A transcript for
The Silicon Valley Leadership Group
Conversation with Gov. Arnold Schwarzenegger
Barbara Marshman, Moderator
Hosted by SunPower at Cypress Semiconductor
December 2, 2009

Also on stage:
Mr. Tom Werner, CEO, SunPower

Gov. Schwarzenegger:
(offstage) What am I going to do with all this kindness?

Male voice:
Relish it!…

Mr. Guardino:
Ladies and gentlemen, if you could please stand for Governor Arnold Schwarzenegger.

Gov. Schwarzenegger:
…Oh, my mic is on!…This is exciting to be here…with so many smart people.

Mr. Werner:
I guess I get to kick this off. I want to welcome the governor to Silicon Valley and the Silicon Valley Leadership Group. We’re thrilled to have you here. I do want to say one quick word about the governor. He’s a man of action. He’s driven the innovation economy and the green-tech economy in a phenomenal way, and we owe him so much.

The last time I met him, I mentioned that we were hitting the net-metering cap, which means that the meters can’t run backwards if you put a solar system on your house; and oddly, in like six weeks, it was fixed. So he’s done an incredible job for us and for California and for the green-tech economy. It’s just a pleasure to be up here with you. Thank you very much.

Gov. Schwarzenegger:
Thank you very much. Thank you.(applause)

Mr. Guardino:
And if I may set the stage, Henry XIV (sic) once said that punctuality is the politeness of kings, and you will notice that Gov. Schwarzenegger [was] on time, once again. We’ve had the honor of hosting him here in Silicon Valley more than 20 times in the last six years. The first meeting, he wasn’t on time. He was early. He beat most of our CEOs to the session, and it’s that type of respect for others, that incredible business mind and common sense, that have made it a pleasure to not only watch him as our governor these past six years, but to do such a phenomenal job for the innovation economy in that role. So will you join me once again in thanking our governor for joining us today? (applause)
With that, we’re going to turn it over to the editorial-page editor of the San Jose Mercury News, Barbara Marshman, who’s going to ask the governor some questions; and then I will come back up to present any questions from you as our CEOs here today. Thank you, Barbara.

**Ms. Marshman:**
Thank you, Carl. What fun this is! What a nice surprise on a Wednesday afternoon. It’s nice to see you here. Let’s plunge right in and start talking about the thing that, I think, is probably on everyone’s mind these days – jobs. The state unemployment rate is 12 ½ percent. In Silicon Valley, it’s almost 12 percent. We are not used to that. I know your administration is trying to do some things to turn that around. Are you seeing anything that’s working?

**Gov. Schwarzenegger:**
Well, first of all let me just say…thank you to Tom and to Carl and to you, Barbara, for having me here in SunPower, and it’s great to have all of you here. I know you have a busy schedule, and so I hope this whole hour,…half hour, whatever we’re doing, is worthwhile for all of you.

But to answer your question, I think that, you know, California has a big challenge when it comes to job creation….Even though we, as an administration, have done a lot, especially in the last budget negotiations, [whether] it is the public-private partnerships, or pushing out billions of extra dollars in infrastructure to create jobs, because we know that each billion [dollars] creates, you know, 18,000 new jobs; and we have worked very closely with the federal government to get a lot of the stimulus money from the federal government, which also has helped to create jobs; and those numbers are disputable, because some say it’s, you know, 100,000 jobs. Others say it’s 50,000 jobs. But it doesn’t really matter. In one way or the other, it’s created jobs. It depends on what you would [use] as a definition of “retaining jobs” or “creating jobs,” and so on. And we were going to continue fighting that.

But the fact of the matter is that we also at the same time know that manufacturing has left California, and it’s because it’s more expensive to do business here in California. Property is more expensive. Electricity is more expensive. Water is more expensive – all of those things. Housing is more expensive….But, at the same time, we have real problems with labor laws. You know, they’re very restrictive, and…are costing businesses more money.

And so we…tried to get some of the things done in the last budget negotiations, but we’re not finished. I think there will be other budget negotiations coming up in the very near future, and we will again press the legislators to act and to free up some of those labor laws to make it easier to work here in this state and to create business and to create those jobs again.

Now there’s a lot of people that talk about [the fact] that jobs are leaving the state, and all this. I don’t buy into it much, in this whole thing, because, I mean, there’s maybe some [that] leave, but the neighboring states that supposedly have all these ideal working conditions, you know, they have higher unemployment rates than we have, and so I think that people still are interested in
coming to California and working here, creating business here, building their companies here. But what we have to do is, we...have to go and return again, and make it easier to...manufacture in our state here, because a lot of...the people that you see sitting here, that are very innovative people, and create wonderful, new things; but whatever is being created is then manufactured outside the state. So that’s not going to help the state much. So if we really want to bring the unemployment rate down, we’ve got to free up labor laws, and we’ve got to make it more, you know – we’ve got to make it easier to do business here, and we’re going to fight for that, and make this part of the budget negotiations, because there will be the question coming up, “How do we create more revenues?” And this is always the debate between Democrats and Republicans. You know, Democrats talk first always about “raising revenues,” meaning “raising taxes.”

