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1/31/69

OFFICE OF THE GOVERNOR  
Sacramento, California  
Contact: Paul Beck  
445-4571 1-31-69

RELEASE: 5 p.m. January 31  
PLEASE GUARD AGAINST PREMATURE  
RELEASE

*(Tax Rebate)*

The following was issued as a filmed "Report to the People" by Governor Reagan to California television stations for use after 5 p.m., today, January 31:

"Two years ago we told the people of California, all of you, that we were going to try to cut government's size and cost by 10 percent across the board. This declaration was met with mixed emotions.

"Now we're going to talk 10 percent again as a result of those economies, in part, and in part due to unexpected revenues as a result of inflation. We will have in the coming year a hundred million dollars over and above our budget - the budget we are presenting for this coming year.

"Normally--with this kind of money left over--government finds a way to spend it. And in so doing, it usually builds up the cost of government for years to come until eventually it has to ask for more revenues.

"We think we're doing something a little unprecedented, but we believe you're entitled to a rebate. You should receive that hundred million dollars back. And therefore we're asking the legislature effective in April, 1970--not this coming April but in April 1970 when you compute your income tax for the state--that you subtract 10 percent--a 10 percent cut across the board in the state income tax for that year. And you deduct that amount and pay 90 percent of your computed tax."

"Thus we will give the money back to the people".

"We're continuing with tax reform and we hope that we'll be able to present savings that will be on a permanent basis as we achieve tax reform.

"But as of now, this will be a one-time return to you of a hundred million dollars which you gave to the government--and which we, through economies, can now return to you."

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2/4/19

TRANSCRIPT OF GOVERNOR RONALD REAGAN'S REPORT TO THE PEOPLE  
February 4, 1969  
(Budget)

The following stations will carry a Report to the People on the 1969-1970 budget by Governor Ronald Reagan on Tuesday evening, February 4.

Bakersfield	KERO	7:00 - 7:30 p.m.
Chico	KHSL	7:00 - 7:30 p.m.
Eureka	KVIO	7:00 - 7:30 p.m.
Fresno	KJEO	9:30 - 10:00 p.m.
Palm Springs	KPLM	7:00 - 7:30 p.m.
Los Angeles	KTLA	7:30 - 8:00 p.m.
Sacramento	KCRA	7:30 - 8:00 p.m.
Salinas	KSBW	7:00 - 7:30 p.m.
San Diego	KFMB	9:30 - 10:00 p.m.
San Jose	KNTV	9:30 - 10:00 p.m.
San Francisco	KRON	7:00 - 7:30 p.m.
Santa Barbara	KEYT	6:00 - 6:30 p.m.

Here are the governor's remarks:

Good evening.

Tonight, I would like to review with you the financial state of our state. As taxpayers, this discussion is of great importance to all of us because we will be talking about how much it will cost to run our state during the next fiscal year....1969-1970.

Now, I have here Caspar W. Weinberger, state finance director, to join me in this report.

When we talk about the budget, we are talking about your money.... your tax dollars....because government is not free. There's no such thing as federal money....or state money. No matter who collects it--no matter how it's collected, it's all taxpayer money.

I, of course, am required by the Constitution to submit a budget to the legislature--a budget containing the estimated state revenues and recommended state expenditures.

But tonight I want to do something that I am not required to do, but which I feel it only right and proper that I should do. I want to discuss with you how much of your money we'll need this year and how it will be spent to do the things you've asked government to do for you.... and some of the things which government has just taken on itself to do.. and how much of it will be spent to comply with federal demands and how some of it will be spent because of state law.



The Constitution requires me to recommend sources of additional money if we have to spend more than is available. I'm sure you will be pleased to hear I will not have to refer to that particular provision of the constitution.

We will have a balanced budget and no new taxes.

During the past two years, we've tried to apply some common sense to government to see if it couldn't be a little more efficient and a little less costly. We haven't done all we'd like to do but we have brought the state from the brink of insolvency--when we took over--to the present situation where we have sufficient funds.

For the first time, we're going to try and break down our budget--our taxes and our expenditures--and give you an explanation of what the state budget really is. That's why I introduced Caspar Weinberger.

CASPAR WEINBERGER: Governor, this is the expenditure dollar, this is where it goes. The great bulk of the state's money, 40 cents out of every dollar that we spend goes for education. Another 25 cents goes for correction, health and welfare. That's 65, just about 66 cents, of every dollar we spend.

We have, however, 14 cents out of every dollar that is in the form of property tax relief and shared revenues. Those are the taxes that we collect for the county and return directly to them. So 14 cents out of every dollar that the state has listed as spending actually goes back to the county.

