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7/7

Held July 7, 1971

Reported by

Linda S. Gage, CSR

(This rough transcript of the Governor's press conference is furnished to the members of the Capitol press corps for their convenience only. Because of the need to get it to the press as rapidly as possible after the conference, no corrections are made and there is no guarantee of absolute accuracy).

(Whereupon Governor Reagan read Press Release #403)

PAUL BECK: Governor, there is a typographical error on the fourth paragraph of the letter, "Therefore, we are requesting that the Board of Forestry review its action." It should be "rescind."

Q Well, even so they say they are going to resubmit it. All they are asking for is time to explain their plan, apparently. What are you pleased about exactly? And you say here the following conversations, but you only give us a letter. What was your end of the conversation with them?

A Well, you would have to ask Mr. Livermore that---what it was. But, the thing is where you say---the very fact that they are asking the Board to rescind means that they will present this case and the Board then would perhaps have a better understanding of what's involved and will take whatever action.

Q They are not indicating they have any different plan or purpose to change their plans in any way?

A Well, they have explained their position in the letter.

Q Governor, is the implication of your involvement in this that your administration feels that the plan of the Simpson Timber Company would have been destructive to the Redwoods? Were you opposed to it as it was approved by the Forestry Board?

A I think that the....I am not equipped to say that. I know that they believe that this was a plan that was in keeping with long-range forestry plans but there never has been anything done quite on that scale or over the period of years they had suggested and it seemed to burst so on the people that again, part of the reason for doing this is the very fact that I myself have to say I don't quite understand all the ramifications of it myself.

Q Did you ask them to withdraw their permit or did Mr. Livermore ask them to do that?

A I don't know whether he made an outright request for that or not. He has been in conversations with them. They were most cooperative. They have a good record, that particular company, in their forestry practices, and they were cooperative enough to take the action that was outlined in there.

Q It is difficult to understand just what the rule of your administration was. Was it your intention to get the company to withdraw this permit? Did you want to terminate this plan....

A Why not take that up with Mr. Livermore as to exactly.... I am not going to put words in his mouth. He didn't relate to me word by word. He expressed his concern to them over the action....the way it had been done....the decision that had been made and they immediately offered to cooperate in the manner they have outlined in their letter.

Q Governor, in regard to the decision by the Forestry Board it's my understanding that several years ago the legislature empowered you to appoint two members to that board from the private sector---in other words, just normal citizens and that you have not as yet appointed any citizens from the public sector to that board, that the board is composed primarily of forest-industry people. Do you plan to appoint conservationists or citizens to that board?

A Well, I operate this thing on recommendations from the Secretary and, as you know, we are undergoing, or we are working on, some reorganization plans in the whole field of resources, and again, this is a subject I think you would get better answers from Mr. Livermore.

Q Will Mr. Livermore take the rostrum when you're through here today then?

A No---well, he is perfectly willing to. Do you want to have him answer some questions now?

Q I mean after you are through with the press conference?

A Whichever way you want to do it. All right.

Q Another related topic. Governor, a couple of weeks ago you put out a statement regarding Round Valley and expressed your concern with preserving it. There are several bills that will be before the Senate Local Government Committee on Tuesday which would empower local governments to more closely regulate these kinds of rural subdivisions. I wonder if your administration plans to take a stand in support of that legislation?

A Well, again you are asking me to comment on legislation which I normally do not do. We know that this is a problem. We have been studying it ourselves. The mention about Round Valley was a concern that had to do with the Water Control Board because the subdivision that was envisioned was going to call upon ground water and also going to utilize septic tanks in lieu of the sewer system and we had to know whether that big a growth in that kind of area is going to affect the ground water...whether it's going to draw down ground water from the present users, and whether there's a possibility of pollution.

Q It is my understanding that this legislation by Assemblyman McCarthy seeks to do the kinds of things which you proposed in your statement. I was just wondering whether you felt some leadership from your office was necessary? The bill may run into some problems in committee.

A Well, we're going to have to find out. I am going to have to see that---I don't think we have taken a position on that legislation as yet.

Q Do you expect to take a position before it comes up in committee?

A Well, I am just trying to think of the schedule we have. I am sure that we will. I just can't give you an answer on that because I don't know what he's put in there yet.

Q Another subject. Do you have any reaction to the disclosure that a number of relatives and friends of state officials are being given jobs under the Summer Jobs for Youth Program?

A Yes. Lt. Governor Reinecke has been heading up this program and he made it very plain that the first priority was to go to those who had real need, that there was to be a priority given to those who are going to be using such summer work to finance their future education. I have no personal knowledge now of the situation that was brought out in the paper about one department and what the individual cases might be, but I am sure that those who are running that program under the Lt. Governor are going to look into this.

Q Another subject.

A Well now, if I do that...I'll come back to you from Ray. He had first call on the next subject.

Q Governor, Democrats said yesterday they definitely plan to take you to court on bluepencilling control language in the budget. Did you seek legal advice prior to doing so, and if so, to whom did you speak?

A Well, yes, I had a ruling from the Attorney General on this, that this was an interference with my constitutional right to line item veto, have a line item veto.

Q Do you welcome the chance to take the matter to court?

A My batting record in court, so far, you approach this a little bit like the last mile. Anytime ^{if} they choose to do that though, they can do it. I felt that it was necessary to protect a constitutional right.

Q My question is on a similar subject. The manager of San Mateo County said yesterday he had hoped that property tax in his county would go down, but now because of your budget he expects the property tax in San Mateo County to go up 9 cents. What is your comment?

A Well, I don't know just where he feels that he is going to have to raise the tax because of things that we did in our budget.

Q He was referring to welfare and Medi-Cal particularly.

A Well, welfare and Medi-Cal---I think all of the counties should recognize I still stand by the statement we are not going to impose added costs in the reforms we have sought for welfare. But I'd like to point out to the counties if welfare and Medi-Cal are not reformed, they are going to face a tax increase every year from here on out as well as a federal increased cost and as well as a state increased cost. And the answer to this is for them to recognize the need. They do recognize the need for reform. They have tried to put together their own program.

Q Speaker Moretti said yesterday he had met with you last week and had made some progress on Medi-Cal, tax and welfare reform, but not on school finance. Do you feel that your meeting with him was fruitful, and if so, does this mean you are going to get your welfare package revived.

A I don't know. The meeting we had was one in which he had written me and I called him down and we discussed the necessity of getting together, and finally, on what we have been talking about for six months, attempting to work out in a bipartisan fashion these matters that must be solved. And I pointed out to him that the most essential matters with regard to the budget are the welfare and Medi-Cal reforms, and the matter of tax reform, because I believe it is within the framework of tax reform that we possibly have the best chance of getting withholding to make up for the revenue shortage. But, the thing that has got to be understood by the people of California is that the budget as finally signed by me, is back where it was some time ago and before all of that time up there in the conference committee.

It is a budget that is some four hundred and thirty odd million dollars out of balance, unless the legislature is willing to adopt tax withholding, welfare and Medi-Cal reform, and to go on talking about new expenditures requiring new taxes---when the choice is clear cut before them. They either give the people these reforms or they have got to come up with four hundred and thirty million in new taxes now to balance the present budget without squawking as they are about the new additions to the budget that I vetoed out.

Q Governor, if you should not get welfare reform that is satisfactory this year from the legislature, would you be prepared to try to get some kind of welfare reform on the ballot in 1972?

A I haven't taken any steps. I am optimistic that we are going to get this because I think the choice is so clear cut. I think the legislature should be moving and moving very swiftly on this, because the plain truth of the matter is that California's deficit increases a million/^{two}every day that goes by without taking these steps to provide the financing or the possibility of balancing this present budget.

Q If you reach an impasse with the Democrats, and that seems to be the trend these days, would you be prepared to take welfare reform directly to the people by some sort of ballot?

A You know, I don't think that I would have to. I said this about tax reform. I think the evidence is already there, that the people, if once again this legislature breaks the pledge that both parties have been making every year that they are going to give property tax relief they're going to give tax reform, and they don't do it again, no matter how flimsy their excuse, or how good their excuse, I think the people are going to put something on the ballot, and I could very well see wherein the amount of publicity that has been given to the matter of welfare reform, the need for it, the polls that show that as high as 85 percent of the people in both parties want it, I could easily see that the same thing would happen.

Q Governor, when you spoke the other day when you signed the budget, I think you qualified your statement by ^{saying} that taxes could be avoided provided the legislature enacted total welfare and Medi-Cal reform?

A Yes.

Q Do you still believe that total welfare and Medi-Cal reform will be enacted this year, and if it isn't, doesn't that mean new taxes?