Well, we have done that. You know, we have raised taxes to show that we are...willing to meet in the middle, that it’s not just all about cuts; but we also know that there are so many other ways of creating revenues. If we, for instance, create a more business-friendly environment, then we can build businesses and create jobs and therefore create more revenues for the state; and also, if we change some of the things, like, for instance, within the state, that we change some of the laws,...for instance, in the prison system, where we now have gotten into the situation where we’re spending much more money on our prisons than on higher education, and that’s inexcusable.

And this is...not because, all of a sudden, people in California are more against – you know, doing things against the law, or there are more criminals, or any of that. It’s just that we have a prison system that is run by state employees, and if you compare [that] with other states, where they have private prisons, they can run the prison system for one-third less; and so if we are spending $10 billion on our prisons, and you cut one-third off, which is, you know, $3.3 billion, I’d rather take that...$3.3 billion and put it in higher education and put it towards our universities, because that is the future. The prison is not the future. Higher education is the future.

And so this is where we have to concentrate, ...not having a receiver that we have because of a federal judge, that is out of control, and that is spending money as [if] we have all the money in the world, and he’s paying $500,000 salaries to people that work in the prisons, because he has the power to do so, given to him by the federal judge. So he goes nuts there, and we are spending hundreds of millions of dollars unnecessarily. People in the prisons have a better healthcare system than people outside the prisons, and I think all of that is wrong. And so it’s a combination of things that we need to do, but it’s a constitutional change that needs to happen there, because..., constitutionally, it’s the law we have to have the state employees to run the prisons, and I think if we change that, and have private prisons,...I think that the state can save a lot of money. So those are the [kinds] of things [about which] there will be a discussion in the next round of our budget negotiations.

Ms. Marshman:
You mentioned that you…don’t think jobs are leaving the state; but it’s a perception here that…companies are moving, at least moving some of their jobs to Oregon, Arizona.…At a Leadership Group [session] we had a few weeks ago, we had Governor Bill Ritter from…Colorado here, and he brought up a number of very interesting initiatives to try to attract green industry to his state. Very aggressive, actually. I think…Tom’s ears perked up. Tom is looking to build a manufacturing facility. Oh, it’s not a secret! (laughter) In fact, maybe…you’d like to talk a little bit about the kinds of things you hear from…other states when you’re…shopping.

**Mr. Werner:**
Yes, and just let the record be clear…The governor’s team is working with us (laughter), and always giving me that look, and…Susan Kennedy, [his] chief of staff, is all over this; but, as he said, it’s a competitive environment, and it would be irresponsible for me as a CEO to put jobs in California because I have a lot of respect for the governor. I have to do it for the shareholders, and do what’s economic. And the [sort of thing] that you’re competing against is, of course, the cost of infrastructure.

Having said that, there’s no better place to innovate than Silicon Valley, for sure; but when you look at some of the other elements in terms of taxation—we’re going to talk later about the single-sales-tax apportionment factor—the training credits that you can get. I mean it’s a competitive world, just like it is in our business environment. So the sorts of things that are happening [are] inexpensive land, training credits, tax reductions, tax elimination, low-cost infrastructure. Those sorts of things are what California is competing with.

**Ms. Marshman:**
So what’s in your arsenal when…folks are looking at California, perhaps without quite the orientation to California that Tom starts with?

**Gov. Schwarzenegger:**
I think it’s a fair point that he is making. That’s what I was saying earlier; but at the same time, you know, I always see the glass half-full; and so, at the same time, while this is happening, we have, for instance, car manufacturers that are relocating or locating to California, like, for instance, Tesla.

Bill Richards in New Mexico has tried very hard and has really pulled out everything that he had, and…attracted them to go to New Mexico; and I remember, I ran into him at the…national governors’ conference in Washington, and he had this big smile on his face, and he says, “I got one of your companies.” Then I said, “Congratulations.”

Then I came back, and then we sat down with Tesla, and we found a way of giving them a better deal, and so they decided that they’re going to go and come to California and build their second Tesla car, their four-door sedan, here in California. And so [there are] companies that are moving back to California or coming to California for the first time. So we have success stories like that,
also. So...companies may leave, [but there are] companies coming back here. And, like I said, Ritter is a good friend, and we are partners in a lot of things, especially the environmental issues, and ocean protection and coastline protection – [on] all of those things, we work together very closely. But, as I told him, I said, “You’re coming to California because you’re struggling, because you have a high unemployment rate. Businesses are not happening in your state, so that’s why you’re trying to come here and think that you can kind of [skim the] cream off a little bit from California.”

So they are all struggling. All the states around us are struggling much more than California itself, and if I have a choice to be governor of the great state of California, of any of the other states, let me tell you something. I’d rather be here 10 times over in this state, because I think this is the greatest place -- They know it. This is the greatest place in the world, and there’s no one overseas, when I travel around – I just came from Israel, and I came from Europe, and I was at a conference in Milan. Everyone only talks about the dream of coming to California. There was no one jumping up and down saying, “I’m going to fight and do everything I can to get to Oregon.” There was no one....Those governors know that, and they are suffering because of this inferiority complex there, you know, which I understand. So that’s the way it works.

So I think that there’s a lot of work we need to do. There’s a history here of loading up and creating regulations that make it very tough on businesses, and I think we’ve got to get rid of some of those regulations, because remember one thing. This state will be perfect if government gets out of the way. That’s the bottom line. Get government out of the way, and you will see things falling into place and it will be a much better place to work and to do business here.