And 11 cents of what we spend goes to highways and other transportation matters; 2 cents for resources and all the other areas of state expenditures totals 6 cents.

That's what the state's dollar is spent for....65 cents for these two big items right here, education, corrections and health and welfare.

It all comes from the taxpayers, but actually there are three major items for collection: Sales tax brings in 30 cents of every dollar we collect, personal income taxes bring in 21½ cents, and the gas taxes which go directly for highways bring in 16 cents.

The rest is scattered in these remaining amounts--10 cents from the bank and corporation tax, cigarette, motor vehicle license, the alcoholic beverage tax, horse racing, insurance and inheritance and gift tax. These bring in all of the rest. The big revenue producers at the sales tax, the personal income tax and the gas tax. That's where it all comes from.

GOVERNOR: Of course, the risk is, that with breaking it down this way, people have a tendency to think someone else is helping pay their taxes. But all of these are paid by the people, no matter what the name of the tax is. It either comes out of your pocket in higher prices or in the actual tax that is applied.

That is why--with your pocketbooks in mind--for the second year in a row I will submit to the legislature a bill which, if passed this time, will reduce personal state income taxes in the coming fiscal year...reduce those taxes by \$100 million.

In general terms, this will reduce your personal state income taxes for 1969--with the greatest relief going to those of you who were hardest hit by the unpleasant--but at that time--very necessary tax bill.

In addition, I will recommend to the legislature that approximately \$235 million in state revenues be returned for property tax relief. This, of course, is in addition to the property tax relief for which homeowners are now making application and which will result in a \$70 tax reduction this spring.

CASPAR WEINBERGER: (Referring to charts) This is the \$100 million personal income tax reduction that you spoke about. It will be a new program if the legislature adopts it. It would be a voluntary return to the taxpayers of \$100 million in the areas where the tax of '67 hit hardest.

The remaining items here are continuations of property tax relief at the same general levels that they were put in last year. Home owners would get \$183 million--and again we should emphasize these are state funds going directly back to the counties for that relief. We would continue the doubling of the standard deduction of personal income tax which would be of particular assistance to people who rent and therefore don't have an interest payment to deduct.

The business inventory tax reduction would be continued and we would wipe out the household personal property tax once and for all. Senior citizens would get special property tax relief in the amount of \$9 million. All of this adds up to \$380 million of state revenues being voluntarily returned to taxpayers.

GOVERNOR: Now once again to explain: Here is \$380 million that shows in our budget, adds to the size of the budget, looks like an expense, but actually is money that is being given back to the people.

Thus, while we are submitting a budget that totals about \$6.2 billion, an increase of 3.9 percent over our revised expenditures this current fiscal year, I believe we have started what we hope will be a new trend in government finances---nearly \$380 million of our income is being earmarked for tax reduction...tax reduction, rather than for increased spending programs.

The money is available largely because of our own economies and because national inflation has produced more revenues than anyone could anticipate. It may well be that as a result of the Advisory Commission on Tax Reform, I will be able to report some recommendations for permanent tax reductions, or other acceptable reforms, and if so, they could, of course, take effect on a permanent basis. Meanwhile, I believe that you--the taxpayers--should be given immediate consideration and immediate relief by using funds we have now, but which may not be available to us next year.

Lest anyone feel that we are blinding ourselves to our current and future needs, let me assure you that through prudent financial management--and many internal economies and administrative improvements--we will make it possible to continue to meet our growing needs, without additional taxation and with much needed relief for our taxpayers.

For example, our new program budgeting system, fully adopted this year for the first time in the state's history, offers us a sophisticated and effective management tool of great value in allocating state resources among the highest priority needs.

In the critically important field of elementary and secondary education, I am recommending a total expenditure of \$1,603,000,000. This is an increase in our already massive program of public school aid in the kindergarten through 12th grade years. It includes \$105 million in new money, plus additional amounts to cover costs of increased enrollment and increased aid for the disadvantaged and gifted child.

This \$1.6 billion is for educational programs authorized by your local school boards. If this money was not supplied by the state, it would have to be raised by that much and therefore increase your local property tax.

Since this is the biggest expenditure, Mr. Weinberger will break this down.



CASPAR WEINBERGER: (Referring to charts) This is what we are doing now. We are spending from state aid directly to the public school system \$1.4 billion and it is for the education of 4,940,000 students. Now this year--this budget year we are talking about--we will add \$12 million just to continue the cost of what we are doing now. That is what inflation requires. There also will be 100,000 additional pupils. The budget will recommend \$105 million in new money to be added to that, bringing the total amount we will give to the local school districts at \$1,603,000,000 for the education of 5,040,000,000 school children.

This extra \$105 million will recognize the living cost increase that the schools, along with everybody else, feels. But it also will be for the employment of additional teachers in those areas of the state that most need it.

