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The Silicon Valley Leadership Group
“Projections 2010: Leadership California”
Held at Santa Clara University Louis B. Mayer Theatre
September 16, 2009

Housing, Transportation and Infrastructure

Participants:

Carl Guardino, President and CEO, Silicon Valley Leadership Group
Steve Poizner, Insurance Commissioner, State of California
Andy Ball, CEO, Webcor
Stuart Cohen, Executive Director, TransForm
Kim Polese, CEO, SpikeSource
Moderator -- Dan Hatfield, Editorial Pages Editor, Bay Area Newsgroup

Guardino: On behalf of the 300 members of the Silicon Valley Leadership Group, who collectively provide one of every four jobs in all of Silicon Valley, we're honored you have carved out half a day to participate in an interactive dialogue with four of the five top-tier gubernatorial candidates who would like to be your next governor. We're honored that nearly a dozen top Silicon Valley CEOs will be engaging these public-sector leaders in an in-depth dialogue about the most pressing issues facing our region and our state; that several of the Bay Area's finest journalists will be posing timely questions about the policy issues you care most about; and that each of you will have the opportunity to pose questions on the 3x5 question cards to those members on each panel.

Please join me in thanking our Projections team leader, Gavin Douglas and his colleague, Stephen Wright, our communications vice president.

California is in crisis. We are deeply concerned about the state budget, governance, and the need for reform. We're equally concerned about issues not being addressed that impact our everyday lives and the strength of our economy, like education, housing, transportation, water, energy, the environment, healthcare, fees, and taxes. We are here today because we have a choice. We can be enraged or we can be engaged. It is time we took the tarnish off the Golden State, and that only happens when each of us is involved. That is why we are honored to have you with us today.

As our first panel makes its way onstage, I'd like you to join me in welcoming me to the podium the director of corporate responsibility for Symantec Corporation, Ms. Cecily Joseph.

Joseph: Good morning. All of today's panels deal with the issues critical to Silicon Valley, but *this* one involves topics that consistently rank at the very top of concerns [both for] companies

and the broader community, housing and transportation. The panelists will be introduced in a minute, but I wanted to introduce you to the moderator, Dan Hatfield. Dan is in charge of the editorial pages for eleven daily newspapers throughout the Bay Area, including the Contra Costa Times and the Oakland Tribune. The combined daily circulation is 304,000. He has been the editorial-page editor at the Contra Costa Times, which has its headquarters in Walnut Creek, for nearly 13 years. Ladies and Gentlemen, Dan Hatfield.

Hatfield: We're going to use the Phil Donahue mic. Oh, my goodness! Thank you. It's a pleasure to be here. I'm going to try a little something different, and any time I say that, these folks over here are about to freak out. Even though I have spent nearly half of my life living in the states of Louisiana and West Virginia, I am going to dispense with any cute little stories, and get right to the program. Let me tell you who we have on our panel here, because this is an awfully important segment, and I think it's a good beginning.

First, we have gubernatorial candidate and current insurance commissioner—I got that in the right order, right?—okay. Mr. Steve Poizner. And we have megabuilder, the CEO of Webcor, Andy Ball. All of you Cal fans, he is building your stadium. Next, we have Stuart Cohen, who is the executive director of TransForm, an advocacy group. And we have Kim Polese, who is the CEO of SpikeSource. And one other thing. We should remind the panelists that all the seats are equipped with a lie detector and an ejection seat. This is a high-tech operation.

Mr. Poizner, individual city decisions on land-use issues determine whether our collective housing-supply needs are met. However, residential developers continue to face community opposition to new development proposals. What role should the state play, or can the state play?

Poizner: Good morning, everybody, and thanks to Carl and the Leadership Group for organizing this. The Silicon Valley Leadership Group all around the state of California is extremely well known as being one of the most effective advocacy groups in the state, so congratulations again on this seminar.