Ms. Marshman:
Let’s turn to an area where government is getting more involved, and that’s healthcare reform. You fought the good fight a couple of years ago, to try to do something in California. I know we supported it, the editorial board. I think a lot of people in this room did. It didn’t work out for California. Are you watching what’s happening in Washington now? Do you...understand what the Senate bill would mean for California?

Gov. Schwarzenegger:
I think that the people that worked on healthcare reform in California, there are a lot of those experts, and they’re really geniuses that were in our office, and some of them are now outside the office, [who] are advising the Obama administration and giving them advice because we have gone through it, the whole thing, and where the obstacles are, and where it is doable. And so I think that’s good. I think that it’s great to have a President that is interested in the subject of having healthcare reform, and with the goal to insure as many people as possible. I mean our goal was to insure everybody in California. Theirs is a little bit more limited.

The key thing is, as they move along – and it changes all the time, as you know. It depends [on whether] it’s the Senate version or the House version, all of those things; but the key thing is that
they concentrate on making sure that as many people as possible are insured, and also to reduce
the costs of healthcare.

And that you do -- For instance, with healthcare, with insurance companies, one thing they have
not concentrated on yet is to make sure that insurance companies spend 85 percent of the money
on healthcare and only 15 percent on administrative costs and on profits. There are some
insurance companies that make 30 to 40 percent profits and administrative costs, and I think this
is way too high, and that’s why the costs are going up all the time, and they have not addressed
that. So I strongly recommend for them to address that particular issue.

The other thing that has not been addressed so far, and it doesn’t mean it’s not going to happen,
because…these are no way with the finished product. It’s “Oh, this is right now boiling, and it’s
being negotiated,” and so on,…and that’s why I was very happy when [Safeway CEO] Steve
Byrd went back there several times, talking to them, and giving them advice, because I think
Safeway…is a perfect example of what can happen when you have prevention as a major part of
the whole reform.

They have prevention as a really strong part of their healthcare, and, because of that, their
healthcare costs went down 13 percent from one year to the next; whereas others went up by 8
percent. So that just shows you, there’s a key area where we can save a lot of money. We’ve got
to offer people incentives to lose the body fat, reduce body weight, reduce the cholesterol level,
stop smoking, stop drinking, exercising every day, and you should get points for that, and
reductions on your costs; and it really worked well with Safeway, and I think they’ve shown the
way, and that’s exactly what was a big part of our package when we negotiated healthcare
reform, to have prevention as a big part of it, because there’s a lot of savings there; because it’s
better when you pay a thousand dollars for a screen to…check if you have cancer, versus, then,
later on, spending, you know, a hundred thousand dollars, and curing a cancer problem that you
may have. So I think prevention is extremely important.

And I think if you really want to be successful in this, again, you should not just think that
government is the solution. You’ve got to make the people the solution, because you’ve got to go
and say to the people, “If you really want that healthcare reform, and if you really want to reduce
the costs, then you’ve got to change your way of life.”

You can’t continue going down and eating all of these, you know, cheese burgers, and have one
milk shake after the next when you know that a milkshake is 1,300 calories! And 1,300 calories?
You have to go and bicycle for three hours to burn off those 1,300 calories. You’re killing
yourself. You’re killing yourself. You’re getting heart diseases from this and also when we just –
and the kids, you know, because it’s easier to go just to one of those outlets where you can go
and get quick food, and all this. But you’re killing the kids also, because the kids today have 10
pounds more body weight, the average, you know, ten-year-old, versus 20 years ago. So I mean
the body weight is going up. You’re creating diabetes. You’re creating all of [these problems]
already with children, and the grown-ups do the same thing. So I think you’ve got to teach the
people to eat better and to not smoke as much, to try to cut down on their smoking, and cut down on the alcohol use, and those things, and that can really prolong your life, and also make you have [fewer] illnesses. So you’ve got to include the people rather than just making it, “This is something that government is—out to be—responsible [for].” No. All of us—we all—are responsible to bring our healthcare costs down.

Ms. Marshman:
If you had to handicap it, do you think healthcare reform will pass in Washington?

Gov. Schwarzenegger:
I think that it will pass because, I think, in the end, when you get into something like this, it almost, in the end, becomes more important, the victory, than to solve a problem. And so I think that now everyone is just so determined. It seems to me that if you’re around Obama, you couldn’t let it happen that they don’t get it done, because that would be disastrous for his administration, because this is the first big thing that he’s tackling here, because the other things are not going so well, with the war in Afghanistan and with Iraq and all of those things, which is not his fault. I mean it’s just – You know, that’s the way it is.

So I think that his intentions are in the right place by wanting to have healthcare reform and wanting to reform and create environmental policies and energy policies; but those are all very, very difficult things to tackle. Let’s not forget that. I mean I have seen it firsthand, how difficult it is to do anything when it comes to environmental issues and to passing AB 32….You know how difficult it is, and also healthcare. Although we were very close to getting it done, but then it was killed in the senate because, you know, the tobacco lobbyists had more power than we had, and so that’s –

Ms. Marshman:
The single-payer folks.

Gov. Schwarzenegger:
Exactly. That’s right. And the nurses. But…I think that some agreement will come out of this, and I think that the key thing now is to inspire them and to work with them to get the best possible package. That is, I think, the most important thing. Even though it will leave, still, millions of people uninsured, but it will be better than what we had.

