

2003 ANNUAL REPORT



CALIFORNIA

BUSINESS

ROUNDTABLE

# FROM THE CHAIRMAN



When California historians look back at 2003 they will undoubtedly conclude that it was a year without precedent in our state's colorful past. What we don't know yet is whether it will lead to needed long-term systemic change of the state's political and governmental structure.

As the year began, California faced up to a \$38 billion budget deficit and a Legislature which has become increasingly polarized, showing no sign of willingness to honestly confront the problem. The state's economy was in a continuing slump and in the San Francisco Bay Area a persistent recession. The Legislature also continued to exhibit behavior that was decidedly anti-business. In a February Roundtable meeting with legislative leaders and members this message was brought home with a surprising bluntness.

In response, the Roundtable along with other leading business associations initiated the Jobs 1st Campaign. The campaign sharply focused on the theme that the Legislature needed to stop passing legislation that inhibited the creation of jobs in the state and concentrate on realistic steps that could be taken to encourage the creation of new jobs. Most pointedly it was made clear that the cost of providing worker's compensation insurance was increasing at rates that were driving businesses out of the state. At the conclusion of the legislative session a very modest reform measure was passed that has stopped double digit percentage premium increases and provided an approximate 4 percent reduction in 2004 costs. While this was a positive action much more needs to be done to reduce costs and assist seriously injured workers in a nearly \$30 billion system. To his credit Governor Schwarzenegger immediately after being sworn-in called the Legislature into special session to deal with this and other problems facing state government. The Governor also has made clear that if the Legislature fails to act he will not hesitate to go directly to the people through the initiative process to accomplish the goals he outlined during his campaign.

The Jobs 1st Campaign was successful in stopping a substantial number of "job killer" bills but in the heat of the Gubernatorial campaign a number of anti business bills were enacted and signed into law before the October 7 election.

In other respects the Roundtable had another successful year. This report highlights those achievements as well as our continuing work for 2004.

At the close of the year the state has a new Governor and an economy showing real signs of recovery.

In 2004 the Roundtable and its members will continue to play an active and leading role in fostering policies that will lead to vigorous economic growth and the return to a positive business climate.

It has been my pleasure to serve as Chairman of the Roundtable this year and I look forward to a more positive environment in the coming year.

Best Regards,

A handwritten signature in cursive script that reads "Dick".

Richard M. Kovacevich

## EDUCATION REFORM

### Overview

Few policy issues affect California's ability to compete more than the quality of the state's public education system. The Roundtable has long supported a number of policies aimed at improving education performance and workforce competitiveness with an emphasis on ensuring that all California graduates are well-prepared to succeed in the global economy that awaits them.

### THE ROUNDTABLE CONTINUED

### ITS COMMITMENT TO THE STATE'S

### ACADEMIC STANDARDS, ASSESSMENT

### AND ACCOUNTABILITY MOVEMENT.

### California Business for Education Excellence

This year, the Roundtable continued its commitment to the state's academic standards, assessment and accountability movement. Through its education partner California Business for Education Excellence (CBEE), the Roundtable led the effort to defeat a measure, Assembly Bill 356, by Assembly-member Loni Hancock (D-Berkeley), which would have abolished California's High School Exit Exam (CAHSEE). The CAHSEE is a key component of the state's testing and accountability system and helps ensure all students who graduate from high school have grade level competency in reading, writing, and mathematics. The Roundtable also helped lead the way for the successful passage of Senate Bill 257 by Senator Dede Alpert (D-San Diego). This measure will establish a longitudinal student information system, allowing for the tracking of individual student progress over time.

### No Child Left Behind Act

January marked the first anniversary of the federal *No Child Left Behind Act (NCLB)*, which represents added momentum to longstanding efforts underway in California to raise academic standards, measure results, and hold schools and students accountable for improving achievement.

Significant progress was made this year as President Bush's Education Secretary Rod Paige approved California's NCLB accountability workbook which outlines how the state plans to meet the requirements of the federal law. California is well-positioned to meet the requirements of NCLB which also represents significant funding opportunities. In 2002-03 alone, California received nearly \$2 billion under the federal law.