With regards to the question about whether there's a role for the state to help deal with some of the land-use planning decisions that get made locally all over the state of California, let me just say I'm personally a big believer in local control. And, as the next governor, I am not going to be yanking power out of the local level to move it to the state, that's for sure. In fact, I'm going to be moving power in the other direction. I think there's way too much power concentrated in Sacramento. But, with that said, there's a need for much better coordination, and that's where great leadership can make a big difference. The fact is, the impact on the environment and transportation-system planning – that does cross city boundaries, and there hasn't been great coordination between various locals in a particular region. And I will play a big role in getting local communities together in regional task forces to better coordinate regional planning across the state.

And one final comment here. One thing I *will* do for sure as I become more active in helping to get this great state that's very broken right now back on track, I can guarantee you this. I will not rob transportation funds to help deal with short-term budget problems. That is illegal and that is wrong and, of course, that creates all kinds of crises when transportation funds are counted on by

local groups, and then, all of a sudden, the state steals this money to deal with short-term budget crises, and that's just a big mistake, and I'm just not going to let that happen.

Hatfield: Well, as a follow-up to that, *how* are you not going to let that happen?

Poizner: Well, it's an issue of having, first, the vision that it's illegal to be robbing these dedicated funds that have been put together by voters for specialized causes. As Mr. Cohen knows, and others, I mean these transportation funds were put together by the voters to fund transportation projects, not to deal with short-term budget crises. So it takes a leader who understands that, understands the law, and what the voters intended, and I'm simply going to have the passion and the backbone to resist any urge to steal monies from the locals and regions.

Hatfield: Thank you. This one is for Kim Polese. The low-income-housing tax credit is the most important financing tool for the construction of affordable housing, and it has become an unfortunate piece of collateral damage in the lagging economy. Unfortunately, the economy has made it impossible for banks to invest at previous levels to pick up the gap left when Fannie Mae and Freddie Mac exited the market; and, without the critical source of equity, as sound, affordable home development projects are stalled and not built, how can we make *this* program more attractive to high-tech companies so that we can invest in it?

Polese: Great question, and you're right. The low-income-housing tax credit has been both a very important driver of creating affordable housing and rental communities in the Bay Area. Many of the developments you drive by every day, you may not know are low-income housing, or affordable housing financed through these tax credits, and investments behind this infrastructure. About 40 percent of affordable housing is financed this way; and, because of the bank crisis, Fannie and Freddie used to be major funders, major investors, I should say, of the low-income-housing tax credit. Those banks, those institutions, have withdrawn from the level of investment they had been making.

So the Silicon Valley Leadership Group has actually created a low-income-housing tax-credit fund to encourage the technology industry, and non-banking industries, to look at this as a viable investment strategy. Actually, returns are quite healthy – 9 to 10 percent on average. The default rate is very, very low; and so this is an area of investment that is, I think, a topic to be explored. It's a new area, a new kind of investment. Typically, you don't see high-tech companies investing in real estate; but, again, the returns, the opportunity to invest in our community while making a good return on that investment is, you know, quite extraordinary – the combination of those two benefits.

So we are working on getting the message out to the industry, to the valley, about this opportunity. Companies need to figure out, does this fit in their investment-portfolio strategy? Can we create a secondary market? There are a lot of issues still to explore and work out; but there's a lot of opportunity here, and we're excited about it.

Hatfield: I'd actually like to direct this one to Andy Ball. According to the U.S. Green Building Council, buildings account for 39 percent of the total energy use, 12 percent of total water consumption, 68 percent of total electricity consumed, and 38 percent of the carbon-dioxide

emissions. What type of innovations are private-sector companies coming up with in green building? And what role would government play in facilitating the adoption of green building policies?

Ball: You stated 39 percent. My figures show that over 50 percent of the energy goes to the built environment, which is significant. The single-best way to save energy is to not use it. So if you look at a building, having a super-insulated building that you don't have to heat much or cool much is going to yield the greatest savings. Of that energy that goes out, 30 percent goes right out the windows. And, by saying that, it's both cold and heat. It's the sun coming through that window. It's heating up the space. It's a big problem.

