Chapter 3:

The Issues

- The Economy
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- Education
- Budget/Taxes
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Interactive Game and Celebrity Quiz:
Whack-a-Gov, Celebrity Politics
The Economy

Speech Excerpts
Bill Simon   Gray Davis

Interview Excerpts
Bill Simon   Gray Davis

Issue Ads
Gray Davis
I do have some thoughts on how we here in California can get our economy going again. And I’d like to share with you some of my ideas.

First, we need to get our state’s fiscal house in order so we can avoid more tax increases. Until recently, California enjoyed historic growth in tax revenues fueled by the formerly booming economy. Much of the revenue that poured into state coffers came from state capital gains taxes and income taxes on stock options from high tech firms. Now, much of this revenue is drying up, and Gray Davis, who once had an $8 billion surplus, faces a deficit of at least $13 billion. Davis has already raised the sales tax by $1.2 billion, and the pressure is building for more tax increases, which will only make the economy worse.

There’s no good time to raise taxes, but a recession is the worst time for government to pull money out of the private sector and take a bigger share. The facts could not be more clear. Studies show that an increase of 1 percent of personal income taxes reduces income growth by over 3.5 percent. And in the last decade, low-tax states have grown almost one-third faster than high-tax states.

So while the President is trying to kick-start the economy by cutting taxes, California should not undo that good work by raising them. Instead, we must trim the bloat that has grown in our budget while we feasted on the revenues of the past boom.

I have proposed an immediate special session of the Legislature to reopen the current fiscal year budget and begin the difficult process of paring back. My plan includes elimination of $1.2 billion of pork, vacant government positions, and new programs. Additionally, I’ve proposed an immediate, across the board cut of 15% in all non-public safety expenditures from state operations. My plan could save from $6.1 to
$7.5 billion of the projected deficit.

While we must cope with tough budget times by cutting programs, the deficit has grown to the point where not all budget balancing can take place on the spending side. We must figure out how to increase revenues, not by raising taxes, but by growing our economy.

In essence, the capital gains tax is a tax on the movement of capital. An onerous capital gains tax leads to people idling their capital in an attempt to avoid paying the tax. It is entrepreneurial capital, for example of a small business owner, which gets hit with the capital gains tax.

California has one of the most onerous capital gains taxes in the nation, with only two states having higher rates. California taxes all capital gains as regular income, mostly at the highest state income tax rate of 9.3%. Yet as you know, some of this income has already been taxed once, twice or even three times before.

I firmly believe that if California could do only one thing to inject capital into the system and create jobs, it should be to immediately cut the state capital gains tax. I would propose cutting the state rate from the current 9.3% to 5%. And contrary to what my democrat friends might expect, this rate cut will actually increase overall revenue to the state.

There's a third element to my plan, and that strangely enough involves undoing damage the Governor and the Legislature have already done. In three years, Gray Davis has signed 11 proposals that the California Chamber of Commerce has dubbed "job-killers." And beyond these 11, he's signed dozens more bills that collectively send the signal that California is not open for business. These laws have been the whole gamut of liberal ideas, from laws to expand tort liability, to give-aways to labor unions, to bureaucratic red tape. Collectively, these new laws will cost California tens if not hundreds of thousands of jobs.

Ironically it seems, the best thing Davis could do to help the economy may not be
some new program, but rather to undo the damage he's already done.

California must work to restart our economy, and that action must begin today. By trimming wasteful government spending, cutting taxes, and rolling back job-killing laws - including getting us out of the energy mess - we can do our part. But it will take leadership and vision to take these needed actions.

Last week, Gray Davis used his economic summit as a photo-op rather than an actual forum to discuss ways to help the economy. Now, I'm more convinced than ever that a new leader who's spent his time in the private sector rather than as a career politician is needed to turn our state around.
Excerpt from Davis’ 2002 State of the State Address: January 8, 2002

Given our softening economy, we must do everything we can to help those who’ve
lost their jobs. We must also stimulate the economy and create new jobs.

Now, most of the tools to accomplish these goals are in the hands of our
representatives in Washington. I urge the President and Congress to pass an economic
stimulus package. But we have to do our part, too. Here at the State level, we must do all
we can to reinvigorate our economy.