GOVERNOR: Now kindergarten through high school--what we call the K-through-12 years--are vital. They should be one of our top priority items. For millions of children, these grades may contain the total of their formal education. They must not be short-changed by allowing other programs to siphon away money which should go to them. But we also must take some long-overdue steps to make sure our education dollars are being wisely spent and that each dollar is buying a full dollar's worth.

We are establishing a Governor's Commission on Educational Reform to analyze root problems and to suggest major reforms in the areas of financing, teacher training, standards and salaries, curriculum, and the proper functions of schools in today's society, especially in our urban areas.

The budget for higher education--for our university and state colleges--deserves special comment. I am greatly concerned about the attacks on our educational system by small groups who are best described as criminal anarchists--those unruly few who want to close down the campuses of our university and state colleges, and even high schools and I know that the vast majority of you share this concern.

I will, therefore, continue to use every power at my command to insure that safety and security--and the proper academic atmosphere--is maintained on every campus. I am determined that academic freedom and the pursuit of knowledge will be upheld, protected and preserved.

But I will not penalize the majority to punish the few. I therefore rejected the demands of those who--for a variety of reasons--would drastically cut back on funds for higher education in such a way as to damage our system of higher education.

Our budget for the coming year will therefore reflect a \$61 million increase over this year's record budget for the university and state colleges.

Again, let me repeat--I am proposing a \$61 million increase in general support for higher education--for our university and state college system.

WEINBERGER: Now Governor, that increase breaks down this way. At the present time we are spending \$533 million of state money for the education of 261,800 college students. In the new budget that sum will rise by \$61 million to \$594 million and it will take care of 21,600 additional college students for a total of 283,000 students in college in California's public college system.

The breakdown shows the university will get 25 of the \$61 million for an additional 6,000 students. The state colleges will get 36 million of the \$61 million increase for an additional 15,700 students.

The difference, of course, is because the university--with the emphasis on graduate education--is considerably more expensive.

The estimates of enrollment are always based entirely on what is furnished by the colleges and university themselves. This year the state colleges underestimated their enrollment. So we will be picking up for them an additional \$600,000 this month if the legislature agrees so as to enable them to handle the additional students that their estimates didn't quite reach.

GOVERNOR: Make no mistake about it. Higher education in California is very expensive--but a necessary and wise investment. I believe this increase is necessary to insure that the growing number of qualified young people will continue to have the unmatched opportunity to experience and benefit from our magnificent system of higher education.

In that connection, I also recommend a \$5 million increase in our scholarship funds to insure that a family's financial condition shall be no bar to participation in California's higher education.

I also believe an equal education plan is necessary to achieve full educational opportunity for all qualified students in California, to provide supplemental capital for each campus, and to eliminate existing inequities so that low income families will not have to bear a disproportionate share of the cost of higher education.

Therefore, because I feel the taxpayer needs a break--and because I believe that we appreciate and work harder for those things which are not given to us for nothing--I will continue to support measures to establish some form of tuition at our state colleges and university.

In the general area of concern we all have for the less fortunate in our state and communities, I am recommending major increases in the local assistance portion of the budget for the treatment of mental illness much closer at home (and, we believe, much more effective and acceptable treatment for patients and their families).

The Department of Mental Hygiene's budget alone will total more than \$265 million, up \$28 million from the current budget.

For more than a year now there have been false and somewhat hysterical charges that we were placing dollars above human beings--particularly in the area of mental health. I hope now and with this year's budget that it will become plain to those who made those charges that at no time were we concerned solely with economy. We were making certain economies in order to clear the decks to continue with the advance of mental hygiene in such a way as to make California what it is: The number one state in the treatment of the mentally ill.

The new budget will include:

1. An increase of \$22,800,000 over last year's budget for funding community mental health programs. The increase will bring the total state's share for community mental health programs to about \$54 million for the coming year. The state budget for community programs was only \$18.6 million two years ago.

2. An increase in the presently authorized level of care in the hospitals for the mentally ill by the retention of 547 nursing and 13 rehabilitation therapist positions which would have been abolished in 1969-70 because of the decreasing number of patients.

3. An additional 175 hospital worker positions to relieve psychiatric technicians and registered nurses of housekeeping and other chores.

4. An additional 63 psychiatric technician positions and,

5. 100 additional maintenance positions.

Many of these and other increases are--I believe--necessary and beneficial. We are proposing these increases voluntarily because it is the right and proper thing to do. Other increases are mandated--virtually imposed on us from other quarters as we will see in more detail in a few moments. These include the federal government's role--especially in welfare and certain related health care services.

