The state government has only two choices. We are required by constitutional charter to have a balanced budget, so we have only two choices: We can only reduce spending and raise taxes. They are two very, very difficult options that

we have to deal with today. The light at the end of the tunnel in dealing with that problem is that I believe we have an administration and a governor who is committed to compromise and dialogue. He has said, "Everything is on the table." He has not said, "Read my lips, no new taxes."

We presented a budget in January when the deficit was assumed to be \$7 billion dollars; it's now \$13 billion. And at that time, he qualified that \$7 billion shortfall by saying that there are assumptions in those figures over which we have no control; the recession, the war and the price of gasoline. And not only have we no control over those items, frankly, we haven't the vaguest idea as to what will happen between now and June. So our assumption today, January 10th, is that there will be a \$7 billion shortfall.

Things have worsened in two critical areas. As a result of the recession, which was deeper than had been expected, the requirement for social services



As health-care costs rise for workers and companies, and the unemployed lose benefits along with jobs, people become more dependent on public health services.

has increased considerably; more people on welfare and more children being enrolled in schools, and a serious reduction in revenues. The recession has a two-fold effect: Not only do we lose revenue by virtue of less taxes, that is sales tax, income tax and corporate tax; the problem then is, those who suffer require more social services from the state.

Is there an opportunity to solve the problem? Yes, there is, and it will have to be done. It is mandated by law, by charter of the Constitution. There will be increased taxes. The Governor has said that the one

area that he will not allow increased taxes is that which will have a direct effect on future business environment — the mainstay of the state, the growth potential, the growth opportunity of this state. That would probably mean income taxes and corporate taxes.

The state of California is generous in its social services. I believe it is the third-highest source of providing service to its population and close to the fifth-highest taxed state. That does not provide an economic incentive for businesses to come to California or to stay in California. And if we begin to lose that, (and it has started) then the basic foundation for this state is in serious jeopardy.

In dealing with the future, perhaps the most important issue that we have is what is currently referred to as growth management. As we continue this explosive growth that California has enjoyed, we come in conflict with a whole variety of issues that must be addressed, environmental issues, limited growth, no growth. The Growth Management Council, created by the Governor at the beginning

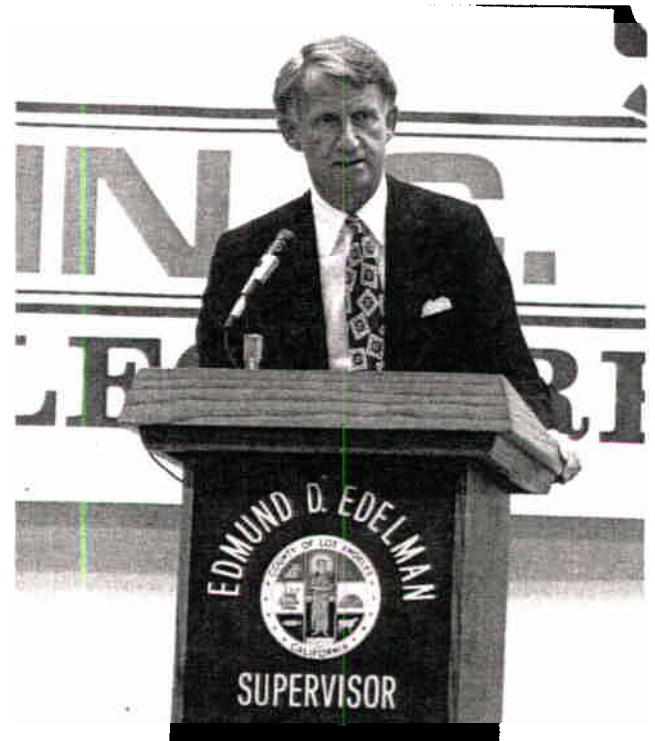
of the year, has a mission to bring all these elements together and deal with them in a reasonable, realistic way; to create a dialogue and ultimately compromise because we are on a collision course. Environmental issues that deserve to be heard are in direct conflict with economic elements that would continue growth in the state of California. So, we are attempting in the Inter-agency Council for Growth Management to bring all the parties together and dialogue, without rhetoric, without political posturing, in a realization that we have to work together to solve the problem for California.

Today we are losing the battle. You have read that industry is leaving California, and it is. You have probably read that industry is not coming to California because the cost of doing business here is too difficult, and that is true as well. Until we recognize the problem, the state does not have the ability to solve those issues. It will affect the budget in the future, and it will affect the quality of life.

Growth management has a number of components. Frankly, I look upon the components of



Supervisor Ed Edelman, who first proposed the idea for the Bollens lecture series, offers introductory remarks for the Seventh Annual Bollens Lecture.



California Business, Transportation and Housing Secretary Carl Covitz delivering the 1991 John C. Bollens Lecture at UCLA.

business, transportation and housing as being the foundation for the economic environment of the State of California. Not only should there be economic development and affordable housing, but there also has to be a transportation system that moves the people from home to employment, and the transportation of goods and services. All of those are terribly critical in the determination of growth management.

