

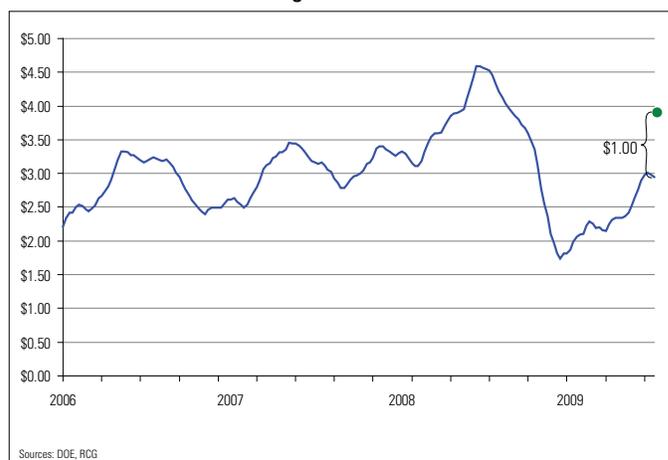
The California fiscal crisis can be resolved in the short term by some painful, but necessary, tax increases and spending cuts. The embarrassing deadlock in Sacramento requires non-political, out-of-the-box thinking in order to resolve the current crisis in a timely manner before the state suffers permanent harm.

To resolve the present crisis, we propose a set of tax increases and spending cuts that will put the state on the proper path to fiscal responsibility and help to resolve the estimated \$26.3 billion shortfall in fiscal year 2009-2010. On the spending side, a 5% across-the-board reduction in expenditures from the FY 2008-2009 level, while difficult, will spread the pain equally and close the deficit by approximately \$6.6 billion dollars.

On the revenue side, we propose that California raise taxes on gasoline and vehicles. A \$1 per-gallon tax on gasoline, diesel and aviation fuel will raise prices to levels that are still below those of a year ago, and at half the levels of prices in Europe. It will not only raise nearly \$17.9 billion in revenue per year, based on the 2008 amount of fuel distributed in the state, but will also put California at the forefront of the fight against global warming. In the near term, such a tax will modestly decrease gasoline consumption. In the long run, it will encourage energy conservation via the use of more fuel-efficient vehicles, mass transit, and shorter commute patterns. The regressive nature of the tax could be offset by a rebate to lower income households and firms that are unfairly impacted by the tax.

Reinstating the 2% vehicle license fee could generate roughly \$2.9 billion of additional revenue for the state in FY 2009-2010. The increase from the current 1.15% to 2% will return this fee to its historical norm and a rate last seen in 1998. The repeal of the vehicle license fee increase in 2003 by Governor Schwarzenegger has cost the state more than \$28 billion of revenue in the last six

Gasoline Price Per Gallon - Regular

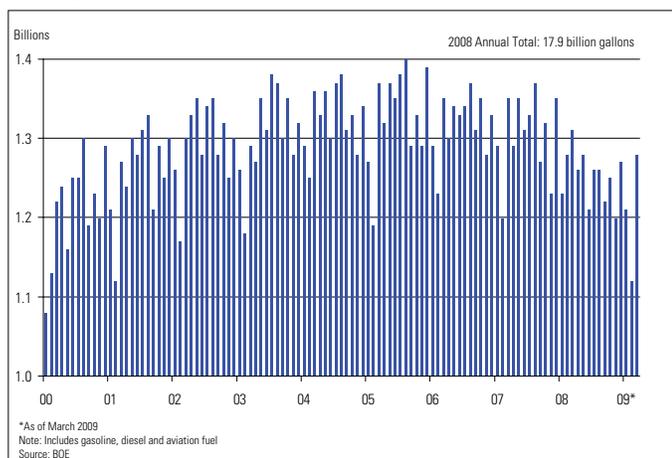


years. Prior to the permanent rate change in 2005 to 0.65%, the tax offset was intended to be used only during years of adequate General Fund revenues, which is clearly not the case currently.

While these tax increases are bold and politically incorrect proposals, they can solve the short-run budget gap that is faced by the state. In the long term, we need a complete overhaul of California's fiscal system. We propose the creation of a "Citizens' Fiscal Reform Commission" comprised of leaders from business and labor and academic experts that will be charged with developing a non-partisan reform of California's broken fiscal system. This Commission should be given a mandate to conduct "citizen hearings" throughout the state and within six months have a set of non-partisan consensus recommendations that can be put before the voters in 2010.

This set of proposals will alleviate the short-term deficit as well as return the state to its position as a leader in innovation and progress.

Monthly Fuel Distribution - Gallons



Vehicle License Fees