A If it isn't then they have made the choice. The leadership in the legislature, who have blocked these things throughout these several months, have that choice to make and the choice is theirs. They can have a balanced budget without increased taxes or they can simply disregard these means of balancing the budget and opt for new taxes, and there is no escaping that responsibility.

Q Governor, do you honestly believe that they will enact total reform though?

A Well, I know what I'd do in their place. I would. I think the people want it.

Q What do you think they are going to do? What is your assessment?

A I am going to be optimistic that in these few weeks to come that they will see their responsibility and do these things because I think the sentiment of the people is overwhelmingly against a tax increase.

Q Does total welfare and Medi-Cal reform translate to Reagan welfare and Medi-Cal, period?

A No, and contrary to what they have said, I have always been willing to hear anything that might improve this. So far the only things they talk about in the line of a compromise have been simply to just not give the welfare reforms that would bring this cost within reason. And all of this talk about the tax increases, as I've said before, if they do not make these reforms now, they are going to be making a tax increase virtually every year. The program is increasing in cost that fast.

Q Mr. Moretti said if there is not a tax increase this year that the situation will be so bad by next year that it will take at least a billion or billion and a half in election year when people would rather not raise taxes.

A Well, I don't understand what Mr. Moretti is saying there. I don't understand whether he is saying that if they give us the legislation that will balance the budget, that we will still need a tax increase next year, or whether he is saying that we are not going to have the welfare reforms and withholding this year, then I can top him. I can trump his ace. Because I'll tell him he's not only going to need a tax increase next year, he is going to need one this year because the budget is out of balance by four hundred and roughly thirty-two million dollars.

Q Governor, are you still opposed to the family assistance plan as much as you were?

A In principle, although I have not had the complete briefing that we are going to have on HR 1. We have some briefings scheduled from officials at HEW in the near future on that. But in principle, yes, I am. In principle I think ^{the} / feature that represents a guaranteed annual income is a very dangerous principle, and it is going to enlarge the welfare burden, not reduce it.

Q Governor, last year you spent a lot of time talking about tax reform. This year you have spent pretty much the same time talking about welfare reform instead. Why the change?

A Well, the welfare reform actually is an emergency situation. This is the...with all of our economies that have put us in a very unique position among all the states in the present economic troubles now, all of those have been negated by the runaway cost that we could not control of welfare and Medi-Cal. The other factor about tax reform is, that no matter what they try to tell ^{you} / from upstairs...I told in the first few weeks we were here...told the Democratic leadership that this was a top priority, that we could not go through another session without giving the people tax reform. But, that since last year on the basis of one negative vote that we couldn't switch to "aye" in the Senate, 78 percent of the legislature agreed upon a tax reform program, that is 78 percent of both houses. But, rather than go through that exercise again, with the change in the leadership and the change in the majority of the leadership, I was willing to meet with them and see if we could not work out an acceptable tax reform program that would then be acceptable to both sides and be passed without the kind of struggle we had last year. They apparently, in fact, they did accept that enthusiastically, and the next step was they submitted their own tax reform program. I continued to give in to Senators who were attempting on the Senate side to do what I had asked, to work out a bipartisan program, until that Senate group, unable to reconcile some differences, told me to go ahead and introduce our own, and then that is why, belatedly, we introduced our own plan to at least have one on the floor for whatever amending back and forth in the legislative process could take place. But, this has never been anything but a top priority. I just recognized a fact of life. They had a majority and they had the leadership of the legislature and frankly, they did not, in spite of their assurances, they did not join us, or join me, in an effort to work out a bipartisan program.

Q You mean the reason you are not talking as much about tax reform this year is because you didn't get any place with it last year?

A No, I told you---I^{felt I} wanted to approach this from a bipartisan standpoint from the beginning. They agreed and then chose a different course. Now, I have never retreated from the fact this is a number one priority, and I am talking about it. I have talked about it in my most recent speech in the Report to the People. And I have said before, I think that within the framework of a tax reform can come now the withholding feature that can make us catch up with the latest blow and that was the declining revenues.

Q Governor, I want to be sure I understood your answer to an earlier question. Do you reject the thesis of the county supervisors that as things stand now, the state is not forcing a higher property tax?

A Yes, I have to point out and they should understand this. The legislature, in addition to sending down a vastly out-of-balance budget with several hundred million dollars increased spending, attempted a sort of, what I have to interpret was a partisan, political trick. They reduced the budget for welfare down to the figure that we ourselves had said could be reached or achieved with welfare reform. They did not send down welfare reform. They put language in the budget which what it really buried it in the budget, said was, we know that this amount of money is not enough. We know that we will run out of money before the end of the year and then the governor will have to come to us and ask for a tax increase to finance welfare. And I just thought that we ought to get their attention. They've submitted that figure. I could not increase it. I could only plead again for welfare reform. So I simply erased the language to say all right, your figure is the figure we have for welfare. Now give us welfare reform. But it is one hundred and eight million dollars less than will be needed without welfare reform.

Q If the legislature does not send you welfare reform and instead sends you a tax increase, what will you do?

A They will have made a choice over which I don't have very much control. If they have made that choice that they are going to refuse to balance the budget in the ways they can balance it and they choose instead to increase the taxes on the people of California, that is the choice they have the power to make. I think it would be a choice that would lie practically solely with the leadership of the majority party.

Q Then you would sign that into law?

A What?

Q Then you would sign that into law?

A If all else fails I would have to. They submitted a budget that I vetoed. I could have done one more thing. I could have vetoed the other four hundred and thirty-two million dollars out of the budget without---it would have been an irresponsible act because I know that the budget is lean and I know that the budget will provide essential services. There is no place to find the other four hundred and thirty-two million by vetoing out of the budget and have a workable budget that would meet the needs of the people of California.

Q Governor, there is some conversation among the Democrat leaders of also sending you again in separate appropriation bills some of the items, particularly school aid, which would require now only 41 votes in the Assembly, just a simple majority. Along with a revenue measure to support them, would you view that then as---in the same way as the legislature having made a choice or would you perhaps veto those appropriations again?

A Well, again I just don't see if they are going to refuse to give us the things that would balance the budget, then as I say, they have opted for a tax increase to balance this present lean budget. I just don't see how I could possibly accept new spending on top of that tax increase.

Q Governor, how can they balance four hundred and thirty-two million? Welfare reform won't do it alone. Welfare reform plus withholding? Is that what you....

A The three big things---Medi-Cal reform, welfare reform, and withholding.

Q Governor, are you making any provision for restoring one hundred million dollars to the schools which you took out of the budget?

A No.

Q In the bill right now?

A No.

Q Didn't the Department of Finance approve that hundred million dollars going in the budget?

VERNE ORR: No, what....

Q For California....

A What we kept in last year was, last year we put in an \$88 million item for the schools which was a cost-of-living increase and was put in on a one-year basis. When we originally submitted this budget, we ourselves decided to continue that eighty-eight million dollar appropriation and to put it in this year's budget even though it was only supposed to be a one-time item last year.

Q If withholding increases tax revenue by one hundred and seventy million, why isn't that a tax increase?

A Well, I myself have always called it that. It is, and I've been very careful in talking about it now to say that it provides the revenue without increasing the rate of taxation. But, it is not a total amount that is a tax increase on the people. It begins collecting in advance reflecting the improved earnings of people as the economy expands. It begins catching an advance from newcomers in the state who come in and get jobs, and first job holders. Some of it is from people who are avoiding their taxes. That is the smallest percentage. And the other percentage, as I have explained so often, is literally, you would have to call it borrowed money. It is money that we have and temporarily used that people have overpaid by virtue of withholding and which we have to give back, but by the time we give it back, that much more has come in for our use.

Q Governor, say if the recession should not completely recover by next year and revenues continue to lag and there was another revenue gap next year, would you be willing to consider a tax increase then to cover that?

A I think you have to...when we start putting the budget together on the basis of the estimates of revenues, of course, you have to face the problems that may come up depending on the economy. There are indications that we can have some reason to be a little more optimistic on that. How fast the comeback will be, I don't know, but the indications of bottoming out are there. We have estimated a decline in revenues over the original estimate last January. The estimate now is that they will be down one hundred and fifty million dollars the next year.

Q Governor, with respect to welfare, the Democrats claim that in order to give you the kind of reform that you have asked for, it would be necessary either to cut additional services to people who are truly needy or make the county pay for the difference. Now, isn't the dispute really over how many people are truly needy and how much money for them rather than over whether there's a tax increase?