And that in itself is where technology can really help, because we've all had eye glasses for a long time that change color as you go out into the bright sun. That's dynamic "smart" glass. We can start to take the insulated glass that now has the low-e film in it which filters out the UV-A, the UV-B, and now that glass can start to react to the sunshine that's on it, and start to change color, get darker as the sun shines on it, and then lighten up and become clear again as the sun isn't shining on it, and I think that we can get to the point in time where we're not just dumping all the energy out those glass windows. We can actually make that neutral, the same as the rest of the skin. Or we can probably, in 10 years, have some kind of a film on that that's a photovoltaic film that actually starts to use and draw energy from the sun and convert that into energy for the building. And I think that's really the single-best area where you're going to see significant changes in energy savings.

Hatfield: Along with that, as a follow-up to that, what are the cost issues involved in doing that sort of thing?

Ball: The cost of that kind of glass, the more it's used, the lower the cost. So, initially, there are going to be, probably, 10- to 20-percent cost increases for that kind of glass. So, to answer the second half of your question, really, how can the government help? As the governments start to say, "You need to have at least a LEED silver building within a certain number of years," and more and more cities are adopting those kinds of ordinances, then that levels the playing field, so that if you have to pay that cost, everybody has to pay that cost. And if there are rebates or incentives, tax breaks that the government can provide to offset some of that cost, because there is a payback period in the building. You're definitely going to be saving money when you have buildings that use these kinds of smart decisions. So the building of the future is going to use a lot less power.

Poizner: If I could add what we are doing at the Department of Insurance, you know, I oversee the insurance industry, a \$160 billion industry, about 10 percent of the economy. What the insurance companies charge has a big impact on costs. We've been studying, from an actuarial standpoint, what are the liabilities associated with houses and buildings that are built green. Are they higher or lower expenses over time from the insurance companies' perspective, from a liability perspective?

Now I'm a big believer that insurance costs should be priced based on the underlying, long-term liability and costs associated with servicing that insurance policy. It turns out, for people who

own green homes or occupy green buildings, the risks are just lower, for a variety of reasons, and so, at the Department of Insurance, we're opening up the doors to allow insurance companies to offer green insurance, and California is leading the way. All kinds of green insurance products now are being offered, where building owners and home owners get discounts if they build their buildings green; and hopefully, these financial incentives will help spur along some of this development.

Ball: Well, Steve, I think that's great. What we're finding is, over the past five years, we've increased from about 10 percent to almost 100 percent of our buildings now are LEED rated, or certified. So it really doesn't cost any more money to have a building LEED-certified, the lowest level of LEED, and that's significant. So we can advise, smart companies can advise, on what you can do to make good decisions to get your building to be LEED-certified.

Hatfield: Stuart?

Cohen: And one aspect of building that's been ignored until recently has been focused on not just the type of carpet, or whether there are solar panels, but how much the design impacts the amount of driving that takes place, once it's built. And what they're finding is, we are assuming, as we're going to all this transit-oriented development, that people are going to come with the 2.2 vehicles they owned when they were out in suburban areas; and if you take an eight-acre plot, and you try to put on that much parking, versus what you most likely need, which is about 1.1 vehicles, you add about \$12 million to the cost of that structure, because you've got to do a parking structure. You also reduce the space for about 120 units on the same envelope building, and so I think there are a few things that can be done about that.

One, the Silicon Valley Community Foundation just made an investment to bring a certification program that's just beginning called Green Trip, which my organization is involved with, that would be like LEED, except really focused on rewarding buildings that are getting the parking right, that are providing free transit passes, that are bringing CarShare into the building so people can own zero cars but still have access to a vehicle.

And the second thing that I hope everybody would support here in terms of the government role is our air district, the Bay Area Air Quality Management District, is now looking to replicate what's being done in the San Joaquin Valley, where buildings are looked at not just for their current emissions, while they're being built, but what the future emissions will be, based on how much driving takes place. If there's a development that's not doing things right, they don't have shuttles, they don't have sidewalks, the location is bad, they are allowed to reduce—try to reduce—future emissions by doing things better—putting in solar panels, putting in sidewalks; and, if they can't, then they can pay a fee to mitigate it offsite. So this indirect-source rule, as it's called, is going to be a really important motivation to get developers to do it right, and make sure that we can meet our greenhouse-gas goals in the state.

Ball: Well, SB 375 definitely is along that line.