While NCLB has resulted in significant new funding, several challenges remain with respect to student testing and performance, how the state will align its accountability system to the federal law's system, and ensuring all classrooms have a highly qualified teacher by 2005-06. The Roundtable remains committed to the successful implementation of the Act and will help ensure that it complements and builds upon the accomplishments already achieved in the state.



**Bill Siart, Chairman, Excellent Education Development, EXED LLC**

### **Campaign for College Opportunity**

The number of high school graduates seeking admission to college in California has begun to outstrip the capacity of public and private colleges in the state to educate them. Over the next ten years, best estimates indicate that close to 2 million students could be denied the chance to go to college in California, many of which come from low-income families and communities of color. The economic and social consequences of this denial of college opportunity are enormous.

Through the leadership of Roundtable member Barry Munitz, J. Paul Getty Trust, the Roundtable joined a diverse coalition including the Community College League of California and the Mexican American Legal Defense and Educational Fund to create the Campaign for College Opportunity to meet this challenge head on. The campaign will focus on raising public awareness of the urgency and importance of ensuring college access to eligible and motivated students, identify best practices for colleges to serve the next generation of students

more efficiently, and work cooperatively with state policymakers and the Governor to ensure that action is taken to realize the promise of the Master Plan for Higher Education for the next generation of college students.

The campaign has received initial funding from the William and Flora Hewlett Foundation with additional support anticipated from other major foundations in early 2004. Early next year the Campaign will launch a public awareness campaign and begin to build state-wide and regional coalitions.

2004  
MEETING  
DATES:  
**February 17, 2004**  
**June 10, 2004**  
**October 5, 2004**

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## ECONOMIC BUDGET REFORM

### **R**oundtable Members Visit State Capitol

In February, members of the Roundtable blanketed the state Capitol and met with legislative leaders and the Governor to express their grave concern about the state's negative business climate and urged lawmakers to be mindful of their actions in relation to job creation. Leaders from both the Assembly and Senate were briefed about the major concerns of the business community including the escalating cost of doing business in the state and difficulty in remaining competitive with other states in creating jobs and expanding our economy.

Roundtable members indicated that the state's ongoing budget and fiscal crises is a serious detriment to business expansion and urged a resolution of the budget as soon

as possible. Roundtable members also communicated what business needs most to encourage new investment is a stable and reliable state political environment.

### **Jobs First Campaign**

The Coalition for California Jobs (CCJ) was formed in 1997 with the support of the California Business Roundtable and other leading business organizations to aggressively oppose anti-business legislation through earned and paid media campaigns to positively present the necessity of maintaining a thriving business climate in California.

Earlier this year, CCJ launched a new umbrella campaign, Jobs 1st, which focused on a variety of anti-business legislative proposals that would adversely affect virtually every business in California and encouraged policymakers to put jobs first in their deliberations. The campaign raised over \$500,000, of which nearly half was contributed by Roundtable member companies.

## THE STATE NEEDS TO ESTABLISH A WORKABLE FORM OF FISCAL

DISCIPLINE AND A SET OF MECHANISMS THAT WILL HELP

SAFEGUARD AGAINST MAJOR DEFICITS IN THE FUTURE AND

RESTORE INVESTOR CONFIDENCE.

CCJ enjoyed significant success in what many believe was the most anti-business legislative environment in years. Of the 52 bills put on the “Job Killer” list, 73 percent were either defeated, amended to the point where they were no longer considered job killers, or had their progress derailed and turned into two-year bills.

### Economic Stimulus Plan

The best way to stimulate our economy and help ensure adequate funding for essential programs and services — such as public safety and education — is to create more jobs. In May, the Roundtable, along with the state Chamber of Commerce, developed an Economic Stimulus Plan detailing the necessary steps and essential reforms necessary to reinvigorate California’s stagnant business climate. The Plan was submitted to legislative leaders, the Governor and the media. While some progress was made on workers’ compensation reform this year, there is still much work to be done, and the Roundtable will continue to push for these and other reforms during the Special Legislative Session called by Governor Schwarzenegger. The stimulus plan included a call for workers’ compensation reform; repeal of the eight hour overtime law; and suspension of the paid family leave law among other reforms.