A No. I don't think so. I think that the almost year-long study that our people went through and the task force on this revealed that first of all the eligibility requirements need tightening and I think that the fact that for three months in a row now we have had a decline in the caseload indicates that just the talk alone about this has served to improve the interpretation of eligibility requirements. Our program also calls for reducing---perhaps putting a ceiling on the earnings that a person can have and still be eligible, and this is a large percentage of the people, and in turn increasing the grants as we have already done, to those who are totally destitute, totally needy. But this, a better means of eligibility requirement, a better means of apprehending those who are illegally on welfare, this, plus an increased effort to get fathers, I think you will notice that last week or the week before (I lose track of time up here) that Los Angeles County made its sweeping arrest of two hundred and sixty-six working fathers who were not contributing to the support of their children or who were on welfare. That was the first step in a continuing process. There are two hundred and thirty thousand some odd fathers of that kind in California. Now, that alone, if you could get, as I've said before, if you could get half of those fathers to pay seventy-five dollars a month, it means a hundred million dollars in the cost of welfare.

Q Once again, why can't you accomplish this administratively? Why do you need the legislature at all?

A Oh, we are going forward with administrative reforms. There are reforms that we can and are implementing. But, there are other reforms that require statutes. Some of the adverse court decisions that we have suffered in welfare have not been on the basis of what we tried to do, but on the basis of what we tried to do had to be supported by statute, could not be done administratively.

Q The four hundred and thirty million dollars that the budget is out of balance can you save by administrative welfare reforms?

A None. That is counted in. We are counting out administrative reform. What we're counting in that 432 million is 108 million that's dependent on legislation---about 149 million for Medi-Cal. The balance, then, comes over in the shortage of revenues.

Q Well, are the county supervisors being less than truthful when they say they are going to get stuck with some money even with the administrative changes?

A They are either being less than truthful or they have been burned so many years that they can't believe that anybody means it up here when they say they are trying to take the burden off their backs. It is true that for years, state government has had a tendency to solve some of its problems by mandating things on the counties and leaving the counties to pay for it. We have tried to follow a different course. I could call your attention ^{to} the fact that in the mental health program, the state, in spite of the law that said we were to put up 75 percent for local mental health centers, we were, in many instances, most of them only furnishing 50 percent. We have increased that to 90-10. Now we put up 90 per cent. One item that we left in the budget in augmentation this time because we found that even in doing that, there had been some mis-estimate of about eight million dollars that the counties were out and we left that in the budget to reimburse them. Now, we have given them every assurance we can. We amended our own program to meet their needs. More than half of the county supervisors in the state have analyzed those and have endorsed our plan and say that they are now confident that we will not cause them any cost. I have gone beyond it and said, if by some million to one chance we are wrong in our estimates, we will not impose the cost of that mistake on the counties. We have sworn to them, pledged to them, that they will not have an added cost, and some of them, as I say, whether it's just that they have been burned before and they don't want to take the word, or whether some of them just don't want to cooperate, I don't know. But, they have to answer that, and frankly, I think some of them are being very stupid.

Q Governor, on the same subject.

A Go ahead

Q What happens to the counties, however, under the present circumstances? We have a restricted amount of money in the budget and no real prospect of the type of welfare reform you are talking about. Supposing the session ends with that situation with the status quo on welfare and on the budget. Don't the counties then get an extra burden thrown on them if the state does not have the money to pay the costs?

A Well, they are envisioning the state running out of money and then making no effort to make this up. They are having then to put people on their own county relief. Again, I don't think that is going to happen.

Q Another subject. A few questions ago you were talking about the advantages of withholding. I believe at that time you mentioned that one advantage is that you could get at those people who are currently avoiding their taxes. Would you mention more about that?

A Well, yes, we have, in all the talk that we have had about withholding and back from the time when I smashed the concrete about my feet. There has been a great deal of misinformation given to the people of California that all of the increased revenue you would get from withholding is due to catching that much from cheaters. Well, if we had that big a loss to cheaters, there would long since have been a reorganization of our tax collecting facilities. The actual loss has been estimated for us by the people that have been collecting those taxes for years at around twenty million dollars. We have a very high rate of efficiency in collecting taxes.

Q Cheaters is your term, but what does it really amount to? What are these cheaters doing?

A These are people who come in and work for a while in the state, and then leave the state. Or, these are people who have come in and they move around and they earn money, and they just don't report an income tax. And as I say, we have had a very high rate of collection. We go after people that leave the state, but there comes a breaking point in that in which to try for one hundred percent collection can get as costly as the money you are trying to collect. But, it's a good record, and so that is a part of the money that you would now get.

Q When you use the word cheaters, are you strictly talking about those who are violating laws?

A That's right---cheaters---the people who are actually violating the law, who are not filing a tax return, who leave the state with an unpaid income tax.

Q Governor, do you have any fear that the group that filed recall papers for your recall--do you have any fear that they will succeed---this 18-year-old voter group?

A You know, if you had asked me that question the other night when we were sitting here half the night working on the budget, I would have wished them well.

(Laughter)

A That is up to the people of California.

Q Governor, do you see the possibility of the legislature overriding some of the vetos that you made?

A I don't anticipate that. I would be surprised, because again, anyone who votes to override a veto is voting for a tax increase; it is as simple as that. There's no way to fuzz it up or no way to hide it. Any vote for any spending of any kind in addition to this budget or any refusal to vote for those other improvements that I've mentioned is voting for a tax increase on the people of California.

SQUIRE: Any more questions?

Q How do you intend to placate the restless highway patrolmen, state employees, and faculty members who are unhappy because you vetoed their pay raises?

A I know they are unhappy, but at the same time I have never lost faith in the quality of the people---the kind of people we have working for the state. I think, sure, they are unhappy. I don't blame them. If we had been able to reform some of the things like welfare a long time ago, it might not be necessary to do what we have had to do in this economic crunch that we are in. But, I just have faith that the vast majority of them are going to perform their tasks, and they know that will be fair.

Q One more back there, Governor.

Q Governor, would you be good enough to respond very quickly again to the proposal yesterday, or the charge yesterday, that Senator Mills made that he is going to take you to court, and are you looking forward to going to court?

A Well, no one ever looks forward to going into court. If they choose to do ^{so,} why then there will be a court test. We are confident of our legal position.

SQUIRE: Thank you, Governor.

9/7

PRESS CONFERENCE OF GOVERNOR RONALD REAGAN

HELD SEPTEMBER 7, 1971

Reported by

Beverly Toms, CSR

(This rough transcript of the Governor's press conference is furnished to the members of the Capital press corps for their convenience only. Because of the need to get it to the press as rapidly as possible after the conference, no corrections are made and there is no guaranty of absolute accuracy.)

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(Whereupon Governor Reagan read Release No. 514)

Q Governor, it now appears that the revenue gap ^(budget) is three hundred million and you said the other day that withholding would take two hundred million and then you go for another hundred to hundred twenty-five million. Your Finance Director has mentioned sin taxes on liquor and racing and so forth. Is that your program, to meet that extra hundred million?

A No, and I'll tell -- in the meantime let me just say that we have used that figure based on the parts of the welfare reform and our estimates that we didn't get. I have asked, however, that we continue to look -- that we continue to evaluate the welfare reforms because the case load continues to decline, and to see if this is absolutely necessary. I don't want to ask for a dollar more in taxes than we have to have. And so I have asked that we see -- was that roundhouse figure that we used correct or is it possible that we can reduce that on -- on better estimates and also on re-estimating possible revenues.

Q Governor, are you saying it may not be necessary to increase taxes then other than by having withholding?

A I'm saying that the withholding, of course, is necessary for the revenue gap that we had when the declining revenues we discovered was in about that amount. As to the additional amount I'm not hard and fast on that figure. And whether it could be eliminated or not, I don't know. I'm inclined to believe it can. But I am also... I want to know for sure what is the best estimate we can make and it is possible with the continuing decline in welfare case loads, it is possible that we might not require as much as I -- as I have been using.

Q Governor, wasn't sure of one word, n't or can?

A What?

Q You are not inclined to believe that it can?

A Be totally eliminated, the need. And then, of course, I think the amount will determine -- in answer to your question, the amount will determine what's the most practical way of getting the revenue if we need additional revenue.

Q Do you think that should be done by the Legislature in this session or is there time for them to wait until January after evaluation.

A Oh, no, I think it should be done -- should be done right now.

Q Governor, what about tax reform? And what does the Supreme Court ruling on school finance do to it? Does it jeopardize it?

A Well, I don't think so. I believe -- I think we have to have tax reform. I want to go forward with tax reform as much as anyone else. The -- the Supreme Court ruling actually only said that there will now -- that the legal case will proceed. I haven't had time -- none of us have, to study that completely. There is a great controversy about what it may say. But it would seem to me that even if you would envision the Supreme Court ruling standing, the tax reform would actually be a step in that direction. I'm inclined to go along with those that believe that we should deal with the Supreme Court ruling on that reform in the session that begins in January. And to take reforms now that reduce reliance on the income tax would not be counter -- would be in the direction of that.--

PAUL BECK: Property tax.