Hatfield: Well, that's exactly where the next question is, and I want to start with Stuart, but everybody jump in if you want to on this one. There's been a lot of talk about both AB 32 and SB 375, and if you don't know what those are, what are you doing here? Read the newspaper.

What, in your minds – we'll start with Stuart -- but what in your mind is a good metric for determining whether we've succeeded? How do we know when we *have* succeeded?

Cohen: All right. Well, I've been dealing with this more than I've wanted to, because CARB (California Air Resources Board) appointed me to this regional target advisory committee, and today's the last meeting, so I'm flying up to Sacramento right after this, and that's what's being debated today: What is going to be the metric?

Ultimately, the metric is going to be the amount of greenhouse-gas emissions that are produced from the transportation sector for SB 375. The real particular measure that we want to make sure it focuses on is vehicles miles traveled, and how can we reduce that, and I think part of the problem is we don't measure vehicle miles traveled right now in any direct way, and so we need to get to that; but, ultimately, this is only going to be successful if people understand the benefits that we could have of growing smarter, and that's not going to come by talking to people about VMT (vehicle miles traveled), and so one of the things we're really trying to promote as part of this implementation of SB 375 is a much better evaluation of the co-benefits, as they are called, of driving less.

And so we would like to see, for example, a much better ability to measure and predict how placing affordable housing near our transit and downtowns can create this boon across a whole bunch of measures. It would reduce vehicle miles traveled. These are the folks most likely to give up vehicles and use transit. It would save money because then we've got affordable homes near affordable transit; and it would do the most for GHG (greenhouse gases). Then, if we can quantify how much we're saving by reducing people's commute time, by saving them on their household budgets; and then, by reducing the cost for overall infrastructure needs, we can sell this much better than if we talk about the need to reduce vehicle miles traveled. So GHG is the ultimate goal, with VMT kind of secondary; but explaining it in a broader scope of co-benefits is going to be key. And, again, I think, in Silicon Valley, the Community Foundation is looking into right now teaming up with folks that do regional visioning, and bringing it to people directly.

Hatfield: Anyone? Mr. Poizner.

Poizner: Well, I completely agree that reducing the total miles driven in the state of California would be a fantastic thing. It would reduce accident rates. It would help clean up the environment. It would lower the cost of insurance, because there would be fewer accidents, and so there are lots of benefits.

So Stuart and others have been a big help to the Insurance Department over the last year, where, for the first time, we're rolling out new rules at the Department of Insurance that actually allow

insurance companies to offer you-all a discount if you drive less. Now, believe it or not, before I got to the Department of Insurance as Insurance Commissioner, companies were prohibited from offering these kinds of discounts. We cleared the way, and these regulations that we just finalized, and we're just rolling out, called "pay-as-you-drive" regulations, that now, for the first time, insurance companies will be rolling out a bunch of new products so that if you voluntarily drive less, you will pay less for your auto insurance. And we do think that that financial incentive will make a big difference to drivers. Especially right now, in this tough economic recession that we're in, people are going to be looking for ways to save many. Their auto insurance rates will go down.

Now do you know that, if you have a car here that was built after 1996, you have a data port underneath your steering wheel. Every car has one. And so some insurance companies will be offering a little device that you can plug into this data port, and the data port connects to the car's computer system, and, if you give permission for this—it's all voluntary—but if you give permission for this, then the insurance company can track how many miles you're driving through a wireless link automatically, and you'll get, you know, weekly or monthly statements about how much your insurance is going down, just based on your driving.

Now some people won't like that, and then some people will, but we wanted to make sure to clear the path, to offer options for consumers out there *and* for insurance companies. So the net effect, if we can get the total number of miles driven in California down even by a few percentage points, it will have a profound impact.

Ball: So I want to get back to Stuart. What you were saying is, you know, I think that that sustainable community is a great place to live, and having that community around a rail station or a BART transit station. Transit is absolutely vital. This is where, I think, that you were talking about earlier, you want to give local control. This is where the state can say there need to be special zones around these transit centers. They need to have higher density. They need to have a lot less red tape in the context of trying to get these developments approved, because they're not going to be successful, they're not going to happen, unless they have economic viability. And, in the current financing market, unless the state comes in and starts to help with what it takes to get the development done, in the density that's required, close to transit, and have transit support a good, sustainable community that's mixed use, where you have retail, where you have office, where you have people that are living there in high-enough densities to make sense, and transit is absolutely the heart of that, and the state can be a very, very big help in making sure that those can be planned with less red tape, and are economically viable.