First, I will ask you to make retroactive to September 11th the increases in
unemployment benefits I approved last year. Those who lost their jobs, especially as a
result of terrorism, deserve the higher levels of unemployment assistance that went into
effect two days ago. This change alone will put $400 million in benefits into the hands of
laid-off California workers.

Second, I’ll also be sending you legislation to authorize $678 million dollars in
lease revenue bonds to accelerate new public works projects that are ready to go.

Third, world-class schools need world-class facilities. I was proud to chair the
successful Proposition 39 campaign that will help to finance the construction of local
schools. But our State bond funds are exhausted. So I will urge you to support $30 billion
in school bonds over three general elections to build new schools and modernize existing
ones.

Now, a faltering economy forces us to take a hard look at California’s job training
and workforce development system. It’s a 4.6-billion-dollar Goliath made up of 34
different programs in 13 different agencies.

The demands of our new economy – especially in this time of change – requires a
new approach. That is why I’ll be sending you a proposal to reorganize these entities into
a new Cabinet-level Labor and Workforce Development Agency. In streamlining these
programs, we will achieve greater accountability and efficiency.
The Economy: Interview Excerpts – Bill Simon

Simon Economy 1

CA Channel (4 min.)

Simon Economy 2

CA Channel (1 min.)

Davis v. Simon: Sourcebook for the 2002 California Gubernatorial Election
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The Economy: Interview Excerpts – Gray Davis

Davis Economy 1

CA Channel (4 min.)

Davis Economy 2

CA Channel (3 min.)

Davis Economy

Sacramento Bee (2 min.)
The Economy: Issue Ads – Gray Davis

"Restore"

Davis: “Restore,” 8/15/02
The Energy Crisis

Speech Excerpts
Bill Simon       Gray Davis

Interview Excerpts
Bill Simon       Gray Davis
The answer to both the high prices and unreliability of electricity is supply. With greater supply, and a greater ability to transmit that supply around the state, we will both keep prices down, and ensure we never again see blackouts. In the current market conditions, however, no one is building plants. And who can blame them? The regulatory, pricing, and political climate that Davis has created is hostile to investment.

So what do we do?

First, get the state out of the power business. That means the state should stop buying power, and the California Power Authority should be eliminated. That means renegotiating the long-term contracts that Davis signed in a panic. And not just chopping a couple years off the end of the contracts, but actually renegotiating them to provide price relief today. We also need to consolidate and streamline the maze of agencies and regulations that power developers must navigate to build a plant in California.

These reforms will help stabilize the energy markets, so that power producers can make rational long-term decisions about building plants in our state.

We also need to expand our ability to move electricity around the state. In my administration, we will create incentives for private parties to expand transmission capacity.

We need to continue promoting conservation, but not just a feel good program by a governor who wants to give the impression of action. I want to give consumers, both residential and commercial, more choice in purchasing power. And that means a whole host of options. Some might choose to buy more green power, helping the environment. Others will shop for the cheapest power around, which will promote competition and lower prices. Large industrial and governmental users should be free to pursue...
distributed generation by building mini-plants for their own use, and then sell their excess supply on the market, expanding supply and further driving down prices. The options are endless, if we embrace the market. And in promoting further conservation and use of alternative energy sources, we must launch a new effort to engage California’s world-class research institutions.

Finally, as strong as California is or should be, we must recognize that electricity is a regional if not national problem. Gray Davis’ policy of California going it alone has failed.

He has fought to keep the Cal-ISO board stacked with his political cronies. I believe the managers of our grid should be non-partisan experts, not hacks who answer to a career politician. We must work together with our neighbors in Western United States to manage the region’s transmission grid through a Regional Transmission Organization.

I also want to add that we also have challenges in our natural gas supply. Furthermore, we face major challenges in meeting the requirement to switch from MTBE to ethanol in our gasoline. Any of these crises, ignored by Davis, could lead to a whole new wave of energy problems, with shortages and high prices.

In both instances, the answer remains the same. More supply, more options, and working cooperatively with others rather than just blaming them for political gain.

Now ladies and gentlemen, there are a lot more details in my power plan for California – too many to outline here today. But I hope you take away several critical messages from my talk here today.

First, the power crisis is not over in California and don’t believe anyone who says it is.