GOVERNOR REAGAN: -- that ruling.

PAUL BECK: Pardon me, Governor, the property -- in reliance on the property tax.

GOVERNOR REAGAN: What did I say?

PAUL BECK: Income.

GOVERNOR REAGAN: Oh, reliance on property tax.

Q Governor, in other words, as I understand it, what you are saying is that you think any sort of massive billion dollar tax reform program is best not handled in this particular session now, when it would be better off --

A I haven't said anything about the amount. I'm saying that I think tax reform, in the sense of giving us a more equitable tax

structure by raising other taxes to -- and using that revenue to reduce the property tax, the homeowner's tax, and -- to compensate the renter likewise, we should go forward with this. Now, that the amount or the size of that would be remains to be worked out. But I don't think that should wait on the Supreme Court decision. But I don't think the matter of implementing the Supreme Court decision should go forward at this time.

Q You are saying the property tax relief, though, should come in this session or in the one beginning in January?

A No, in this session.

Q This session. Relative to withholding, Governor, there seems to be some kind of feeling in the Legislature that it should be tied to the general tax reform. Are you asking by virtue of the statement you made this morning that it be a separate item that be passed in the meantime?

A It seems to me that details as to how the revenue would be used of withholding could be worked out in connection with tax reform. But the issue of adopting withholding should go forward -- should be accepted or passed now so that the business firms in the state and the industries who are going to have to regear for withholding, they need advance time, particularly in those that are computerized, to do this. And we passed the date in the last session or in this present session by which we could have implemented this in July, solve many of our cash flow problems, save millions of dollars in interest charges on tax anticipation notes had they done it, and all that I'm asking is that this Legislature adopt the withholding.

Q Would you accept a withholding bill with the spending part of it tied to an upcoming tax reform?

A Well, when I say as to the settling the details, as to the disposition and the use -- for example, the windfall, that could then be worked out in connection with tax reform, yes.

Q But you are saying withholding then is an issue that is separable from other tax issues?

A Yes.

Q And it can be passed independently?

A Yes, we know the need for the increased revenue that would result to meet the deficit. We -- everyone seems to be in favor of

withholding and we know we need it for cash flow. And as I say, we have had to add ten million dollars, at least, to our cost of government right now by using tax anticipation notes in solving the cash flow problems. That's ten million dollars that we could have saved had we adopted withholding earlier.

Q Governor, I'm not clear where you stand on that estimate of a hundred million on top of withholding that you used last week.

A Well, as I say, that figure was based on all of our estimates concerning the welfare and Medi-Cal reforms and it was a rough estimate based on the roughly 70 per cent of the reforms that we obtained in the compromise. I have asked, however, before we go to the business of imposing on the people -- or the money to pay for that, that we come up with a better estimate, not just a -- a roundhouse guess, but that we actually -- accurate as we will be or as accurate as we can be as to what the need is. Then ask for that amount of money and I'm hopeful that maybe it will be less than the hundred million that I've been talking about.

Q Governor, how do you think California should finance its public schools now that the property tax is ruled unconstitutional?

A Well, there is one part of that that I'm in agreement with and for two years have been trying to get in our own tax reform proposals and that is an equalization formula whereby we can eliminate some of the differences between the so-called poor and the rich districts. Incidentally, I think we could all together, all of us, be a little helpful to the people in straightening one thing out. We use rich and poor in talking about school districts and the impression that's been given is that we once again are talking the problem of individual poverty, that children, lower income families, are automatically in a lower financed school system. This is not true. When we use rich and poor in the term of school districts, we are talking about some school districts where the individuals may come from very well to do and upper middle class families but the district does not have a tax base that makes it a rich school district. For example, we have one rural district in the state here where they have very few students and not from affluent families at all, but I guess they have more tax base than any other district in California because of large utility properties in the district. So I think that -- I think in discussing this and the emotionalism that surrounds so many issues, we would serve the people very well if we made it plain that we are talking about a variance in the tax base of a district and not the

wealth or poverty of the individual families of students.

Q Governor, a new subject.

Q No, one more. Governor, in -- to repeat Mr. Skelton's question again, should this court decision be upheld, how -- what would you substitute for a local property tax?

A Well, you are going to have to turn to the entire tax structure to see if there are any new areas, and then you are -- I would -- we have a fairly well-balanced tax structure in California with the exception of property tax. There aren't very many areas that we haven't explored for revenues. We have taxed just about everything. So I would think that it would consist of an increase in existing taxes. And it would certainly be a sizable increase.

Q Governor, do you anticipate any difficulties that you must overcome within the next two weeks in order to get a withholding bill to you, on the time you require?

A Well --

Q And if so, what might they be?

A Well, I have -- I've already been informed by some that with regard to tax reform that they have thought because the state needs withholding now to meet its cash flow problems, and to pay for the deficit, that somehow this makes it more my responsibility to get it than someone else's. And therefore, they would like to use withholding as a -- as a purchase price. They'd like to use it to get some things that they might want in the matter of tax reform. I don't see it that way. I think that anyone who's been elected to office in California, whether in the Legislature or the Executive branch, has a responsibility for the fiscal stability of the state. And that makes withholding absolutely essential, and for someone to hold up withholding -- what it means in cost to the taxpayers and to the state just because they think they could get me desperate enough to give in on some point I might not otherwise favor, that's being pretty irresponsible and I just can't believe that anyone in the Legislature is going to be that irresponsible.

Q Governor, who are these people you named as "they"? Who are these people? You say "they."

A What?

Q You say "they," who do you mean?

A There's been controversy throughout the years, you know,

over the matter of tax reform, the form it should take. And over the matter, also, of whether we should have additional spending funded by additional taxes, and some of those who, -I'm quite sure, are sincere in their belief that we should take that route, some of them in conversations have made it plain that because the state needs withholding they would like to use that and make me perhaps accede to something I otherwise would oppose.

Q Who are "they"?

A What?

Q Who are "they"? Who are the ones?

A You remember what I told you a long time ago about naming names on that, never anger the mother alligator till you crossed over the river.

Q Governor, would you expect to meet with legislative leaders on this specific subject in the next --

A I hope to, very much, yes. I think the success we had with welfare reform would indicate that perhaps we ought to follow the same tactic.

Q Have you invited them, sir, or --

A Well, we all just got back here today. But I'm going to be seeing some legislative leaders. I don't know whether it is scheduled for today, but very soon, to get at these matters.

Q Governor, a gentleman tried to stop you in the hall to sign a petition to roll back elected officials' salaries. How do you feel about that?

A Well, I don't think that's exactly the way for me to settle the issue, to sign a petition of that kind. I -- this is probably one of the hardest subjects and the most difficult, certainly there is more emotion surrounding the idea of public employees' salaries than any other. Lately there has been a great deal of discussion, which I think has been unfair, particularly with regard to the Legislature's salaries in referring to them as salary increases and ignores the fact that a couple of years ago by a vote of the people we reorganized or restructured California government and went from a part-time legislature with virtually token salary to a full-time legislature. And when that was voted the salary scale was not voted for the individuals holding office, it was voted to go into effect with -- following the next election. In other words, everyone had to run for election for those offices on that new basis. And I know I have not proposed -- while I proposed no

tax increase -- no salary increase, I have not proposed a salary cut for any of our state employees and I just -- I don't know that that's the way to go at this.

Q Governor, the San Francisco School District opens next week and they are going to be opening under, as you know, a court-imposed busing plan. Thousands of parents have said they are going to keep their children home, they are going to boycott the school and others categorize it as an explosive situation. I'm wondering whether your office planned, or you personally have proposed to step into this ~~con~~roversy, what your feelings are on that busing plan.

A You know ~~what~~ -- I feel very strongly about local control and local school districts having autonomy. I have resisted efforts of the state to step in and dictate, so I would still hope that this is a matter that can be settled in local districts by the people of those districts. I have made no secret of the fact that I don't believe that massive busing programs are the answer for the problem they are trying to solve. I'd be in favor of busing if it improves educational quality for all students. I just -- I just personally think that -- and where it has been tried it apparently has caused more trouble, more ill feeling than can be matched by any solution to the problem.

Q Governor, do you think, though, that in this case parents who are under court orders to bus children for purposes of integration are justified in not going along with that court order and withholding their children from school?

A Well, of course then they run afoul of the law unless they are planning on sending their children to some other school. Now, I can't condone breaking the law. Never have.

Q Governor, to get back to the Supreme Court decision for a moment, some Republican legislators have criticized the ruling because they say it threatens local control if the statewide property tax, for instance, is -- is imposed. Last year when you proposed a statewide property tax in your program, were you convinced that this did not endanger local control of schools?