Hatfield:

That's what the state can do. What about the local governments? That's where we were going next. You're ahead of me on all these questions.

Ball: Well, before you ask that, I think that Kim can start to say things that are economically viable need to have financing. You're not going to build anything without financing, and some of the ways that you can make that happen. I'd like to hear what she has to say.

Hatfield: Sure. I would, too.

Polese: Well, first let me say this kind of housing development, and the mixed transportation, high-density, very vibrant communities, is exactly the kind of housing that our employees, and employees of many Silicon Valley companies, are looking for.

Software developers are typical employees. Many of them have young families. They want to live close to where they work. High-density development is critical, but isolated high-density communities defeat the purpose. So our employees are looking for housing that can allow them to also have access to restaurants, 24-hour services, retail businesses, basically a kind of life style that is more conducive to spending time with your family versus being on the road.

I'm not an expert, and, on a funding part, how we make this happen through a combination of local and state, but I can tell you where the desire is on the part of the Silicon Valley companies, and it's this kind of housing. It's this kind of development. So we're very supportive of it.

Obviously, the Silicon Valley Leadership Group has been a big leader in developing affordable-housing strategies, whether it's the Housing Trust Fund, or, now, the low-income-housing tax-credit fund. So we're looking for new, innovative sources of funding; but we also know how important it is to work hand-in-hand with local as well as state government, and I think the local community, the local government, really can play a lead role here.

Hatfield: Well, Stuart, as a veteran of some wars that go on in local council chambers, what is the landscape for this for local government? What's the role of local government in all this?

Cohen: Well, it's really a great question, and I think what we've been learning after 12 years of trying to do this is that the most fundamental change that has to take place is that the community-engagement part has to happen very early on. Too often, this is looked at on a map as a parcel of land, and "How can we develop it?" And then the community finds out much later, once there are one or two proposals for it.

So we've been part of this Great Communities collaborative -- the goal is to get cities to do comprehensive plans. These are neighborhoods, and there's a reason people sometimes reject these buildings, because they didn't have any say in what might go on in them. And so we really support local governments, and support getting funding to local governments, to build new community needs assessments as the very first part.

Maybe they want, you know, more childcare or shopping possibilities; but what's missing in the community? What are the assets you want to preserve? And *then* start planning for that area. But

it's basically that community-engagement piece. And what we've been finding has been pretty astounding. In places like San Leandro, where it's one-story buildings near their BART station, when the community was deeply engaged from the beginning, and that area went from being zoned from 500 homes to now 3,500 homes, in the half-mile surrounding it.

But coming with that was, like I was describing, a new park, a child-care center, as part of it. Great pedestrian paths. We saw the community come out about four to one in favor of this higher density; and, as the first development was proposed, a hundred affordable units, again, three to one in favor, because it included some of the amenities they want. And, in fact, they made the affordable unit a penthouse because they reduced the parking to one. It saved them \$4 million on the structure, which got it to that point where they were just able to build it, and it's starting construction now, even in these times. So, to me, community engagement is number one.

Hatfield: Well, one of the other examples is, I believe, the Pleasant Hill BART station that went through what they called a charrette process, which we covered, and it went on for a long time, let me tell you. But there is construction there now. It's called Avalon Bay, I believe, and it's quite expansive.

Ball: And it's good looking!

Hatfield: Yeah. Well, so far. It's good looking to Andy, 'cause it's got all that stuff out there. Let me ask a general question that shifts away a little bit, and we'll get into driving now. What role do *you* think, or do you believe, electric vehicles, plug-in hybrids, that sort of thing — and this is a general question; anybody jump in, please — can play in creating new green-collar jobs in the state, or, for that matter, in the overall matrix in which we live?

Poizner: Are we talking about Tesla?