### Structural Reform of the California State Budget

Recent budget deficits were the result of numerous factors which need to be acknowledged so that the state’s budget process can be changed. Early this year the Roundtable conducted an extensive review of more than 20 years of data and revenue from the state’s three key funding sources and found that with the exception of two years, growth in these sources while varying from year to year have not fluctuated dramatically. It was evident from our review that the state needs to establish a workable form of fiscal discipline and a set of mechanisms that will help safeguard against major deficits in the future and restore investor confidence.

We developed a set of comprehensive structural reform recommendations. Some of the recommendations included requiring that the Governor submit a balanced budget in January of each year and that that budget remain balanced throughout the fiscal year. In addition, the budget should include a reserve of at least three

percent of total general fund resources which must be in the final enacted budget. Also, at any time during a year the Governor determines (on the advice of the Director of Finance) that the budget is substantially out of balance, the Governor would be required to introduce a rebalancing bill to be introduced in each legislative house. The combination of these measures, among others, would instill the fiscal discipline that is absent today and yet permit flexibility to meet the needs of the people of California.

### Annual Business Climate Survey

This year marked the release of the Roundtable’s 13th Annual Business Climate Survey, in which business leaders registered a sharp decline in overall mood from just a year ago. In fact, only fourteen percent of California business leaders believed things in the state were going in the right direction, a marked decline of twenty-eight points since the last survey — the lowest level in the history of the survey. Over three-quarters believed things have gotten off on the wrong track.

While not surprising, the results were disturbing and underscore the need for the Legislature to take a hard look at measures that will help stimulate the economy and bring businesses and jobs in the state.



**Sunne Wright McPeak, California’s Secretary of Business, Transportation and Housing.**

### **Bain & Company: California Competitiveness Study**



**Vernon Altman, Director,  
Bain and Company Inc.**

As a result of the Roundtable's visit to the Capitol in February, the subsequent questions that followed regarding the migration of jobs from the state and skepticism expressed by legislative leaders, strategic management consulting firm Bain & Company, under the direction

of Roundtable member Vernon Altman, initiated a comprehensive review of the migration of jobs from California and the state's business competitiveness. The study integrates existing economic research with the viewpoints of actual decision makers to determine the true trajectory of California job creation and retention. It also is developing a front-line CEO perspective on the most critical employment issues facing California businesses today. The goal of the study is to develop a set of policy and legislative recommendations that will help improve the overall health of the California business climate and performance. It is the Roundtable's intent to use this material as a rallying cry to garner support from other key interest groups and ultimately push an actionable agenda of public policy with state lawmakers and the Governor. The results of the Bain analysis will be released early in 2004

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## I N F R A S T R U C T U R E

### **I**nfrastructure Financing

Proposition 53, a result of the passage of ACA 11 in 2002, would have established the California Twenty-First Century Infrastructure Investment Fund and proposed to dedicate up to 3 percent of the state's General Fund to pay-as-you-go capital outlay projects — 50 percent for state-owned infrastructure and 50 percent for local government infrastructure. The measure was to appear on the March 2004 ballot, however due to the recall election it was placed on the October 7th ballot and was ultimately defeated. The Legislature has failed to provide sufficient money for infrastructure during the past 30 years. In the Pat Brown and Ronald Reagan eras, the state invested between 15% and 20% of General Fund revenue in infrastructure. According to the nonpartisan Legislative Analyst, the state has spent an average of just 2% of General Fund revenue on infrastructure annually between 1990 and 2002. We cannot continue to rely solely on general obligation bonds to fund our infrastructure. Therefore, the Roundtable will continue to support the development of a "pay as you go" financing source for infrastructure projects.