A No, because this tax was -- ~~Would~~ have been collected locally and then redistributed on an equalized basis. This is one of the factors that makes me very concerned as little as we have been able to go into -- in the court decision. I don't know whether

this would end, -- if we accept the idea that, as some people have said, have interpreted this ruling to mean, that there was a ceiling and that all school districts must be totally equitable and no school district can on its own finance and go to any higher quality or add anything in their district, I wonder if this -- how this can stop at a state line. Wouldn't this also then follow that we would move up to the next echelon and that a state could say we must come up to the level of other states and pretty soon you've got a national school system. I'd be opposed to a state school system; I'd be opposed to a national school system.

Q But a statewide property tax for equalization purposes, do you feel differently about it now than you did a year ago?

A No, no, I think that a portion of the tax we -- we propose that. We could find another source of revenue, I'd be amenable to that, but I see no alternative than to the state being the agency for the redistribution to make sure that it is given back equally.

Q Have you received any word, either encouraging or discouraging on the appeal in the federal courts by California of the Serrano case? Have any other states contacted you with regard to the federal appeal?

A Not to my knowledge as yet. It's all been so recent, I do know that there were a couple of Supreme Court decisions in earlier cases involving Illinois and Virginia, which -- not so much in a policy ruling, but by the thing they ruled against would have indicated that the U. S. Supreme Court took the contrary position.

Q New subject, Governor.

A Yes.

Q Have you seen any signs that the President's wage-price freeze has helped the California economy?

A Oh, I don't know that anything has happened in our economy that I could pin down to the wage-price freeze. I think that the whole program -- that psychologically has been of great value. I think that there is public support for this idea and there is a feeling now -- well the stock market reflected that, -- a feeling that we have a chance of curbing inflation which was running away with us.

Q How do you view the argument of the labor leaders that this program has rewarded the rich and punished the poor?

A Well, I think that's kind of cheap demagoguery on the part of some of them because to say that the tax or the business investment tax credit that will allow plants to improve their -- their

plants, their productive facilities, their machinery in order to create more jobs, to call that a tax benefit for the rich just doesn't make sense at all. But then for a long time I have felt that a great many labor leaders, not all by any manner or means, no blanket indictment, but a great many of them are out of step with the rank and file membership of the unions and if I have to choose between I'll put my faith in the rank and membership.

Q Do you think, however, there should be profit controls, Governor? At the same time of the wage and price controls.

A Frankly, I don't think at the moment they are necessary. I think that the -- you have a price control, you have a wage control also, I don't see the need -- I think this again is a kind of demagogic thing of trying to find -- is nitpicking. You control the price, you know how much it cost to make the product, there isn't any -- any possibility of a great runaway windfall for any industry in this situation. And I'm sure if there was, then you would solve that by the matter of probably an excess profits tax, something of that kind.

Q Governor, I have a question on another subject.

A All right.

Q You have purportedly told the Young Americans for Freedom that they should -- excuse me, they should wait and see what the effects of President Nixon's trip to China might be before they decide whether to ~~withhold their~~ support for him. Are you waiting to see what the effects of that trip will be? Are you assessing the situation or do you support him wholeheartedly?

A Well, I didn't exactly use the term about waiting at all, but I said that for someone today to immediately jump to the conclusion that because the leader of this nation has said he is willing to go to and talk to the leaders of a potential enemy force or a nation that has announced itself as an enemy, that this automatically means that we are going to appease or give something away that is in our best interest. It is hardly fair in the case of this particular President and his record and very bluntly I also said that I could understand where there would be concern if some other individuals were president and had made this decision, because there is a record of this kind of appeasement among other individuals. But I said that this President has shown a firmness, he has announced that we are not going to make a choice between Red China and our old

ally Chiang Kai (k , and I also reminded e young people that in Moscow with television and the press covering it, and faced with Krushchev who blustered some boasts -- boasts about what the Soviet Union might do to the United States, the Vice President Nixon at that time told Mr. Krushchev publicly that if he -- they tried it, his exact words were, "We will kick hell out of you," and I think that someone is entitled to the benefit of the doubt.

Q Governor, new subject. It is reported out of San Diego this morning, Governor, that the man that you've appointed as the head of the Department of Motor Vehicles is purportedly under investigation by the County Grand Jury in connection with something he may or may not have done before you appointed him as a member of the County Supervisors. Is your administration planning any kind of interim action, such as a temporary suspension pending the outcome of the Grand Jury investigation?

A No, he met our requirements certainly with regard to any conflict of interest, and we will be watching that. We know no more than you know other than this investigation that's been announced of three men -- and this is for something when they were Supervisors, supposedly, of San Diego County and so we will just wait and see.

SQUIRE: Any more questions?

Q Governor, State Senator Gordon Cologne has asked that you appoint him to the bench either in Inyo Superior Court or to the District Court of Appeal. Has any decision been made on his request?

MR. MEESE: No comment on judicial appointments before they are made, I believe, Governor.

A No, we don't, because as you know we have a system in which we are bound and go by the committee -- the various committees that we have set up. In other words, the judicial merit system of appointment that we tried to get included in our state Constitution and failed, I voluntarily go by this. So there is no comment on my part.

SQUIRE: Thank you, Governor.

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PRESS CONFERENCE OF GOVERNOR RONALD REAGAN

HELD OCTOBER 5, 1971

Reporter by
Beverly 'oms, CSR.

(This rough transcript of the Governor's press conference is furnished to the members of the Capitol Press corps for their convenience only. Because of the need to get it to the press as rapidly as possible after the conference, no corrections are made and there is no guaranty of absolute accuracy.)

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GOVERNOR REAGAN: I'm sorry to have kept you waiting. I've been in a meeting on the same general subject that I think brings us together here. I don't have a statement prepared. That is, as to a script for you. I would like to just say a few words to begin with about the subject that has now been discussed and is being discussed of tax reform. In an effort to resolve this issue yesterday we offered a final plan. When I say final, I say that in the sense that after sixteen days of continuous negotiations and as you well know it went on usually all day and sometimes into the evening, and then in addition we all had our own meetings on various sides and various issues that were discussed, but we had felt that we had -- were coming to a point in which there had been speeches and we seemed to be on dead center and no one ever seemed -- there never seemed to be any resolving or agreement on a point. It was just that, well, yes, everyone would find something that they found that that might be possible, but never did we come as we should have and as we did in the welfare reform negotiations to where someone said, oh, all right, we buy this, one way or the other.

Now, yesterday the major differences had boiled down to a few, and the few were a difference in the total amount of property tax relief. We had conceded our position and had gone to theirs as to formula even though we felt very strongly about it, we had done that earlier in an effort to get some kind of agreement and get started. And in their desire for the greater emphasis to be on the income tax with no reliance on the sales tax, now this was not a position from the Assembly side, the Democrats in the Assembly, because this was in the Gonsalves-Moretti Bill earlier, that they would rely also on sales tax, they would have added a one per cent to each of the income tax brackets in the present system, and unfortunately, this is being talked about as a one per cent income tax increase, and it sounds pretty harmless. I don't suggest

deception in this, it is just an easy semantic trap to fall into, but I would like to point out that a one percent addition to each one of the brackets almost amounted to a doubling along with other areas that were being changed in the tax, a doubling of the present income tax.

The total revenue under that system would have gotten 1.1 billion dollars and the present income tax only gets 1 billion 4 million dollars. So yesterday in our proposal we met the difference in the sum they wanted to return to the property owners and we conceded to their amount and their position. We did propose, however, we continue to rely on the income -- or on the sales tax for a portion of this replacement revenue, and we proposed instead of a one cent addition, a six-tenths of one per cent addition. The difference was that they would have raised 1.1 billion. The income tax under our proposal would have raised 700 -- about 725 million. The income tax of a half a cent that we proposed would only have added 255 million, so the ratio was still three to one emphasis on the income tax.

The objection to the sales tax had come from the Democrats in the Senate who claimed that that tax must be withheld and held over here sacrosanct for some eventual education use. In an effort to meet their position we then offered an additional half cent of sales tax to go into effect next July and to be ear-marked specifically for restructuring and use in the -- in the state's subvention or underwriting of the public school system, K through 12. This came out to virtually the same package which they had proposed as to amount, and as I say was three to one emphasis on the income tax. It was after presenting this proposal that we were astounded when one of the representatives on their side of the table -- when the issue came up of expenditure controls, to ensure that the homeowner would continue to get the relief that we were trying to give him in this package in return for the additional taxes we were taking -- that one of their representatives said with some surprise that he didn't understand that we were trying to give permanent property tax relief. Well, I don't know any other kind. We have had two experiences in California of giving property tax relief, and seeing it disappear. The first time, a number of years ago, was with the adoption of the sales tax. It was sold to the people on the basis that it would

substitute for their property tax. Today they have a back-breaking property tax and they have the sales tax.