Ms. Marshman:
Okay. Let’s talk briefly about transportation. Caltrans is estimating that California needs a minimum of $500 billion over the next 30 years to tackle our—just our—priority transportation projects, and that’s on top of the prop 1B money, which is…already out there -- $20 billion. Of course, for us in Silicon Valley, this translates into what does it mean for BART. How do we—how does California—get that money?…The infrastructure is so important to the business basis of the state. How do we do this?
Gov. Schwarzenegger:

I think that everyone recognizes that California is number one in rebuilding our state. That’s why we are used as an example all the time. The rest of the country? They are not spending much money on infrastructure at all. The federal government is spending very little money on infrastructure.

As a matter of fact, they had a great opportunity with this economic-stimulus package, and they put very, very little money into infrastructure, and that’s why Gov. Rendell (D-Pennsylvania) and Michael Bloomberg, the mayor of New York, and I formed a partnership to go and have meetings with the Obama administration and to stress how important it is to rebuild America. We have put our foot in the door. In 2006, the legislature, Democrats and Republicans, came on board, something that I campaigned for, for years, to rebuild California, and finally came to an agreement and passed the $37 billion package, the Strategic Growth Plan package, and it went to the voters. The voters approved it, which was really terrific, and they approved an additional…$5 billion in water bonds. Since then, you know, we approved almost $8 billion [for] the infrastructure and prisons, and the only piece of the puzzle to complete the whole thing was water infrastructure.

We have just passed that, which was an historic accomplishment by the legislature. For four decades, they have argued about this water infrastructure – canal versus no canal; to fix the Delta versus not fixing the Delta; and to build more dams or not building more dams. All of those kinds of things were debated for decades; but finally, action was created, and it’s going to be put on the ballot, and it will be on the ballot next November, and I hope that everyone here is, again, and the people of California will jump at that opportunity, and approve those…bonds.

So we are very aggressive…compared to the rest of the nation when it comes to rebuilding the state and kind of moving up to where we ought to be. But it’s also correct at the same time to say that there’s much more that is needed. Because,…from one year to the next, it’s that important; but it is important because we have fallen behind. That’s why we have, you know, bumper-to-bumper traffic, and that’s why we have levees that are, you know, very dangerously vulnerable in California, because, for so many decades, they have not been strengthened, and we have 2,300 miles of levees. Most people don’t even know we have all those levees. And we…need affordable housing, and you need more schools to be built, and all of this needs to be done. So there’s a lot…more money that needs to be spent and invested in the future.

How are we going to do that? I think that it will be possible because I think now, since we got the foot in the door, and now, since we have created public-private partnerships so that the private sector can come in -- We have just seen the people approve the high-speed rail. I think the people of California are very much into the…thing of “Let’s move forward aggressively and build our infrastructure,” because they know, without infrastructure, we don’t have an economy, and we can’t move forward. We get stuck. So I think the people have been behind it 100 percent. I think the legislators, with a lot of work, and a lot of explaining, and campaigning and all this, they also eventually get it, and they will approve those [kinds] of things.
My preference is that we take a certain amount of money, a certain percentage of our revenues, and put it aside just for infrastructure, because that system of...pay-as-you-go is much cheaper than when you have bonds. Bonds always cost you twice as much money, because it’s like buying a house. By the time you finish paying for it, it costs you twice as much money. So it’s wiser to just put the money aside and just pay as you go, and hopefully -- Those [kinds] of initiatives have failed in the past; but hopefully, someone will put it on as an initiative, and it will be successful, and it will go in that direction. because it’s the only way we can...do it.

And if we need $500 billion for infrastructure, for transportation infrastructure, I don’t know. But if you include high-speed rail and if you include also the whole trams and the trains and light rail and all of those [kinds] of things, it could get to that amount. But I think it’s important that we pay equally as much attention to public transportation. You know, we’ve got to go and think about the tram system, light rail, and all of those things, because that also helps us with the environment by taking people off the road and making them travel that way.

So I will continue campaigning, and I just want to add that I will not, even though I have only a year, a little bit more than a year, left in my administration,...I will not...stop campaigning for rebuilding California. My journey and my...interest in helping California will continue even when I’m out of office, and so I will continue promoting and campaigning on those issues, or if it is government reform or budget reform or tax reform,...all of those [kinds] of things that I’m interested in, I will continue working on those things from outside the office.

Ms. Marshman:
So you have a little over a year left. What...do you expect to do at this point, when you’re out of office? And what would you like your legacy to be? What would you like people to look back on your administration and...see?

Gov. Schwarzenegger:
Well, you know, I’m not right now thinking that much about the legacy, because I still have a lot of work ahead of me to be done. First of all, I think the important thing is that we, within the next few months, make the legislators concentrate on tax reform. I think it’s absolutely essential, because if we look at our drop in revenues, these are self-inflicted wounds that we have in California. It’s not because of the economy. I mean, you know, we all know that the economy goes up and goes down. The question is really, how do we prepare ourselves for those cycles? And California has, for decades, not prepared itself, even though we know [there are] up-and down-swings to come. So we don’t have a rainy-day fund set aside so we have some extra money when there’s a downturn that we can cover, especially for education, and for some of the vulnerable citizens....