### **Transportation**

**Reauthorization of TEA 21** — Every five years Congress reauthorizes transportation funds in the federal highway bill, which were set to expire on September

30th. Earlier this year, Roundtable president Bill Hauck, along with a group of business leaders, traveled to Washington, D.C. to meet with U.S. Transportation Secretary Norm Mineta and key members of the U.S. Senate and Congress to ensure that California receives its fair share of transportation dollars based on its contributions to the Highway Trust Fund and preeminent role in the national economy. Unable to reach a compromise by the September deadline, Congress extended TEA-21 through February 2004 and will again attempt to enact a long-term reauthorization after January 1st. Congress must enact a successor bill or extend authorization of existing law by March 1st or all federal funding for highway, highway safety, and transit projects will lapse. These funds are essential to the future of California's economy and to the quality of life of communities up and down our state. The Roundtable will continue to encourage Congress to keep these issues at the forefront as debate continues concerning reauthorization of the surface transportation act.

**Proposition 42** — Despite the successful passage of Proposition 42 in 2002, the state's severe financial crises resulted in nearly \$1 billion of Proposition 42 dollars being moved to the state General Fund. The Roundtable strongly opposed moving these funds and urged the Legislature to retain a guaranteed portion of Proposition 42 funds for transportation. Under the leadership of

Roundtable member Dave Watts; Granite Construction, the Roundtable helped lead the successful effort to pass Proposition 42. In 2004 we will strongly support restoring these funds to vital transportation projects.

## Energy

**Energy Agency Consolidation** — The Roundtable continued to push for the consolidation of California's energy bureaucracy into a new Department of Energy,

a move we believe will improve accountability and efficiency and help to stabilize supply within California's energy market. Assembly Bill 808 by Assembly members Keith Richman (R-Northridge) and Joe Canciamilla (D-Pittsburg) was introduced in January but was ultimately held in the Senate. The Roundtable will continue to seek long-term solutions to equalizing electric supply and demand and bring stability and reliability back to California's energy market.

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## LOOKING AHEAD

### Challenges and Opportunities

The year 2004 promises to be one filled with challenges and opportunities. At least to some extent, it appears that major public policy decision-making will shift from the Legislature to the March and November ballots.

Along with the contests for Senate, Assembly and Congressional seats there will be a Presidential election and numerous ballot measures that could affect the state's business climate and economy.

In March a \$12.3 billion statewide school bond (Proposition 56) will be up for voter approval as well as Proposition 55, an initiative measure sponsored by the Service Employees International Union (SEIU) that would lower the legislative vote required to raise taxes from the current two-thirds to 55 percent of the members of both houses. Also on the March 2 ballot could be a referendum on Senate Bill 2 which would mandate employers to provide paid health insurance to their employees and potentially a \$15 billion bond measure to pay the state's accumulated debt.

In November, voters may be asked to approve a measure that would increase taxes on commercial property; an initiative measure that would eliminate virtually all business tax incentives and a proposal sponsored by cities and counties that would prevent the state from reducing payment for mandated local services without approval by voters.