In the Legislature, a number of proposed bills deal with growth management. Frankly, I don't think any of them will succeed this year. To a certain extent, it is a continuation of political posturing, but the purpose today and for this year, in this legislative session, is to have the dialogue and to have the communication not to enforce, enact any kind of preliminary solution, because I don't think we know what the answer is yet. And I don't think we have all the players for discussion in agreement as to what the solution is. And, incidentally, growth management includes the possibility of regional management — regional forms of government. That is a subject for discussion. We don't have the answers yet, but I think the dialogue has begun.

There is one other element that I should touch on because I think it is terribly important, and that is transportation in the state of California. It was, in the last election, the only voter mandate that provided funding, and the message from the voters was, "solve the problems of transportation."

The freeway system here in Los Angeles, there is no better example, has reached a level of saturation. In the state of California, there are daily five hundred thousand hours lost as a result of freeway congestion — unproductive hours. That translates to more than a billion dollars a year of lost productivity. We have to do something about that. Assuming that there are limits to what we can do, building new freeways is probably not the answer, certainly in an urban area such as Los Angeles. We have to make that which we have more efficient and more productive. And we also have to change an attitude and the psychology of the California driver. We no longer can afford the one-car, one-driver mentality. We can do things like creating HOV lanes, carpool lanes. We will continue to encourage mass transit. It has become



In the 1970s, California pioneered the use of designated high-occupancy-vehicle (HOV) lanes to ease traffic congestion by encouraging car-pooling.

successful in its initial stages. The Blue Line in Los Angeles is beyond expectation. The San Diego trolley is providing its own operating revenues. Even in Sacramento, the streetcar system is a roaring success. We have to get the people out of the car and into alternative forms of transportation.

During that ten-year period, incidentally, where we had a 26% increase in population, we had a 34% increase in the number of registered automobiles in the state of California.

In the race between new freeways and new automobiles, new automobiles will always win. So, we have to be more effective and more efficient in our transportation system, and I think that this administration — and certainly that area for which I have some responsibility — is dedicated to improve the highway and freeway system for the state of California.

All in all, California is a pretty terrific place to live, and I'm reminded of the song by the Mamas and the Papas: When "the leaves are brown and the skies are gray" back east, millions of Americans find themselves "California Dreamin'" and I think that's going to continue.

Ladies and gentlemen, thank you very much.

Questions and Answers

Question: "What are we doing to promote more business in California?"

Answer: Within the Department of Commerce, we have a number of offices; the Office of Business

Development and the Office of Small Business. We do not have the resources to spend enormous amounts of money. What we try to do is be a catalyst in bringing together those business interests that have a particular need, and locating the facilities or environment that would satisfy their needs. I might say that the Department of Commerce is a general-fund agency, and that means it is one that is subject to this \$13 million deficit. And yet, in spite of this deficit that we are faced with, the Governor has determined that he will not cut what limited resources are available to the Department.

Question: "Is a major reason that business is losing or is not coming because of the high cost of doing business here?"

Answer: Let me share a statistic with you. Seven out of ten new jobs in the state of California were the result of the growth of existing business. And so what we have to do is marshal our resources and focus our attention on keeping the existing



From the left: Aviva Covitz, Secretary Carl Covitz, Mrs. Virgene Bollens, Professor David Wilson, Supervisor Ed Edelman, and Councilman Marvin Braude.

business here. And there are ways of doing that. For instance, in attempting to expand a business, there are a multitude of permits and procedures necessary, and they are often in conflict. One department will say one thing and another will say another. Even within my own agency, those who have to deal with CalTrans will get different requirements than those at the Department of

Housing and Community Development. What we would like to do in my agency is create a one-stop shopping environment to solve these many bureaucratic differences. As to other things we are doing, there are job-training programs. There are tremendous federal resources available and we will attempt to assist the business community in taking advantage of those.

Question: "What about the specific business climate in our region?"

Answer: Well, I think the thing that we deal with most here in Southern California is the AQMD, the Air Quality Management District. AQMD has very serious restrictions that affect the business community. The governor has created a new cabinet-level position, a California Environmental Protection Agency, EPA. It is my job to persuade the Secretary of Cal-EPA, Jim Strock, that he and I have to work together so that what he wants to accomplish does not stifle the business community, and we can do that. Accomplish what is important, over time, with adequate procedures so that it is not so terribly burdensome on the state. These discussions are just beginning. For legitimate reasons, we have to deal with environmental issues. The business community recognizes that. Certainly, I do. At the same time there is a degree of moderation that is appropriate.

Question: "How important is international trade?"

Answer: Well, there is now active negotiation for the Free Trade Agreement with Mexico. I support it wholeheartedly, as does Governor Wilson. I think it has tremendous benefits for the state of California. The reason that we are burdened by our social service requirement is that we must provide, by law and judicial mandate, social services for illegal immigration. The people from Mexico that come here to work don't come because they would rather work in California than at home in Mexico. They come here because the opportunity to earn a living is far greater in the United States than it is in Mexico. It seems to me that the Free Trade Agreement with Mexico, properly instituted, means over time, with transition, there can be an equalization of the standard of living. That means it

can relieve some of the pressure of illegal immigration. If they can provide for their families at the same level in Mexico that they can in the United States, they're not going to come here. Now, there are some serious concerns, and I must say that those opposed to it feel strongly that it will wreak havoc. It will create inequality in the labor force immediately. Our position is that it has to be implemented over time, with a transition period that allows for an adjustment. We think it can only benefit the state of California and we support it.