We have a tax system that is very volatile. We are relying – Fifty-three (53) percent of our revenues come from income tax or capital-gains tax, which is crazy, because that is mostly paid by rich people, and the rich people, you know, as soon as the stock market crashes, then there’s
no income coming in, in California. So this is why you have a drop in revenues of 27 percent or
20 percent. Like this last year, 27 percent drop, even though the economy only has dropped a
little bit. We have an increase in the economic activities of like 2 percent instead of maybe 5
percent, but that’s not as much as what we experience in drop in revenues. So those are all self-
inflicted wounds, only because the legislature refuses to address those issues.

Now I’ve talked about it for the last six years. I have campaigned on it for the last six years. I
even had a special election where I wanted to fix the budget system itself. Now I’m asking the
legislators to go in, to fix the tax system, to create more stability so we don’t have those [kinds]
of huge drops. I asked them to have a rainy-day fund set aside. The tax commission—the
bipartisan tax commission—has made it very clear we need a rainy-day fund and we need to
change the tax system. Of course, as you can see, labor went immediately against, you know, and
the Democrats went against, you know, our—those—recommendations, and also the chamber
went against it. So they all went against it because they’d rather hold on to the status quo even
though the status quo doesn’t work, but they just don’t like to venture out into something that is
unknown.

The first thing that you got from both sides was, “But with this new way of recommendations,
how do we know that this works? It has never been done before.”

I say, “If I would have done only the things that...have been done before, I would still be
yodeling in Austria, on a farm somewhere,” (laughter) because everything that I have done has
never been done before.

I mean there was no Austrian that ever won a world body-building championship. There was no
one that was brought over by an Austrian publishing company to win the championships. There
was no one that had an accent that became the highest-paid...movie star. There was no one that
ever, you know, came from Austria, and became governor of the state of California. I mean
there’s an endless amount of things that I’ve done. I’ve never asked myself, “Has this ever been
done? And therefore, let’s not do it, because it has never been done.” That’s a stupid thing to say.

I mean you’re limiting yourself. You’re crippling yourself by worrying always about, you know,
what this – “You know, how do we know it works?” But that’s part of the whole thing....“Let’s
do it.” They make great recommendations. You jump in there. You change the law. That’s what
you adopt. And then, as they always do with legislation, they make some tweaks. If we see that
there are certain revenues falling short in certain areas, then you bump it up there and you make
the corrections as you go along, and that’s...when you talk about having the guts, looking at the
problem, and see if you’ve got to fix it. I mean the only way –

And I think, for instance, Silicon Valley has been known—has been known—to do things that
have never, ever been done before. And so if we can just translate that, and maybe all of you
should come over to the capitol, and have -- Like the Latino Water Coalition. They had the
protest out in front of the capitol. You should be out there and holding signs and saying, “Be
more daring!” That’s what made California great is by being daring and by being out there, and I think that’s what the legislators need to do. So they’re...scared of everything, because their main purpose is to get re-elected, and so they are afraid that if they screw up something, and if they miss something, that they go back to their districts, and they don’t get elected. So that’s the fear they live under. You know, as long as you live under the fear, and you don’t realize that political risk-taking is not political suicide, that you should take risks, that’s healthy, and that’s good.

So I think those will be the debates in the next few months, to...make the corrections in the tax system, to make the corrections in the budget system. Create this rainy-day fund, and...continue on pushing for infrastructure; and of course the key thing is to campaign throughout the year, to make sure that the infrastructure package, the water-infrastructure package, gets approved in November. So those are the [kinds] of things, and also we will continue working also on education reform, which we are in right now. This next week will be a very...important time, where the legislators will sit down and will be having debates, and they will be voting on this very daring and very historic kind of education reform, which the federal government is asking us to do if we want to be competitive, and compete for this $4.3 billion race-to-the-top money. So I am all for that. I think these are very good things that the federal government has recommended for us to change, and so we are campaigning also on that, to make sure that they’re going in that direction.

Ms. Marshman:
Well, it sounds like you’re going to build an entire legacy in 13 months, and that will be interesting. Carl, I think, would like to turn the questioning to the audience.

Mr. Guardino:
Thank you, Barbara, and thank you, Governor Schwarzenegger. Common ground and daring is something that Silicon Valley and this governor have in common. We’re honored that you’re here once again. We’d like several of our CEOs to have a chance to make brief comments and [ask] questions on those common-ground issues that we both agree need to be addressed in the next 13 months. And we’re going to start with a mutual passion of competitive districts and open primaries, and Bob Haggerty, the CEO of Polycom.

Mr. Haggerty:
...Governor, first, thank you very much for your strategic thinking and the way you’ve taken the state forward through good times and certainly with the challenges that we’re facing. And I think that we all are—in Silicon Valley are—quite concerned about the dysfunctionality of the current system that we have in Sacramento. It’s way too hard to get things done. And the open primary seems to have a promise that we can move more moderate legislators into...power, and be able to have things move faster; because, you know, Silicon Valley is about getting things done, and we know you’re in support of this.