Second, we can solve this crisis with new leadership, fresh ideas and a governor who plays it straight with the voters. Third, any solution that locks our people and employers into higher electric bills, locks our children into bonded indebtedness, and
still can’t guarantee enough power to meet our needs, is no solution at all. The sad fact is that this is all Gray Davis has to offer.
No list of what we’ve achieved together would be complete without discussing our progress on energy. California defied the odds – and the prognosticators.

As all of you know, when I stood here last year we were facing an imminent implosion of our electricity system. The flawed deregulation scheme we inherited backfired catastrophically. We’d experienced the first forced blackouts since the Second World War. Experts were predicting 32 days of blackouts over the summer.

We were 100% exposed to the wildly fluctuating energy market. Merchant generators – and even some of our own municipal utilities – were gouging us unconscionably. Manufacturing firms and other businesses were threatening to leave California because of the disruption of power.

But, together, we confronted the challenge, and kept the power flowing to our homes and businesses, cities and farms.

As always, the people of California deserve the credit. They responded to our “Flex Your Power” campaign, conserved in record numbers, earned rebates in historic amounts and helped reduce our energy demand.

But we also built more supply in record time. We licensed 17 new major power plants. Eleven of those plants were built and put on-line by the end of last year, including the first three major plants in 13 years. In 2001, we brought more new power on-line than in the previous 12 years combined – enough to power two million homes.

Against all odds, we also successfully pressured a reluctant federal government to finally restore price caps and consider refunds. We tamed the spot market with long-term contracts. And we established the California Power Authority to help ensure our energy future.

California has the most technologically advanced economy in the world – and it
lives or dies on a stable supply of electricity. Our high tech industries cannot survive the lights flickering, much less going out.

Make no mistake: My overriding imperative last year was to ensure California had reliable electricity. By doing so, we protected public health and safety, prevented a meltdown of our economy, kept business from leaving the State – and even created new jobs through expansions that were put on hold earlier in the year.

Now that the supply of natural gas has stabilized and the price has fallen, we are renegotiating some of the long-term contracts to ensure ratepayers a reliable supply of electricity at less cost.

But the recent collapse of Enron is another sign of the extreme volatility and uncertainty we still face in the deregulated energy sector. We must continue to conserve. We must continue to build more plants, cleaner plants, more-efficient plants to replace our aging facilities. We must maintain our vigilance to protect our economy and our citizens against further energy disruptions.
The Energy Crisis: Bill Simon Interview Excerpts

Simon Energy
California Channel (1 min.)

Simon Energy
Sacramento Bee (3 min.)
The Energy Crisis: Interview Excerpts - Gray Davis

Davis Energy

California Channel (1 min.)
Education

Speech Excerpts
Bill Simon       Gray Davis

Interview Excerpts
Bill Simon       Gray Davis

Issue Ads
Bill Simon       Gray Davis
Excerpt from Simon’s Speech to San Jose Rotary Club, September 4, 2002

There are three areas that must be addressed in our schools in order to secure the future of our high tech economy and unlock the full potential of our children’s dreams. First, parents, teachers and local schools must have a greater say in the decisions that impact our children’s education. Second, we must have real standards and accountability in our schools, not the sham system that governor Davis created. And third, we must address California’s growing crisis in school facilities.

Today I’d like to focus on the first challenge – empowering parents, teachers and localities. Let me tell you how we can do this.

First of all, we will require that every school develop its own comprehensive educational plan – not a plan dictated by Sacramento – but one developed by the parents, principals and educators at the school. The plan should establish the school’s educational goals and a sound budget for achieving those goals. The superintendent and the school board would approve it. This bottom – up approach to school governance will give each community the greatest say over its own schools. And when we give communities and families a stake in their own schools again, I believe we will see a torrent of volunteerism and citizen involvement in fixing those schools.

In addition, California has 70 so-called categorical programs that tie the hands of schools and districts on their spending decisions. I am sure these programs were devised with the best of intentions, and I am fully aware that each one has a powerful political constituency behind it.

But if we are really serious about freeing our schools from a far away bureaucracy, then we have to trust parents, teachers and schools to make the right decisions. And that means cutting 51 of these 70 categorical programs down to about five.
I also believe that California should expand charter schools. These schools provide choice and competition within the public school system. They give students and parents enriching educational options and their presence spurs all schools to do better. Governor Davis has been no friend of charter schools. He has vetoed legislation that would help them succeed and signed legislation that would stifle them.