A couple of years ago we gave the \$750 exemption to the property taxpayer, the homeowner, and it took less than 18 months for local government to wipe that out. And today their taxes are higher than when we set out to give them relief, and really all the exemption amounts to is that local government is now being subsidized an additional few hundred million dollars by the State, in the pretense that it is property tax relief. So we have felt that there had to be expenditure controls to keep the property owner from finding that in a couple of years that he has the same property tax relief that he has now, plus upwards of a billion dollars in additional taxes that would be passed to -- to give him this -- this relief that would only be temporary. So this we think is a must, and we are adamant on it.

Now, one last point, I know the Speaker has explained that it was not his belief that I walked out, but others have said that I stormed out of the room. I had a plane to catch and I made that very plain and explained it. I did say, however, that we believe that we had now made an offer that went so far into conceding their position that from here on -- if we were to have property tax relief and tax reform, it was up to them. And I left hoping that when I came back there would be another meeting scheduled. I explained that I could not be present this morning because I was in Los Angeles, and that I would be back this afternoon.

Q Governor, Mr. Moretti said this morning that he was not opposed to the concept of expenditure controls, but his hangup was he was unable to get any precise language from your side.

A No, nor did I believe that we ever had any issue with the Speaker on this. Now, this came from another part of the team. The language -- and it isn't all that confusing -- the language that is in the Gonsalves and Moretti Bill, to begin with, is the same language that wound up in Assembly bills 1000 and 1001, our own tax reform proposal of last year. But if you will look at that you will find that it wound up in 1000 and 1001, the controls got a little watered down in its journey through the various committees upstairs, to where we ourselves did not feel that they were the stronger controls that the property owner was entitled to, so what we had suggested was that we take the controls that had been proposed

in 1000 and 1001 before all the amendments and we recognize there had to be some amendments, but that we around the table, as we had with the rest of the package, that we straighten this out and find out what changes -- minor changes that we felt were necessary and then that be the language and as I say it seemed to me that should have been the easiest point of agreement since they themselves had put basically this format in their own bill and so had we last year, and it came within one point of passage.

Q Governor, at this point what do you -- what indications do you need, what do the Democrats need to say to you to get you to open up negotiations again?

A It is not a case of me opening up again. I'm here ready to meet and they have been so informed. I informed them of that before I left yesterday. And the only thing that we have to say is that finally we believe that we have come so far from our original positions that -- in an effort to finally get someone to say we agree to this, we didn't hold anything back for bargaining. Yesterday we said, here is a plan, we won't play around and dicker from your \$2,250 exemption versus our \$2,000 exemption and say well, let's go 21 -- let's go -- any of this. We said, O. K., we will go your \$2250, you've got it. There it is. And then we said on the sales -- on the income tax, we said you offered the one cent bracket, we claim it is too much. That it throws the whole tax structure out of balance. We said we will go six-tenths of one per cent. We had previously tried to stay at a half of one per cent. We went to six-tenths, of one per cent, which we believe was as far as we could go without throwing the income tax completely out of balance. It is already a very severe tax in California, and this coupled with the half a cent came within, as I say, our figures -- well, the total of income tax, you can add 255 million and the -- and 725 million, and see where this comes out with comparison to their one billion one.

Q Governor, you said just now that you are here ready to meet. Mr. Moretti said this morning that he's here ready to meet. Why don't you meet?

A Well, I have spoken to him about this and -- I have proposed a -- at his request, he has asked that we send him, so he can look at it in writing and show to his people, just what it was we had in mind about expenditure controls, and we are going to send him that

and then we will wait for his reply.

Q Does that make you optimistic, you think there will be more negotiations, there will be tax reform this year?

A I don't know. I have to say this, I am convinced that there are those in the Legislature who don't want tax reform and who had no intention of bringing it about. That is not the Speaker. That is not Joe Gonsalves. I think the Speaker tried as hard as we did in good faith to arrive at a program that would give meaningful tax reform to the people of this state.

Q Sir, how then do you see the status of the tax issue right now? What can happen between now and Thursday, when you leave for your trip, to settle the matter?

A If you really look at these figures that we presented yesterday, and the expenditure controls, it can be settled between now and tonight. It can be settled right now. We offered a very legitimate program that has been hashed up one side and down the other for sixteen days. And in most instances we have come to meet their positions because we have felt so strongly about this.

Q Governor --

A It is that easy.

Q Governor, who are the Senators who torpedoed the thing then?

A What?

Q Who are the Senators who torpedoed the -- the negotiations?

A Well, I -- I was just not confident that Senator Moscone really shared the Speaker's determination to get property tax reform.

Q Are you saying that Senator Moscone doesn't want tax reform?

A You'd have to ask him that.

Q You said there were those in the legislature --

A I just said -- say I didn't feel that he shared the same determination.

Q Were there any others you felt the same way about?

A No, one will do for now, won't it?

(Laughter)

Q You said there were some, are there some Republicans as well as Democrats that perhaps don't care for it?

A I don't know, there was -- not in that -- not in those meetings. I must say there were quite a divergent viewpoint represented on our side of the table with the Senate and the Assembly members who were there, we never came into the table once that we had not met

beforehand and arrived at agreement on whatever position we were going to take. We at least could guarantee that our side of the table was -- was behind anything we proposed.

Q Governor, are you suggesting that Senator Moscone is responsible for the fact that the tax --

A No, no, I'm not. I'm simply -- I've told you that -- I just don't think he shares our enthusiasm for the necessity of property tax relief.

Q Governor, it doesn't seem to be a problem of dollars, it seems to be a problem of philosophy, as I understand it. The sales tax intends to be regressive and affects the poor whether or not--the income tax is progressive, and those that can afford to pay it could pay it.

A Well, as I have said, it is still three to one emphasis on income tax. But let me point this out about the sales tax because this was discussed a great deal. It is not true that the sales tax has the regressive features that are constantly bandied about by those who philosophically oppose it. It would, if you had it applied to necessities. But under our system where the necessities are left out, you have a tax that has very little regressivity and this is more than compensated for by the steep progression of our income tax. Now, I've heard other states quoted and the Speaker quoted some this morning, as to show differences in philosophy between us and he mentioned ten other states, but what he didn't mention is that in a lot of those other states they don't have a progressive income tax. They just have a few cents of -- few per cent of income tax across the board. So it is very easy for them to do things with regard -- capital gains, for example, and not make any allowance, but we have this -- up to ten times as high bracket, we go from one to ten in the present structure, in our bracket. The sales tax, the other thing that we kept pointing out is that the sales tax also gets us money from people who don't live in California. There is a sizable sum of money that with our great tourist industry benefits the State of California because we collect from others who are not Californians. That cannot be dismissed. There is a second point, the income tax has a greater growth rate than the sales tax, but the income tax by the same token in times of recession, such as we have just been through, has a greater nosedive. It responds much more pliantly to the state of the economy than the sales tax.

Peoplesseem, even in hard times, to go on and their buying is relatively close to what it was, so this combination of taxing people where they earn it and taxing them when they spend it, is the best combination. Neither one by itself should be the source of revenue.

Q Governor, the Speaker Moretti indicated that you -- that your side presented in effect, an 18-point program, and indicated there was general agreement on ten of the points. Do you call this your last offer and that there is no point that you could -- you feel you have gone as far as you can go in compromising?

A Now, in answering this, of course I realize that I run the risk of those who have charged everything that's happened, like last year with the tax and so forth, is due to my stubbornness and unwillingness to give, and yet I have to tell you yes, in an effort finally to -- to resolve the issue and say let's cut through all -- and quit making all the speeches that we have been making, we have heard each other, we know each other's views, here is a proposal and in the proposal, as I say, we made major concessions to their -- the major points of difference. And in return we asked for only one thing, that they include a half a cent of sales tax as part of the means of raising the revenue. That was the only concession.

Now, the fringes around the -- the bulk of this money we are talking -- the Speaker has said that they are going to propose a 1.3 billion dollar tax package for property tax relief. The proposal we made to them is \$1,215,000,000. Now, it seems to me that that's a very small difference over which to part company and say there can be no relief, with that small a difference. The fringes, yes, had to do with some of the things that they called loopholes. I suppose it is in the eye of the beholder -- if you want to call them. There, too, there was no -- we did not refuse to recognize these or change them. Our own proposals from the very beginning have only differed from theirs in amount. In degree. But again, we tried to keep in mind a balanced tax structure. That if you were going to reduce by going to a flat grant, instead of a sliding scale, the relief that you are going to give to the property owner, depending on the value of his home, then at the same time you must be proportionate in the tax increases that you give, so that you don't wind up getting all the money in new taxes from

those people that are not going to get any of the benefit of the tax reform. And we also have to keep in mind the business climate. California is a state now that has industries leaving California, not moving in. Our unemployment rate indicates this. Part of this is due to a kind of a bad business climate and is still based on the hangover of some taxes from the past and some approaches to business that seem to think that business can be penalized and can be taken for everything and an indication of this in the bank and corporation tax is that this year out of our whole tax structure the bank and corporation tax is the only one that showed an actual net loss to us over the revenues we expected from that tax in a normal year. All the other revenues had some growth rate, they weren't as high as normal, they took a lower upswing, but the bank and corporation tax reflected the burden on business by actually nosediving and being -- showing a decline of 10.3 per cent instead of its usual about seven per cent increase.