Mr. Hatfield: Well, that would be one.

Poizner: Clearly, the more that you can keep jobs in California by building electric vehicles here is really good; and, as we've looked at Tesla, looked around for different spots, it was great to hear them announce that they were going to have a portion of their power train facility at the Stanford Research Institute. I think that electric vehicles represent something the people *want* to have. It makes a lot of sense; and, for us to be able to put in an electrical smart grid here, to develop electrical power systems, do electrical research, there are a lot of different components of electrical cars, that it just makes sense that, relative to the high-tech capacity that we have here in Northern California, that we're ideally suited to be the provider of that kind of technology.

Hatfield: Anyone else? What's the future?

Poizner: Can I say something controversial? Is that all right?

Hatfield: Sure, go ahead. Have at it!

Poizner: I'm just a big believer in nuclear power and electric cars. Those two technologies go hand-in-hand. The fact is, if we're going to have hybrid cars and electric cars to be the backbone of our future transportation structure, which would have a *profound* impact on the national security of this country, as well as on cleaning up the environment, then we need some proven, 24/7 electricity power-generating capability that exists today. Now the fact is, we're now on fourth-generation nuclear power-plant design. France, which cares about the environment just as much as we do, generates 85 percent of its electricity from nuclear power plants. The fact is, these modern, fourth-generation designs are very safe, don't generate nearly the waste that's been generated in the past, and should be a part of the mix here in the state of California. Unfortunately, nuclear power plants are prohibited in the state of California, and that one little one-sentence law needs to change, because it will be perfect technology to allow for the rapid expansion of electric cars here in this state.

Ball: I totally agree, actually. Nuclear energy provides 30 percent of the power in the state of California. It does that at 2 cents a kilowatt hour versus the 5.5-plus cents that comes from carbon-burning fuels. So, as you look at a renewable resource, that's significant. Lawrence Berkeley Labs, Lawrence Livermore Labs, is looking at very interesting laser technology that renders nuclear waste completely inactive. It's very promising. Within 20 years, you will probably see some nuclear fusion coming online. They have a plant that's being built that will be finished within six years in France that's a consortium of Germany, Japan, the United States. Fusion is looking promising, too. So, as you look at nuclear, it really is the only significant, viable, long-term, zero-carbon-footprint resource; but it has a lot to overcome in terms of people's perception of it – the safety and the waste issue.

Polese: It's a good point. Some of my environmental friends have become nuclear-power champions and sort of maybe it doesn't seem like the two go hand-in-hand, but, more and more, we're hearing about this as a real, viable option.

Let me also just touch on jobs, to this point about electric vehicles, and plug-in strategies. Tesla, for example, just received \$465 million from the Department of Energy, and are building, as noted, a production plant here in California that will create probably about a thousand jobs. This is moving the needle in a significant way, in terms of creating a green-collar job center for the state and for the world. There's also a plug-in-infrastructure opportunity, so the plug-in vehicles, obviously, need to have locations where they can charge along the way, in roads, homes, workplaces – again, a whole new set of green-collar jobs that can be generated through that plug-in infrastructure necessary to support the industry. So I think we're really just at the beginning of what the EV and plug-in industry can do, in terms of job creation and innovation here in the state of California.

Hatfield: In relation to that, what impact does the plug-in – Let's say we suddenly went to plug-in cars. What impact does that have on the electric grid?

Ball: It's significant. We're anticipating, over the next 10 years, that there's going to be something like a 50-percent increase in demand on the power grid. You know, we've all experienced these sort of brownouts and problems that have occurred, so there have to be more

power plants that are created. There have to be more electrical-producing facilities; otherwise, we are going to have problems.

Poizner: And can I just say, it's impossible, practically speaking, to build a new power plant in the state of California of any kind, basically. And so where does this state get its electricity, since it's basically impossible to build new power plants? Do you all know that we import now 30 percent of our electricity from dirty, coal-burning fire plants in the Midwest? That's a fact. And so some of the restrictions on building power plants in this state have done more harm for the global environment than what they were intended to do, and we need to be very careful about unintended consequences of some of these restrictions.