Q: And we’d like to know, what can we do to help you get this strategic initiative through, and help us improve the process up in Sacramento?
First of all, let me just say that you-all here in Silicon Valley have been very helpful and have been great partners of mine. Many of the initiatives that passed in these last few years since I’ve been governor [passed] because I got the help from the Silicon Valley. You guys have been generous, and that’s why, for instance, redistricting reform, that they have tried five times in the past, and the sixth time, it worked, and it passed, even though by only a half a point. But it doesn’t matter. I always just say, as long as you win, it doesn’t matter by how much. And I think that this was a perfect example that if you’re persistent enough, and if we all work together, even though the parties --The Democrats didn’t like it, and the Republicans didn’t like it, the redistricting, but we got it done, and you will see a huge change just because of that coming in 2011.

Not during my administration, but, you know, I always made it clear, I’m a visionary. I don’t think just about “What can I do while I’m in office, and what effect [will it] have while I’m in office?” Because otherwise…I wouldn’t have even gotten into the whole infrastructure and building [thing], because the water project, for instance, wouldn’t be done until 15 years from now. We start with the whole construction maybe two years from now, so I will be out of office then. But it doesn’t matter. It’s about California and about California’s future. So the redistricting will have a great impact to bring the two parties closer together.

The next-most important thing is the open primaries. You know, where you have the top two contenders competing. If they’re both Democrats or both Republicans, it doesn’t matter. It’s about the issues. It’s about…how trustworthy are they, how much are they willing to go and work for the people rather than for the parties and for this division. It’s based on that, when people elect them, rather than what is their party affiliation, which is, I think, all nonsense.

And when you talk about the…legacy, that’s one of the things that,…I think, I want people to look back and say, “That guy fought for issues, not is it a Democratic issue or a Republican issue.” To me, it doesn’t matter. Is the environmental issue a Democratic issue? I think that’s bogus because the environment ought to be enjoyed by both Democrats and Republicans. So it is with infrastructure or with education, law enforcement, all of those [kinds] of issues. So we have to ask ourselves –

So open primaries is a key thing, and I think that the way to win that is by recognizing there will be two main enemies there that will be fighting this initiative. One is the Democratic Party, and the other one is the Republican Party (laughter). And…why is that? The Democratic Party, the party officials, [there are] three, four people sitting there that run the party. They like to determine…who should be elected, and [whom] they help to win the primaries, the same as in the Republican Party. They sit there. There’s the Jon Fleishmans and those guys that sit there. They are real right-wingers. And they sit there and they make the decision, “This guy, we help; this guy, we don’t help.” So this is how they fix the system. So the people in the end never really get the best people to choose from, because they have a guy that is being elected here by the Democrats who is way to the left, and then they have a guy [who] is way to the right, but they
have no choice of someone [who] is in the middle and is really reasonable and is able to bring both of the parties together.

So you have a disadvantage, and this is why it takes so much effort to get anything done in California. Everything is immediately – It’s where they draw the…line in the sand, and it’s like Democrats versus Republicans. So I think that the more money we raise – I mean we need a minimum of $20 million in order to make this initiative win, and I will be campaigning up and down the state to make sure that we raise this money. We will have town-hall meetings and the whole thing, but that’s where you come in. I mean we all know that if we have the $20 million, we can win, because the parties will spend money against it, but not as much money as normally they would, because they are also, at the same, it’s an election year, where they need to have their candidates also win, so they will spend a lot of money on that. And so therefore I think we have a very good shot, [but] it is a difficult uphill battle. There’s no two ways about it, but I am absolutely convinced that we can win it, but we—I—need your help. I need your help to come in big. It’s not just a little contribution in…this case. We’ve got to come in really big and I will be coming to you and we will have fund-raisers and so on. Because this is something that is not, like I said, good for me, but it’s going to be good for the future. If you want to do something for the future of California, that is an absolute necessity, to make that win.

Mr. Guardino:
Governor, we’re right by your side on this one. It’s a high priority for our executive board and, I believe, all of our 300 members….Thanks for your leadership in taking this on.

You mentioned water earlier. We want to talk about the strategy on that. If Cele McCloy, CEO of Integrated Science Solutions, could tee up this comment and question?

Ms. McCloy:
Thank you, Carl. Governor, you’ve mentioned the water bond and water-policy issues twice in your comments so far today, and I’d like to thank you for your leadership after so many years of inaction and degradation, actually, of the whole water infrastructure. So, that being said, and it’s an $11 billion price tag, so it’s not exactly chump change, and we’re not exactly in [an] environment where there’s a great deal of extra cash lying around, and people are feeling a pinch.

Q: Strategically, how do you think you are going to implement getting this passed? And then the second part of the question is, what can we do to support you?

A: First of all, let me just make it clear that the $11 billion is only part of a $40 billion infrastructure package, so we are leveraging the rest of the money. I mean, from federal government and from local money. Users will pay some of that. So…it’s really a huge infrastructure package that really will redo the whole water system,…really making it move from [the] $18 million project that it is now….The water infrastructure that is in place was the most sophisticated plumbing system in the world, without any doubt; but, in the late ‘60s, early ‘70s,
for 18 million people. Since then, we have grown to 38 million people, and, by the time the project is finished, which will be 15 years from now, and there will be some delays one can expect, as we always have with construction. So it could be later than that. By that time, we will be 45 million people, maybe even 50 million. We have no idea. But people, experts, say within the next 20 years, we will go up to around, you know, 45, 50 million people. So therefore we have to think big, and so this...is why we fought for the big package rather than just to piecemeal the whole thing.