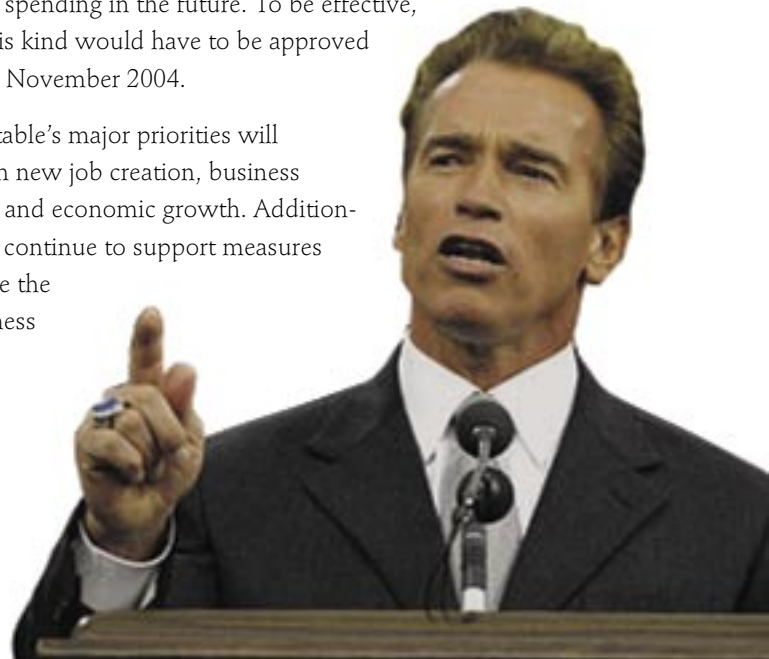
On the positive side, a business sponsored initiative to reform the state's unfair competition law (B&P Code Section 17200) will almost certainly qualify for the ballot. If necessary, a measure to reform the state's work-

ers' compensation insurance system may also be put before voters in November as well as a revised version of the Open Primary. A group led by Controller Steve Westly and former Los Angeles Mayor Dick Riordan are currently in the signature gathering phase of the Open Primary effort.

In the Legislature, attention once again will be focused on the state's severe budget and financial condition. With a projected deficit of at least \$25 billion it is unclear how the Governor and Legislature will approach the problem.

If the Governor and Legislature can agree on a 2004-05 budget, one of its elements may be a measure that would limit spending in the future. To be effective, a limit of this kind would have to be approved by voters in November 2004.

The Roundtable's major priorities will be to sustain new job creation, business investment, and economic growth. Additionally we will continue to support measures that improve the state's business climate.



**Governor Arnold Schwarzenegger at his Inauguration.**

## M E M B E R S

Curtis Terry  
*Aetna Inc.*

Jay Wintrob  
*AIG SunAmerica Inc.*

Kenneth McNeely  
*AT&T*

Thomas V. McKernan\*  
*Automobile Club of Southern California*

Philip M. Neal  
*Avery Dennison Corp.*

Vernon Altman  
*Bain & Company Incorporated*

Liam McGee\*  
*Bank of America, California*

Adrian Zaccaria  
*Bechtel Group, Inc.*

Bruce G. Bodaken  
*Blue Shield of California*

William R. Collopy, Jr.\*  
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Peter Cartwright  
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Don Fisher  
*Gap Inc.*

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*The J. Paul Getty Trust*

James Boswell  
*J.G. Boswell Company*

Richard Cordova  
*Kaiser Foundation Health Plan, Inc.*

Bruce Karatz\*  
*KB Home*

Robert D. Haas  
*Levi Strauss & Company*

Bill Meehan  
*McKinsey & Company*

Margarette Hall  
*Mervyn's/Target Corporation*

Anne M. Cleary  
*Mirant California, LLC*

Gary M. Cusumano\*  
*Newhall Land*

Dr. Ray Irani  
*Occidental Petroleum Corporation*

Thomas C. Sutton  
*Pacific Life Insurance Co.*

Michael V. McGee  
*Pardee Homes*

Robert D. Glynn, Jr.  
*PG&E*

Joseph Saunders  
*Providian Financial Corporation*

Dan Hannon  
*Reliant Resources*

R. Chad Dreier  
*The Ryland Group, Inc.*

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Lora K. Watts  
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*Science Applications International Corp.*

Stephen Baum  
*Sempra Energy*

Greg Jones  
*State Farm Insurance Companies*

Jeffery Gargiulo  
*Sunkist Growers, Inc.*

Van Johnson  
*Sutter Health*

Alfred A. Plamann  
*Unified Western Grocers, Inc.*

Bob Walker  
*Union Bank of California*

Timothy McCallion  
*Verizon*

Robert Flowers  
*Washington Mutual*

David Helwig  
*Wellpoint*

Richard M. Kovacevich\*  
*Wells Fargo & Company*

\*Executive Committee

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