The legislature should ensure that funding for charters is extended beyond this fiscal year. The current maximum number of allowable charter schools is 10 per district. That ceiling should be lifted. Right now only local school districts and the state board of education can establish and oversee charter schools. We should expand these chartering entities to include universities, community colleges and county school boards.

We must also act decisively to prevent the demise of vocational education. Here again, governor Davis’s approach alternated between indifference and hostility. To be competitive in the 21st century global economy, California is going to need workers with wide-ranging sets of skills. Vocational programs fill many of these needs.

We must also regain the momentum — squandered in the Davis administration — towards smaller classes and more individual instruction for every child. With an $8 billion dollar budget surplus and a booming economy, governor Davis had an historic opportunity to lock in stable and steady financing of important programs like class size reduction for years to come. Instead he overspent, put away nothing for a rainy day, added 40,000 people to state payrolls, and piled up an historic $24 billion deficit. Now, all programs including education are at risk.

The last proposal I’d like to announce today reflects the reality that some school districts in our state have grown so large and unmanageable that they cannot possibly lead their schools effectively or properly tailor their programs to the unique needs of our diverse communities. And so I will seek to make it policy of this state that no school district should be larger than 60,000 students. This will initially affect five districts — Los Angeles, San Diego, San Francisco, Long Beach and Fresno — but given our state’s
growing population, other districts will hit that threshold in the not too-distant future. Smaller districts mean less bureaucratic control and greater empowerment for parents, teachers and schools. And I will advocate for smaller campuses as well, because we know that smaller campuses, where the principal knows every student’s name, are clearly better than massive campuses where students become numbers rather than names.

Ladies and gentlemen let me conclude by saying that I know local control -- and the community, volunteer and parental involvement it brings -- can make a fundamental difference in our children’s lives. I know because along with my wife and my family, I have devoted a great deal of my time, energy and personal resources to providing educational opportunities for children and schools throughout California and across the country. We have seen thousands of young people lift themselves up and turn their lives around through these efforts.

**Education: Speech Excerpts – Gray Davis**

**Excerpt from Davis’ 2002 State of the State Address, January 8, 2002**

In education, we’ve made consistent and measurable progress:

* We’ve recruited 15,000 new teachers for our schools, and 20,000 college students have taken advantage of our incentives to become future teachers.

* 100,000 teachers have received rigorous, world-class training under the auspices of the University of California.

* More than 1,300 teachers have met the high national standards for prestigious national certification – a ten-fold increase in three years.

* Last year alone, in part because of our incentives, 516 California teachers became Board-certified.

* More than 200,000 teachers have taken advantage of our teacher tax credit.

* And we’ve put a college education within the reach of hundreds of thousands of
Californians.

* For the first time ever, 100,000 students have earned Governor's Merit Scholarships, and nearly 200,000 will receive Cal Grants based on merit and need – the most ever at one time.

We take pride in all these numbers, but here’s the one that counts the most: test scores have gone up three years in a row.

Here are the basic principles I used in formulating the budget.

First, my commitment to public education remains resolute. Let me be clear: education will be protected above everything else in my budget. For three years in a row, we've increased our investment in K-12 education and met or exceeded the Prop-98 guarantee. This year, once again, I intend to invest more in schools in 2002 than we did in 2001 and we will meet the Prop-98 guarantee. That is how progress is preserved.

I have asked you to reduce some of the budget augmentations we made last year. But I will fight to protect those investments vital to the classroom itself, where teachers teach and students learn.
Education: Interview Excerpts - Bill Simon

Simon Education

California Channel (3 min.)
Education: Gray Davis Interview Excerpts

Davis Education 1
California Channel (2 min.)

Davis Education 2
California Channel (2 min.)
Education: Issue Ads – Bill Simon

Simon Radio Ad (Spanish)

“Good Education,” 7/7/02 (1 min.)