The other thing that is important to know is that money will not be spent right away. So it’s not like the bonds pass, and then immediately go out, and you start spending money. No. It would take two years to get the permits. Then they will start restoring the Delta, which doesn’t cost all that much money. What will cost a lot of money is to build the infrastructure, which is to build the dams and to build the canal and those things. Those things will not be started until 2014, I will say. So there will be not much money at all...being used until 2014. By that time, we know they come, and we will be back. So we don’t have to worry about that.

It’s also, in the...bonds, the provision is that half of the bond can only be sold after 2015, so that people know that not all of this money will be spent right away or will be used right away. So those bonds will not be sold for years and years and years to come. So this is the important thing. So therefore there is no money being used in general fund. So I think that’s the key thing, to explain that to people.

Number two, the only way this is going to win is by doing exactly the same thing as we did in 2006. Democrats and Republicans have to go up and down the state and campaign together, because when...the people see that Democrats and Republicans work together, then they don’t feel suspicion. You know, so it’s one party or the other, one attacking, and the other one saying, “No, it’s good.” All this will not happen. So they will be campaigning together, and also we made an effort, and why it took so long to negotiate is because all of the people that normally were enemies of those kinds of infrastructure packages, we brought in. So they all became part of the negotiations. They put in their ideas, and we included those ideas, which was very important. And they came in with some really good ideas, I would say; and so everyone sat there at the negotiating table. Everyone was heard. And even though everyone agreed that they didn’t get 100 percent of what they wanted, but they ended up with 60 or 70 percent, and everyone got 60 or 70 percent, and therefore everyone was happy, and we could move forward, and that’s the only way you can do [it] when [there are] so many different kinds of stakeholders involved. And so I was very happy that they finally got the whole thing done, and so you will not have the environmentalists going out and attacking the project, or Democrats attacking the project, or Republicans. See, you will have them all come together and campaign together and you will see ads together. You will see television commercials where they...will be together. So...I think it’s, again, a doable campaign. Again, very challenging, because of the very reason that you just said, that there will be some people out there from the far right that will say, “Isn’t this the wrong thing to do now, to spend more money?”
And my argument always will be, “No, this is investing money.” There is a difference between spending money and investing money. You spend money and then it’s gone. Year after year, you keep spending money on a certain program. Then it’s gone. But, in this case, it’s investing money, and investing in the future of California. And so we just have to sell that idea. And, again, it’s important that we raise enough money so that we can afford a good campaign, and to make sure that it wins.

Mr. Guardino:

And, Governor, thank you for your leadership on prop 1C, the housing bond, in 2006. We both agree that we need a permanent source for affordable homes in California. We’ve asked Mary Doyle, our issue champion, the general counsel and senior vice president of Palm, to address this and pose a question.

Ms. Doyle:

Good afternoon, Governor. It’s wonderful to have you here and to hear your thoughts and also very great to hear…that you are concerned about affordable housing, as we are. It is a persistent need throughout the state, but particularly here in Silicon Valley, where our CEOs feel it most keenly in trying to recruit out-of-state and out-of-region employees.

With that said, we are convinced that we can’t afford, over the long term, to bond our way out of this problem as we did with prop 1C, which is going to be—has been—wonderfully effective. Thank you. But…we’re looking and hoping for a more stable, long-term, pay-as-you-go, as you would say, fix to this problem. And that’s why we support SB 500, which is being carried by Senator Steinberg (D-Sacramento), and is expected to raise as much as $2 billion a year to create around 30,000 new homes annually in addition to 11,000 new housing opportunities for large families and individuals.

Last year, as I’m sure you know, at your direction, Lynn Jacobs, the [Department of] Housing and Community Development director, traveled our state to find out what people were thinking, and…what their thoughts were about solving our affordable-housing needs. And one those listening sessions was actually hosted by Palm at our facility here in Silicon Valley. There, 100 people came out to provide input to Director Jacobs, and she, of course, received thousands of various inputs, which she’s culled down to two, which are represented now in SB 500. We think that, through her efforts, you’ve laid a solid foundation for solving the affordable-housing issue for the long term. And [with] her efforts, and those of Senator Steinberg, and, coupled, we hope and expect, with your direction and leadership, we could do something really lasting and meaningful on housing and affordable housing in this state this year, and we think the table is set for action in the coming months.

Q: We want to get SB 500 and a permanent source of funding for affordable housing to your desk and signed. How can we help [make that] a reality?
A: First of all, we are working with Sen. Steinberg and I think that he has some great ideas there, and you know, I’m looking forward to [our working] together…to resolve this, and to come up and to sign this bill, SB 500, because I’m a big believer in affordable housing. I think we have seen -- When we had the bond in 2006 on a ballot, the thing that everyone thought would not pass was affordable housing; but, in the meantime, it passed with the highest numbers. So, as you can see, the people in California are very much interested in affordable housing, and this is why I think that SB 500 is also going to be successful in the end, and it’s going to get in good shape down to my desk, so I can sign it. So we are working together because I think that Steinberg is doing a great job in all of those kinds of areas.

There are many different issues that he is into that I love. One of them is career-based education. Steinberg is very much into that, and so we are going to work together to create some good legislation together for me to sign, also, to help our young people not to be programmed by outside forces that you need a four-year college, and this is the only way you’ll get accepted in society. But there are some people that are interested, and have a specific goal in mind, where they need a four-year college to get to their goal. But, at the same time, there are kids that have another goal where they don’t need the four-year college, where they maybe need a community college, and we need some career-based education, and stuff like that. So he and I…are in sync also on that.