Question: "Isn't there an inherent conflict in establishing regional policies that supersede local governments?"

Answer: Well, that is part of the discussion in growth management and regional government. There are proposals. Assembly Speaker Willie Brown is an advocate of that. I believe Supervisor Edelman is, of course, against. Generally, local government has some serious concerns about attempting to consolidate power at a higher level. The state believes, the federal government believes, at least when I was there, as does the state government, that local issues are best handled in the local environment. I think that the problems of regional government have surfaced as a result of single-entity kinds of authorities like AQMD that transcend local governments, yet seem to be independent.

Question: "What can be done to address the housing problem?"

Answer: There are two very significant and distinct issues in housing. Affordable housing, and housing for the truly needy. I do believe it is our moral and ethical responsibility to provide housing for the truly needy. Affordable housing, and perhaps that is the issue you are referring to, is a totally different issue. I have, in my experience, been involved in every conceivable aspect of the housing industry. I am a private developer; I mentioned earlier that I bring to this job the perspective of a businessman. I was the Undersecretary in Washington of the Department of Housing and Urban Development where I created policy. I came to Los Angeles and I became the Chairman of the Board of the City of

Los Angeles Housing Authority, where I was the beneficiary of a policy that I had created in Washington. And I am now the Executive Officer for the state housing program.

I don't know the answer to the question, "What is it that we do to provide affordable housing?" I know what the components are. It is land. It is a tremendous amount of regulatory control and expense, delays which create expense as well as specific expenses and the cost of labor. Together all of those people can attempt to achieve some reduction in that which they are willing to expect.



Meeting the growing demand for affordable housing has been one of government's most daunting challenges in the 1980s and 1990s.

Some level of reduced expectation will reduce the cost of housing. And we have worked as a catalyst in some locations to bring those people together and create an environment for affordable housing. It has worked. In seventeen demonstration projects, we reduced the cost of housing 18%. For a \$100,000 house, which in California is "affordable housing", that is quite a bit of money. Whereas \$18,000 may not be a lot, it provides many, many people the ability to buy in terms of what the income will allow in mortgage payments. Now, having said all that, I have to tell you that I don't know the answer to affordable housing. People are living further away from jobs because the land there is cheaper, and often the governmental agency responsible is more willing to assist the process without burdensome costs. Then it becomes the responsibility of moving those people to the employment centers and that's the transportation

component. High-speed HOV lanes, commuter buses, those are some of the things that we are dealing with. I think we can make a dent, but we're not going to solve the problem.

Question: "What about the burden of unfunded local programs mandated by the state, and the Governor's realignment proposal?"

Answer: Supervisor Edelman asked about the services that the Governor has recommended be given to the local communities and counties, and would there be adequate funding to provide those services. In the January 10th budget proposal, there was the suggestion that mental health and public health, which have been state-funded and controlled, be given to the counties for control and direction. And in addition, part of the tax increase — specifically the Department of Motor Vehicles registration fee — would also be provided to the counties to pay for that. The specific number at that time for the cost of the public and mental health programs that the state was funding was \$730 million dollars, and the increased revenue as a result of the motor vehicle fee was \$900 million: \$730 million (cost) and \$900 million (revenue). The reason for that difference is that we expect the requirement for public health and mental health to be increased by that amount of money. So, I think that was a fair and equitable trade for that specific instance. Now, things have changed between now and then. It is now a \$14 billion shortfall and I believe that the negotiations between the Legislature and the Governor will open up all areas of discussion again for negotiation.

Question: "What can be done for the homeless?"

Answer: The "homeless" issue, complex as it is, deals with many components much more significant than only a roof over the head. It includes drug abuse, alcoholism, mental instability. And the solution to the "homeless" is not just providing a house. The solution is a concerted effort to work together with all the social services. As a result of the recession, this problem is exacerbated, it is worse today than it was before. And we do have a program that deals with attempting to fund the social services, as well as the housing issue. I have



Homelessness is not one problem, but many problems; it requires an integrated approach addressing the need for shelter, but also substance-abuse treatment, health and mental-health services, and job counseling.

to tell you, frankly, having dealt with it in Washington and at the state level, it is a problem that most communities are trying to avoid. They don't want to deal with it. They would like to pretend that it doesn't exist or that it will go away. Usually, when we dealt in the federal government with grants and funding for programs, there were requests that far exceeded the available funds. When we put out our RFP's, or Requests for Proposals, which is the announcement that money is available for homeless programs, we were never able to fund the money that was available. We had to recruit organizations to ask for the money to deal with the issue of homelessness. That problem has lessened. I think that the cities and counties have assumed more responsibility, but frankly, most people don't want to deal with it.

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