Guardino: We're going to segue now to questions from you, the audience, because you're participants, not audience. We're going to get to as many as we can....

Hatfield: All right. This one is for Steve Poizner. California state spending has doubled. Some analysts project that state spending could continue to double, maybe even triple, in the next 10 to 20 years. How could our government get state spending under control in light of our current fiscal crisis?

Poizner: Well, of course, state spending can't continue to grow at that rate. It did double in the last 10 years. We do spend about a hundred billion a year, about, with all the special funds, together with the general funds. If it continues at the same pace, it will be at about a hundred-eighty, hundred-ninety billion in 10 years; and, in 20 years, we'd be spending about three hundred billion dollars, if we continue at the same pace.

At that pace, at that size state spending, then everybody in the state of California will be working for the state of California, and maybe that would be a good thing, because all the rest of the jobs would be driven out of the state. The fact is, we've got to stop this out-of-control spending, and it's on an unsustainable path that will really have ongoing, destructive impacts on the economy.

Now, at the Department of Insurance, I got a first-hand look at a large state agency two and a half years ago, when I got there. We had thirteen hundred employees. We did a top-down review. We did a Silicon Valley-style strategic plan, the first strategic plan in the history of the department. Bottom line: We now have eleven hundred employees. We've been able to cut our expenses permanently by 15 percent. We're getting more done with fewer people. This is the kind of streamlining that needs to be done throughout the state of California.

Hatfield: This one's for Andy Ball. California's highways are crumbling. No kidding. What can be done to fix this issue? And how important is it?

Ball: Well, it's vitally important. We had propositions that were passed a couple years ago that were meant to deal with this infrastructure; but, because of the state's budget crisis right now, a lot of those funds are not being spent on what they need to be spent on, so I agree with Steve's comment that we need to be sure that we take the money that the citizens vote for, that needs to be allocated, and use it to build the infrastructure that is crumbling.

I'd like to add on top of that that our roadways are completely overtaxed, and no matter how much money we spend on them, that is not going to be the end solution. The end solution has to be what we were talking about with the planned communities: Transit has to be a major factor in this. We have to spend much, much more heavily on transit.

We're looking at high-speed rail. We could be one of the first states in the nation to have high-speed rail; and yet even before it's going in, people are already filing lawsuits under CEQA. CEQA is a wonderful thing. It protects the environment, but it's being used by people that want to just block things that are vitally important for the entire state. So we have to look at what's good for the state overall, and transit is really very, very important. We need to do whatever we can at the state level to be sure that we get the transit that this state needs.

Hatfield: Well, this actually segues to a question for Kim Polese. Regarding green transportation, what is the role of virtual offices, where companies encourage workers' working from home, resulting in zero transportation costs?

Polese: The idea of a virtual office has really become a standard practice in Silicon Valley companies, both from a traffic-congestion standpoint and to help employees be more effective. Instead of spending time on the road, they're able to actually get work done. The technologies, obviously, that we use to communicate on a daily basis are getting better and better, so we can have virtual meetings across countries, across oceans, that are as effective as being in the same room.

So this is a strategy *we* use as a relatively small company. Large companies are creating entire centers, TelePresence centers. If you go over to Cisco, and take a look at what they've built over there, it's pretty impressive, and you really feel like you're in the same room with your colleagues. So it's a combination of applying technology to enable more conducive settings to bring people together. It's also flexible work hours. It's flex time in terms of when you actually come into the office, and when you leave. So creating flexible programs and policies within companies is critically important to helping address this problem of congestion.

Hatfield: And one for Stuart Cohen. Due to financial losses, buses, BART and Caltrain lopped service and raised fares. Is this pennywise and pound foolish?

Cohen: It absolutely is. The crazy thing is that what we're doing is, we're saving some amount at these transit agencies, and we're throwing off this cost onto people to spend personally. When people have to switch over to vehicles, the cost skyrockets. The really huge hidden cost here is that we spend \$4 billion in the year, each year, on transportation in the Bay Area through our transit agencies, building and maintaining roads; but individuals spend \$25 billion through their direct household costs on insurance, purchasing vehicles, and gas. And so every time we do these transit cuts, we are forcing more people onto the road, and forcing overall higher societal spending. And so it's absolutely counterproductive to be going through this. So I agree with Steve. The state has got to keep their hands off of the state transit operating funds. We also have sponsored a bill to allow, in the Bay Area, a climate-impact fee on gas that would enable us to do some really innovative demand management and new transit, and we think, overall, reduce costs

for commuters. They would just pay a little bit more through the pump and have a lot of opportunities to save.