Q Governor, you just used a phrase which probably points up the major philosophical difference, you said business shouldn't be penalized. The Democrats are contending that business have been getting an advantage, inordinate, and they just want to have the businesses brought up to pay what is their fair share. Can you get together on those two divergent points?

A I'm sorry, but the divergent point is not borne out by the figures. And the other point is that -- and they themselves recognize, is that really when you talk about business and when I say penalize, business isn't paying taxes. Business is only collecting it for you. But the thing where the penalty comes in is if you make business collect so many taxes for you in the price of its product that they become non-competitive with businesses in other states. That is when you begin to lose industry and they move to another state where they can sell their product at a lower price and be competitive because the tax burden isn't as high. Remember, business taxes are incorporated in the price of the product. People pay taxes.

Q Governor?

A What?

Q Did I understand you to say previously, when you were asked if it was your last offer, that as far as you are concerned, if the Democrats don't accept that last proposal that you made there won't

be any more negotiations or any tax reform?

A I do not believe that we can -- we can go another point beyond which -- we did this with a calculated risk. You know, in negotiations normally you hold something back, you -- knowing that you are apart on your demands in an effort to get at a meeting you say, well, suppose we would go to such and such a point, and you hope that maybe they will come and say, well, we will go here, and gradually feel yourselves out to where you find a point that you can buy and swallow and you know they have to swallow hard, and they can swallow and you have agreement. There does come a point, as I felt it was yesterday, when you take the calculated risk of saying, look, let's -- and we did, we soul-searched in our own caucus in our own group and said, let's find out what is the -- how far can we go, what is the tax structure that we can envision that is satisfactory to us. Now, remember, we came in with abbelief on the part of our legislators that we shouldn't go above a billion dollars. As a matter of fact, we presented 800 -- a \$850,000,000 program roughly. We are now back and offering a 1200 -- a 1.2 billion dollar package, which shows some of the extent of how far we moved. And I have to say that I believe the concessions on the major points were mainly from our side. And we did take that calculated risk. We went all the way, held nothing back for future bargaining, and said here, here it is.

Q Governor, in view of that, in view of what appears to be a fixed Democratic party position on this, insofar as what they term deep philosophical differences, be they right or wrong, how do you really feel that the chances are for accomplishing some tax reform this year? Do you think there is any real possibility of settling these differences?

A Well, I'll tell you, they better start thinking there is going to be some tax reform because ^{with} some of the things that are being suggested for the ballot next June, I think the people are desperate enough that they can even vote for some that are very unwise, because some of those propositions call for such a tremendous upheaval and disruption of the present tax structure, that I think the legislature is going to be hard put if they are faced with one of those to -- to find the revenues that can pay for it.

Q Well, would you flatly oppose then the idea of just balancing the budget and perhaps enacting withholding and let reform go for -- the legislature will still meet before next June.

A This is our only alternative. Our only alte native is if they won't go for property tax, of course -- as a matter of fact, I asked several times, I asked at the very beginning if they would, recognizing that we had to find the 400 million, because of the decline in revenue~~y~~, the principal amount to come from withholding, and everyone agreeing that we are going to have withholding, I asked them for heaven's sake, can't we simply pass that and tell the Franchise Tax Board that they can go ahead and have business gear up to begin withholding, that we are going to have it? And I was told that they thought that I had to have this so much that this was a bargaining point. And I said, "Well, I don't know why I have to have it any more than anyone else in California, because California has a great problem of -- of cash flow as well as the need to make up this deficit in revenues. And the \$200 million ~~odd~~ million dollars from withholding would not only solve the one problem of revenues, but it would also solve the cash flow problem which is already -- just since June 30 has cost us ten million dollars in additional interest costs for the short term borrowing to meet the cash flow problem. There is ten million dollars that could go -- that's more than the difference between us on some of the items that they are insisting on as tax increases, and it is ten million dollars that's down the drain and there will be more before the year is out.

Q Governor, I understand you told the legislators that you were still willing to meet, but apparently that's on the grounds that they have something that they are willing to propose.

A Well, yesterday, as I say, the only issue between us left was a minor issue, ^{we are} down to here in the neighborhood of about 80 million dollars out of a more than a billion package, except for the controls. And this astounded us, because in one of the earlier meetings we mentioned controls in just setting the stage for what -- the issues that had to be resolved, one of the very early meetings, and from both sides of the table, the Speaker from their side and myself from our side, agreed that there was no real difference on this because generally the same type of controls were already in their package as they had been in ours last year. So they said this is no issue. So yesterday, it was simply emphasized when we -- we made it plain to them what we were doing, that we were presenting them with a package that represented now, no more bargaining, as far as we could go in meeting their points. We then said, this of course

is contingent upon the controls to ensure that the property owner gets and keeps this relief and when suddenly one of the delegates asks you, or says to you with raised eyebrows that he didn't know we were talking about permanent tax relief, you know, you wonder what we have been doing for sixteen days.

Q Governor, then you still have a sales tax in your proposal? Isn't that still an issue with at least some of the negotiators?

A No, they were --

VOICE: I think they were willing to buy that.

A They were willing to buy that. The thing that -- the thing that broke down the resistance to that was our willingness to earmark an additional sales tax next July for education.

Q I just wanted to make one thing clear now, this final package that you offered, that's it? Right? As far as you are concerned.

A Yes. Yes.

VOICE: Thank you, Governor.

Q New subject, Governor.

PAUL BECK: Thank you, he's already cut it off. Thank you very much.

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10/20

Acting
PRESS CONFERENCE OF LIEUTENANT GOVERNOR ED REINECKE

HELD OCTOBER 20, 1971

Reported by

Beverly Toms, CSR

(This rough transcript of the Lieutenant Governor's press conference is furnished to the members of the Capitol press corps for their convenience only. Because of the need to get it to the press as rapidly as possible after the conference, no corrections are made and there is no guaranty of absolute accuracy.)

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LT. GOVERNOR REINECKE: I have a statement to read, gentlemen.

(Whereupon Lt. Governor Reinecke read the first four paragraphs of a statement entitled "Statement by Acting Governor Ed Reinecke at News Conference on Wednesday, October 20, 1971.)

LT. GOVERNOR REINECKE: I have another announcement of an extremely important accomplishment which we have made here in the State of California, one which no other major state can match.

(Whereupon Lt. Governor Reinecke read Release # 583)

Q Mr. Reinecke, how do you account for the fact that welfare recipients are decreasing nationwide as well as California?

A Of course I have no -- no information on the figures elsewhere, but I think the principal reason is simply that so much attention has been focused on the problem that the abuses are becoming less and less each day. Those that were previously willing to take chances are no longer willing to take the chances because of the publicity that has been brought about and I believe to a great extent by the efforts of Governor Reagan.

Q Would you --

Q Are you saying then that the recipients who are not on the rolls who would have been otherwise are all people who have been -- would have been violators or abusers of the law?

A No, I didn't say that, but I believe there are marginal cases of people who might apply if there were not controversial publicity otherwise existing..

Q If they are not all abusers or violators, who are the rest of them?

A People that have -- for their own reasons have chosen not to go on welfare or because of administrative reforms that have been put

forth by the department that have no longer been found qualified for welfare.

Q Are you satisfied that none of them are actually needy people who ought to be getting welfare?

A I don't have detailed detail information. I think I'm reasonably satisfied, yes, that there is still a conscientious program to help those that really need it.

Q Governor, in case after case in the Sacramento Superior Court brought by various parties it would appear that one part of the welfare reform program after another is being challenged successfully in the lower courts, as far as relative to responsibility, stepfathers and that type of thing. Can you give us your views on that and do you think the courts are undermining any reforms that were accomplished this year.

A Well, I think we can expect virtually all aspects of the new law to be tested sooner or later by the -- the welfare proponent attorneys. But it should be noted that there is a real question as to whether or not these cases should even be taken to court. There is a provision in the law to test the conformity issues, to test the validity issues with the federal welfare -- with the federal department of HEW, and that these steps should be taken first and then if resolution cannot be found between the federal and the state government, then these matters might be taken to court for final decision, but there is administrative relief in -- built into the law and this we feel should be exhausted before cases are taken to court. However, I think the facts are that we will continue to see these court cases and we will test them as we possibly can.

