



STATE OF THE STATE 2010:

TAX AND PENSION REFORM FOR A STRONGER FUTURE

“To strengthen the economy, which is the foundation of all jobs, we here in this chamber must reform California’s tax system.” (Gov. Arnold Schwarzenegger, State of the State Speech, 1/6/10)

The current tax system is broken, outdated and in need of repair. The only certainty it brings are continued cuts to state services and calls for increased taxes. The boom and bust economic cycles the current tax system depends on has turned our state budgeting system into an unpredictable roller coaster ride that brings windfalls one year and painful deficits the next.

The Governor today encouraged the legislature to seize the opportunity to modernize and stabilize the tax structure while encouraging economic growth by taking up the bipartisan Commission on the 21st Century’s [recommendations](#) to restructure the way California funds state Government.

The current, outdated system produces dramatic fluctuations in revenue – these bust or boom cycles have made budgeting and funding of essential services year after year very difficult. The Commission’s recommendations are designed to broaden the tax base, making revenues less volatile while being fair and equitable for all Californians.

The Governor called a [special session](#) of the Legislature to review the recommendations this past summer.

“I ask the Legislature to join me in finding the equivalent of a water deal on pensions, so that we can meet current promises and yet reduce the burden going forward.” (Gov. Arnold Schwarzenegger, State of the State Speech, 1/6/10)

In 1999, the legislature boosted lifetime pensions for government employees without setting aside enough money to pay for them. A decade later, annual pension costs are up over 2,000 percent just in the last ten years and will keep on growing and crowding out other programs unless we take action.

Every dollar needed to meet underfunded pension promises is a dollar taken from higher education, health and human services, parks and recreation and other important programs. To protect programs and taxpayers, the Governor called on the legislature to make [pension reform](#) a priority this year and to pass legislation reducing pension burdens going forward.

The Governor stands by his proposal to reform unsustainable retiree pension formulas, for new hires only, in order to protect existing employees' pensions and ensure that new promises do not incur debt that is overly burdensome on our state budget. This would result in a savings of \$74 billion in reduced pension payouts and \$19 billion in reduced costs of retiree health benefits through 2040.