Hatfield: This question is for Steve Poizner. California is 40 years behind in mass transit compared to Europe and Japan. What will *you* do to expedite BART ringing the Bay, and high-speed rail? And how will you fund this?

Poizner: Right. Well, let me just address the funding part of this. I mean, clearly, the state of California needs to make major, huge investments in our infrastructure, including transportation, and we are way behind. But let's just face it. The state is broke. The state is bankrupt. We have the worst credit rating in the country out of all 50 states. We have no access to borrowing any more, for which thank goodness, really, in some respects. So until we get our economy back on track, we're not going to be able to fund anything. And so the core issue the entire state needs to face is: What do we need to do to bring jobs back to the state of California? Because we have an unemployment rate here that's two points higher than the national average. So it's not just the national recession that's hurting the state of California. We are on our own track of driving jobs out of the state to Nevada, Arizona, India, China, Texas. We have the highest taxes. We have the highest sales taxes, income taxes, and vehicle-license fees, one of the highest gas taxes already. People move when you have this type of tax structure that's completely out of whack. Three thousand people a week—three thousand taxpayers a week—pick up and leave the state of California. No wonder we can't even balance the budget, because the tax base is exiting the state. Until we fix that problem, we won't have the money to invest in these needed transportation projects.

Hatfield: Well, this question is a follow-up to that, and I think Andy Ball might want to jump in on this one, too. I read this morning that you proposed to do major tax cuts if elected. The state is strapped for revenue. How can you restore sanity to education, healthcare, transportation, and other essential programs if you cut taxes?

Poizner: Right. Yesterday, I did roll out a broad-based tax-cut proposal -- 10 percent across-the-board tax cuts in personal income taxes, corporate income taxes, sales taxes, and a 50-percent cut in capital-gains taxes. Now people ask me, "Well, how on earth can the state afford to cut taxes when they can't even balance the budget?" And the answer is, "We can't afford not to." The fact is, when we drive taxpayers out of the state with these high tax rates, tax revenues go down. The key concept here that I hope voters will embrace is the notion that, when tax rates go down, total tax revenues will go up. President Kennedy realized this in the 1960s when he led major tax cuts that ended up resulting in a huge increase in total tax receipts into the federal government. There have been many other examples of governors and presidents doing exactly the same thing. Our tax rate is not average; it's on the extreme, and, in this global economy, people are leaving because of these burdensome taxes. These lower tax rates will stimulate the economy and bring more tax revenues into Sacramento.

Ball: Yeah, I completely agree with that. I mean if you look at the states around the nation, and all states are having issues right now, the states that have the lowest taxes are the ones that actually have the fewest problems, and some of them, in fact, have budget surpluses. And so if we just look around at the facts and the statistics, the key is to generate more revenue, and you're

going to generate more revenue by having a fair tax structure as opposed to just steadily increasing the taxes. We have driven a lot of the businesses out, a lot of the people out, a lot of the taxpayers out. The revenue has shrunk and we don't have a sustainable tax structure right now. In fact, there was a tax commission that just came back and made a recommendation for doing away with, or significantly reducing, the taxes – the personal taxes and the business taxes. And a disproportionate amount is coming from a group that takes a big dip whenever there's a recession, and we can expect to have these kinds of budget issues if we continue with that same structure.

Hatfield: Do you see this man up here? That means –

Poizner: Can I just say one thing real quick? People *want* to be here. This is a fantastic state. People *want* to come to California. People *want* to start businesses and grow businesses here. What a wonderful state! Now all we need to do is to get out of the way of people so that entrepreneurs and innovators come back to California so that we can be the innovation capital of the world again!

Hatfield: Well, thank you. We're out of time, and I thank the panel for their answers and turn it over to Carl.