Q The fact remains that apparently the state has been losing cases, at least the Sacramento courts.

A I'm sorry, we are losing --

Q Well --

A Losing cases?

Q Yes, the state has lost a couple of cases.

ED MEESE: Excuse me, Governor, we have not lost any cases, these have all been temporary restraining orders.

A I think that's right, it is in the courts and some of the decisions have temporarily been going against us, but there's been no final determination of any of these yet.

Q I understand that, but the direction the courts are moving

seems to be opposite that that the state wants them to move in.
Doesn't that appear to be the case?

A Generally speaking, but as I say, we are -- we don't consider these cases concluded. We are appealing most of them and we are reviewing all -- all of the constraints or the injunctions as they come down.

Q You say the number of people on welfare has declined, but what about the expense of welfare?

A The expense of welfare has declined also. We are saving in the month of August, \$18 million dollars. That's the total, counting state and federal costs. The total savings to date for the last six months amount to approximately \$60 million.

Q Sixty?

A Sixty, six zero.

Q Is that also total and not just state funds?

A Pardon?

Q Thats --

A That's total, county, federal, state.

Q Over what period?

A Six months.

Q If this trend continues, is it conceivable that the savings in welfare then might even out the budget deficit?

A Well, that's an optimistic thought. I don't think it is realistic to think we are going to save \$336 million within the next year, though.

Q What are some of the major administrative reforms that account for the decline?

A Primarily it is the tightening of eligibility requirements and the general administrative procedures. Bear in mind, the counties are still administering this program and it is simply the guidelines that are being put forth by the Social Welfare Department, so it is not just state action alone, it is compliance of state regulations with the county administratinns.

Q On the matter of ^(reform) taxes, can we -- bring that up now? Are you familiar with the strategy of the Democrats in this conference committee and this -- this new compromise program?

A I'm not aware there is a succinct strategy, but I'm familiar with some of the facts, yes.

Q What's your reaction to it?

A If you are speaking of the -- the most recent action to bring the Gonsalves bill out through the so-called conference committee, I think it is -- it is a very unfortunate situation because here the democratic portion of the legislature is attempting to foist onto the people of California a massive tax reform bill, 1.1 billion dollars, I believe, without any public hearings whatsoever. Granted there have been hearings in the past, but not specifically upon this bill or the combinations that are affected by this bill.

Q Well, isn't that in a sense what happened in the welfare reform program? It was sort of all hammered out in the Governor's office.

A There were -- there were ~~nu~~^merous negotiations that were carried out in the Governor's office, but this was only after extensive hearings on each and every element of the bill.

Q What's the difference, though, you said there have been extensive hearings on the tax bill also.

A Well, because the tax reform -- tax shifts that -- has been proposed by the democrats are not in every case according to the -- on the orders of the same magnitude, let's say, that have been discussed in the committee before. So I think there is a philosophical change as to whether or not there should be expenditure limitations by the counties. There is a significant shift in the total amounts in some areas. There is a shift in emphasis between the high income and the low income groups. So these -- the tax reform package was to be looked at as a total package recognizing that we need to balance the budget, we need to provide property tax relief for the taxpayers of California. And only to increase taxes where those two functions were to be performed. But that doesn't seem to be the emphasis that we are seeing now.

Q Governor the deadlines which have been stated before for enactment of payroll withholding seem to have changed several times. I wonder if you could define more specifically what you mean by acting quickly.

A Well, we are -- we originally requested, I believe, an early August date of passage before the recess. We didn't get that and then we felt that possibly we could do it by mid-September. There

is a very real chance that many large corporations would not have been able to comply had we received the bill down here in -- by mid-September, and every day that goes by makes it that much more difficult for large organizations to effect the necessary changes in their payroll procedures. And so now we are down to the point of just over 60 days if the bill is to become effective on January 1, and so this -- this creates a tremendous hardship on the administrative procedures of any large organization, public or private.

Q So by --

A And there is a very real chance, as I say, that many corporations and perhaps city and county and state organizations will not be able to convert by January 1.

Q Would you say November 1 then was the cut -- the latest possible date?

A Well, I think -- if it is November 1, there will still be corporations and organizations that will not be able to comply by the first. And this will -- this will crowd the withholding then into something less than twelve months if they could have made it November 1.

Q Then when you say there is a chance it would have to be paid in nine monthly installments -- in nine installments instead of twelve, you mean for the whole year this would depend on the organization that you work for?

A It would depend --

Q If they were able to effect it by January 1, then that wouldn't be the case?

A I think I said it is possible that -- we tried to emphasize that there is no -- nothing firm by that April 1 date. But to what degree there is delay in the legislature, there will be a corresponding delay and therefore administrative chaos at various levels of private and public sector.

Q Have you met with the legislative leadership to discuss this since the Governor has been gone?

A Not that specific point. We have met with them, yes.

Q Could you not resolve this timing ^{crunch} ~~crunch~~ (phonetics) by returning to the concept of forgiveness for a partial -- a portion of the tax year?

A Certainly, we can always forgive, but that aggravates the deficit which we are facing at the present time and therefore it would

require that many more anticipation notes ~~to~~ be sold.

Q Governor, would you say it is no longer possible to have forgiveness?

A It is not desirable to have further forgiveness, because we are just postponing the decision to balance the budget when we do. And it is just the delinquency of the legislature that has put the state into this very critical financial condition.

Q Governor, you said it is not desirable --

Q Excuse me, Ted, you said not desirable to have further forgiveness.

A Further from the statements that have been made in the past that we are willing to work with it, but now -- now that we see the imbalance of the budget, not that we are seeing the criticalness of time, I don't feel that forgiveness is an acceptable answer at this time.

Q You feel that ^(withholding) forgiveness is not possible due to the time factor?

A Yes.

Q Governor, that was my question, too, but I'd like to ask it again to get it clear, if I can. You are saying it is not desirable to have further forgiveness, but you are still -- you are still holding with Governor Reagan who said previously about his percentage of forgiveness, that he would accept --

A Well, I think we are getting into a very difficult period. We were willing to accept forgiveness, but because, as I say, because every day that we go on without balancing the budget, the deficit becomes that much greater and therefore the opportunities for forgiveness become that much less.

Q But are you saying it may -- you may be forced into a corner where you can't give any forgiveness?

A It is possible.

Q Haven't you already been forced into that corner?

A I personally feel we have, but I don't think we can really make that decision until we see what tax reform bills are passed and on what dates. I think that's a decision that has to be made with respect to time. But as of now I think we are right at the last -- at the last mark.

Q In effect, then, that would mean that you would be using

the one-time windfall to balance the budget, this is something the Governor said absolutely shouldn't be done.

A He did not want to do it, that's right.

Q Governor, you say taxpayers may be hit with three months of taxes all due the same month. Are you saying there is a possibility a man's paycheck in one month might be virtually wiped out by extra large withholding or would it almost certainly be spread out over time?

A Well, I feel -- certainly any organization would do its best to spread that amount out, but the tax liability would be there and it is quite possible that if the bill does not get passed until such time as the organization would take until April 1 to convert its computers or whatever is necessary, that that tax liability might be due and if the company or the organization decided at that point -- it is conceivable, yes. It would depend from there on on the administrative procedures of the particular organization. But it is -- it is merely a way of pointing out the crisis of the time that we -- that we face.

Q What parts of the democrat's tax reform program do you find is most objectionable at this point?

A Well, I think generally speaking what we are talking about is the fact that they are not willing to look for permanent property tax relief for the taxpayers. We are not looking for just temporary relief, we are not looking for tax increase, we are trying to find tax reform and shift that will do the two things, balance the budget and provide permanent tax relief for the people of California.

Q Theirs does balance the budget and begin property tax relief, does it not?

A Well, it begins it but it places no -- no expenditure limitations, no control language at all on expenditures by counties and therefore we feel that this will inevitably in a matter of two or three years absorb any -- any relief that's given by the state will be reabsorbed by the counties and the net effect over a three-year period will be simply a tax increase.

Q How do you look upon their proposed increase for the local school support?

A Well, I don't think it is -- it is any secret, we have long

supported the need for increased aid to local schools, and we certainly want to see this as a part of our package, but it must be done in conjunction with the property tax relief and not simply as a tax increase.

Q Are you speaking for yourself when you say that? I believe the Governor said that he hasn't been convinced yet that local schools need additional funds from the state. There would be --

A Well, I think -- I guess I'm speaking for myself on that case, yes.

Q Governor, also are you speaking for yourself or for Governor Reagan when you say that you may not be able to give any forgiveness?

A Well, that's my own statement.

VOICE: Thank you, Governor.

LT. GOVERNOR REINECKE: Thank you.

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