English translation of “Good Education”
Education: Issue Ads – Gray Davis

"Progress"

Davis: “Progress,” 9/25/02

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Budget/Taxes

Speech Excerpts
Bill Simon          Gray Davis

Interview Excerpts
Bill Simon          Gray Davis
Excerpt from Simon’s Speech to the Public Policy Institute, San Francisco, January 11, 2002

My friends, In the two decades that I’ve been investing in private businesses, I’ve examined thousands of balance sheets, disclosure forms and economic forecasts.

And like many others, I’ve tried to assess whether a company or business is misguided or mismanaged … under-performing or unrealistic … overly cautious or simply overwhelmed.

So when I look at the California balance sheet, I see it from a perspective of someone who is familiar with many different types of businesses, and who knows what works and what doesn’t.

Since historical revenue growth has averaged eight percent, we should be both cautious and skeptical of spending that exceeds that standard in any given year.

That’s why California’s Governor must not yield to the temptation that a year or two of rapid revenue growth will present … because there will inevitably be years of little, no, or negative revenue growth.

Quite simply, to smooth out the highs and the lows, money from the good years must be put aside, so that it’s available during the slow years.

As a solution, I propose amending the Constitution to maintain two budget reserves … one for emergencies, and another for revenue volatility. Only in the direst circumstances should these reserves be used.

The first reserve, at 2% of General Fund revenue, would provide for needs arising from unforeseen natural disasters.

This is especially important in California. the only thing “unforeseen” about natural disasters is not “whether”… but “when” … they will occur.

The other reserve, at 4% of General Fund revenue, would serve as a working
capital reserve, evening out the inevitable highs and lows of the business cycle.

Of course, I’m aware we won’t get to a 6% reserve in a single year ... it must be phased in over several years.

We simply should not have to make the kind of painful cuts that now face us today. Call it the ounce of prevention that would have staved off the pounds of cure Gray Davis will have to eventually impose.

I want to speak out in some detail about how my budget plan differs from the Davis budget.

First, I would achieve the maximum savings in the current year through cuts in both one-time and ongoing programs in the following way:

* An across-the-board 15% cut in state operations, except for public safety, saving $3.5 billion
* Eliminating padded budgets that contain extra money for vacant positions will save $800 million
* Eliminating pork projects saves $100 million
* Instituting a hiring freeze saves almost $200 million
* Scrutinizing this year’s new programs will save as much as $1.4 billion
* Accepting reductions already recommended by the Governor and Legislative Analyst saves $4 billion
* Recognizing the savings from rescheduling the state’s payment to PERS will save the state an additional $400 million

With these principles, we can achieve a balanced budget that gets California’s fiscal house in order and sets the stage for long-term reforms that will prevent a similar crisis in the future.
Budget/Taxes: Speech Excerpts – Gray Davis

Excerpt from Davis’ 2002 State of the State Address, January 8, 2002

Now, with the same resolve we demonstrated during the energy crisis, we will squarely confront the current economic downturn and its consequences.

In the coming year, we must have the courage to make tough decisions in tough times. The Department of Finance and the Legislative Analyst agree that we are facing a shortfall of more than 12 billion dollars. We will have to be smarter and more focused. And we will – with confidence in our eventual resurgence and still bright future.

But, in so doing, we will not back away from our historic commitments to education, economic growth, health care and public safety.

From Day One, we have exercised fiscal restraint and responsibility. In good times, we made smart investments in California’s future. Still, even with our budgets flush – and well before the sharp decline of the technology sector and the attacks of September 11th – we were always careful with the taxpayers’ dollar.

* We invested a substantial portion of our surpluses into one-time investments – such as transportation – instead of ongoing spending.

* With both Democratic and Republican votes, we passed two back-to-back, on-time budgets in 1999 and 2000 – the first in 16 years.

* We established a $2.6 billion reserve in the current budget year – the largest rainy day fund in 23 years.

* And I exercised my veto authority to cut $7.4 billion in otherwise worthy proposals over three years.

* I also suspended allocation of $2 billion in the current budget year, cut operating expenses by $150 million and ordered an immediate hiring freeze.

While demonstrating good fiscal stewardship, we also addressed the critical
issues facing California and provided for those most in need. After three years, we enter this new year with better schools, healthier families, increased worker protections and safer communities.

The budget I will submit to you in two days will be fair, will preserve the major gains of the last three years, will protect local government – and will not increase taxes.

I will call on you to close the budget gap with a combination of cutbacks, deferred spending, internal borrowing and accelerated revenue.