There are many issues like that, that we are going to work on this year, and I think a lot of things could be accomplished this year because of it. When we say “this year,” I am counting not this year, because (laughter) we already have seen difficulties for the legislators who come back. They have to come back next week in the Assembly to go and vote on the education reform, so I don’t know if they’re going to be in the mood to work much before Christmas, but I think that in January, we will kick it off with a big bang, and I will have my State of the State address, and do my budget presentation, and then really get to work, and try to bring Democrats and Republicans together as much as possible, and affordable housing is definitely one of the things that we will accomplish. Absolutely.

Mr. Guardino:
Governor, last February, thanks to your tenacity, we had a huge breakthrough in the budget deal on single-sales-factor apportionment to tackle that issue. Since it looks like it might come back to be challenged, here’s Shellye Archambeau, the CEO of MetricStream.

Ms. Archambeau:
Thank you, Carl, and thank you again, Governor, for coming and spending your afternoon. We really appreciate hearing your views on all these important issues. As Carl said, we were all very pleased to see the measure that you supported for the…single-sales-factor apportionment change to be made. This is very important to us here in Silicon Valley, and whenever you have companies that have high [wages], high investments, etc., like technology, like biotech, etc., this makes a big difference to us. So we’re all very concerned about the fact that there’s now a coalition of people trying to indeed repeal this.
Q: So we want to understand, from your perspective, how important is this to you? And what can we do to assist you in ensuring that this single-sales-factor actually remains in place, and enables us to indeed be competitive here in the state of California?

A: As you know,…it was our administration that has fought for it, and we feel that companies that employ people here, and that do business here, should not be punished when they…make their sales outside the state, but employ all these people here, and really help us stimulate the economy. So that’s why we have changed it.

Now it’s clear that because we are, again, at least anywhere between $21 billion and $24 billion short this year, this coming year, meaning that this fiscal year right now, probably around $7, $8 billion, and then the rest of it, the next fiscal year, so that the people are going to look at those things, not as much…trying to get rid of it, but to postpone it for a year or two. I have heard that kind of a conversation, and [that] kind of a suggestion. So this will come up.

But, at the same time, I have to tell you, I passed proposition 49 in 2002, which is the After School Education and Safety [Program], which [was] $428 million, which now is around $500 million, for after-school programs. It passed with 57 percent of the votes; and, since that day, the legislators have been back, and came to my office every year, and said, “Let’s repeal that. Let’s put it on a ballot, and if the people vote against it,…let’s take that money and use it for something else.”

So, yes, there will be conversations like that. Yes, there will be discussions like that. It’s inevitable. Wherever you can grab money when you are short of $22 to $24 billion, you look at all those things. What will happen, and…we have no idea, and I’m going to continue fighting for those things, because I think it’s important for the state; but, at the same time, one has to also recognize that we’ve got to go and figure out a way of working with those shortcomings, with these revenue shortcomings, and so everything will be, again, on the table. I’m not going to say to anyone, “This is off the table,” because you never start a negotiation by saying, “This and this and this [are] off the table.” But we’re going to have a reasonable conversation. We’re going to make it very clear that we have to do more to stimulate the economy, to help companies to stay here, to make companies hire more people,…that we should have tax incentives for everyone that hires new people, and stuff like that. So we will actually send the conversation in a different direction rather than taking something away;…but it will be very interesting negotiations coming up after January.

Mr. Guardino:

The five words that I most hate to say – We are out of time. But we have a tradition at the Leadership Group. We start on time. We end on time. We respect your time, so that the governor knows that we will keep his busy life on time, and you, as CEOs and senior officers, know the same. I think Tom wanted to make a quick comment on that point. He is the incoming chair of my board, and I like being employed! Tom, you have a quick…?
Mr. Werner:
I just wanted to drive that last point home, that what that means for SunPower, as an example, is an $18 million penalty for employing more people in California....It's literally that. So that can't make sense.

Mr. Guardino:
First, will you join me in thanking once again our governor, Arnold Schwarzenegger (applause)....Governor Schwarzenegger, you have been so attentive and supportive of the innovation economy that we...want chat with you because we think you are a resident here, but we do want to leave you with two parting gifts, if we may. One, each of these CEOs and senior officers here today have taken a moment to sign the inside of this book about our beautiful state, California: a Visual Journey, that we would like to present to you as a small token of our appreciation for your visit today. And second, for those late-night negotiations on budget and challenging issues, when you get hungry (laughter), we know there’s nothing healthier than a very small chocolate bar that we would like to give to you.

Gov. Schwarzenegger:
Well, I just talked about prevention (laughter) in healthcare. I mean what is that? But thank you very much. Thank you. I appreciate it. It’s great to be here with all of you, and I’ll be back (laughter). I promise you that. And just want to say...that no matter how difficult it is right now to govern, you should also know that I have never had a more interesting and exciting and rewarding job than being governor of California. I enjoy my job thoroughly. I am having a great time in there, and I always find some laughs, also, because that’s my style, and so I’m looking forward to working these next 13 months on your behalf, and I can guarantee you I will be fighting all the way. So thank you very much. Thank you....

# # #

/WPP
December 2-4, 2009