Here are the basic principles I used in formulating the budget:

First, my commitment to public education remains resolute.

Let me be clear: education will be protected above everything else in my Budget. For three years in a row, we’ve increased our investment in K-12 education and met or exceeded the Prop-98 guarantee. This year, once again, I intend to invest more in schools in 2002 than we did in 2001 and we will meet the Prop-98 guarantee. That is how progress is preserved.

I have asked you to reduce some of the budget augmentations we made last year. But I will fight to protect those investments vital to the classroom itself, where teachers teach and students learn.

Second, we will maintain our full commitment to public safety. This is no time to weaken our resolve to combat crime and protect our citizens.

The terrible events of September 11th underscored the value to us all of those who protect America – police, sheriffs, firefighters and emergency medical personnel.

Third, I will expand our commitment to children.

I’ll be proposing an expansion of safe and affordable child care to serve 100,000 more children. I’ll propose an expansion of the Childhood Lead Poisoning Prevention Program.

And, although I asked you to postpone the expansion of before and after school programs in the current year, in my budget, I’ll propose an increase of $75 million – the
largest ever made to this program.

Fourth, I am opposed to balancing the State’s budget on the backs of local government.

Whether we are elected at the State or local level, we all took the same oath – to serve the people. So I will continue the State’s commitment to repay vehicle license fees to local government.

Fifth, I will not advocate raising taxes.

That would further burden individuals and businesses struggling to stay afloat in these difficult economic times.

These are the principles that guided me in preparing the budget. And, even with the cutbacks I will propose, California will be much stronger than it was just three years ago.

As a critical step in addressing our budget shortfall, I have called a concurrent Special Session of the Legislature. I urge you to take up as your first order of business $2 billion in cuts in the current budget year that I called for in November. Failure to act quickly on these cuts will only increase the pain for our fellow citizens who depend on the State for vital services.
Budget/Taxes: Interview Excerpts - Bill Simon

Simon Budget

California Channel (5 min.)
Budget/Taxes: Interview Excerpts – Gray Davis

Davis Budget

California Channel (2 min.)
Ethics and Accountability

Interview Excerpts
Bill Simon       Gray Davis

Issue Ads
Bill Simon       Gray Davis
Ethics: Interview Excerpts – Bill Simon

Simon Ethics
California Channel (6 min.)

Simon Ethics 1
Sacramento Bee (2 min.)

Simon Ethics 2
Sacramento Bee (2 min.)
Ethics: Interview Excerpts – Gray Davis

Davis Ethics

California Channel (6 min.)

Davis Ethics 1

Sacramento Bee (2 min.)

Davis Ethics 2

Sacramento Bee (2 min.)

Davis Ethics 3

Sacramento Bee (2 min.)
Ethics: Issue Ads – Bill Simon

"Do You Know Me?"

Simon: "Do You Know Me?," 10/7/02

"Maids"

Simon: “Maids,” 6/11/02

"Receptionist"

Simon: “Receptionist,” 6/11/02
"Time's Up"
Simon: “Time's Up,” 6/11/02

"Davis is Negative"
Simon: “Davis is negative,” 6/6/02

"Blame Game"
Simon: “Blame Game,” 6/6/02
Ethics: Issue Ads – Gray Davis

"Back in Court"

Davis: “Back In Court,” 10/7/02

"Without Notice"

Davis: “Without Notice,” 7/26/02

"Fees"

Davis: “Fees,” 7/23/02
"World"

Davis: "World," 6/19/02

"Rampant"

Davis: "Rampant," 6/13/02

"Mistakes"

Davis: "Mistakes," 6/10/02
INTERACTIVE: Game and Celebrity Quiz

Whack-a-Gov

Celebrity Politics:
Match the Stars to the Issues
**Whack-a-Gov**

Now is your chance to take out your political aggression! The "Issues" Whack-a-Gov game allow you to hammer the interest groups that support the opposing candidate while sparing the groups that are on your team. Click below to play the Whack-a-Gov game.

![Play "Issues" Whack-a-Gov](image)

**Celebrity Politics**

Celebrities are often active in political campaigns. Can you match the celebrities to the issues or political parties they support? Click below to take the celebrity quiz.

![Take the Celebrity Quiz](image)