In this budget, for the upcoming fiscal year, I have also included sufficient funds to provide a 5 per cent increase in salaries of state employees including our university and state college professors and teachers. This is less than some have recommended, and more than many have urged. Just as inflation has raised prices for all of us, and our incomes go up accordingly, so is this true of our state employees.

By the same token, the people of California have a right to expect that there will be the same full measure of devoted service in the future that the vast majority of our state employees have given in the past. Needless to say, unwarranted and illegal strikes by a small number of public employees can only make it more difficult for us to secure proper public recognition of the legitimate needs of the vast majority of loyal and dedicated civil servants.

In discussing our state budget--which as we have seen, will be slightly over \$6 billion this year--there are a number of facts which we must keep in mind.

One is that I, as your governor, have control over only slightly more than one third of the total budget. Over the years, special--almost untouchable--programs have developed which have been locked into our Constitution and laws. They are untouchable in that "X" amounts of

money are collected and set aside for specific programs--and only those programs--no matter what emergencies may arise nor what changes take place in the economy. This makes priority setting and financial decision-making most difficult. It also makes government more expensive.

Now a change--allowing your elected officials to determine financial priorities and allocate more of the money which is on hand is, I believe, necessary.

Such a change would not only guarantee lower overall spending, but it would remove the unfeasible guarantee we now have that each budget will be higher than the last.

We should also bear in mind that the state does not spend, in the generally understood sense of the word, more than about 1.7 billion out of the total <sup>of</sup> / some \$6 billion, for the general operation of state government which fall within the responsibility of the governor. In addition to these operational expenses, we will spend about \$90 million for new construction financed from our general fund and about \$770 million in other construction financed from bond issues that were passed some years ago, and by gas tax money for highways.

Now I think this is another situation where we can receive some explanation of some charts.

WEINBERGER: Here is that last sum of those two sums you were just talking about. That is the \$1,722,000,000 that is spent out of the \$6.2 billion for the actual operations of the state government. This little wedge down here is the \$861 million in capital outlay. Actually, only \$90 million of that is disbursed under your immediate direction because that balance of \$700 odd million over here comes from bond issues that came from the water program enacted several years ago, parks, and highways out of the gas tax money and so on.



This, however, is the amount actually spent by the state government out of the \$6.2 billion. The balance over here is what goes to the local government and some of the programs that are frozen and dedicated that you mentioned a moment ago.

One point six billion dollars  
/ is the aid to public schools. Then we add in \$1,000,098,000 for welfare, mental health and Medi-Cal. These are all expenditures which go to assist local government to meet its obligations. Then there are taxes that the state collects--\$595 million--and returns to local government. We just act as an agent on those.

And here is a new and novel item. This is tax relief money that the state collects and sends back. There are also other forms of local assistance--some additional license fees that are returned and so on.

So out of this whole total, the \$6.2 billion budget which is submitted by you to the legislature, state government actually only spends about \$2.6 billion. The rest of the total goes directly to relieve local government from its obligations, which of course helps cut the property tax locally, and for direct property tax relief.

GOVERNOR: It'll be a lot easier for the people to understand if someday the state budget could actually be divided to show what the state government actually costs and then show the other areas not as expenditures, but as areas where we are simply collecting money to give back to the local government. We're a tax collector for the local government.

WEINBERGER: Well the only difficulty, Governor, is that if we started this year, everybody would say that we were being terribly deceptive. This is the way it's been done for years and years. So the only real way, I suppose, to show it, is to show that it isn't really one big piece of pie, or one dollar; it really is two.

It's what the state gets and what it gives to local government.

GOVERNOR: Now what you've seen explains why budgets just have to increase. That portion of the budget which goes to provide assistance to local governments will increase about 14 percent. On the other hand, the state operations, that part of the budget, will increase only 7 percent--just enough to keep up with the growth in population plus inflation.

In general, we've managed to hold our total expenses down to the modest increases recommended here because we have most carefully scrutinized requests for new or expanded programs. We have approved some \$26 million in new requests and here I'll ask Cap to show those to you.

WEINBERGER: Some of those programs, governor, are set forth on this chart. As you know, we cut \$400 million in other requests. Programs that will cost more include the improved care of the mentally ill that you mentioned. We're going to put into force the statewide criminal justice information system that will get information back and forth more rapidly. We'll increase the public health efforts in the pollution fields and the testing of new drugs. We're going to approve a much higher standard of water quality. There are programs for new educational opportunities and employment opportunities for the disadvantaged. We have money in for a new smog laboratory; we have money in to try and help predict earthquakes and geologic hazards. We're going to go after the forest fires much harder this year, and we have continued protection by authorizing the continuance of the BCDC for San Francisco bay fill.

GOVERNOR: And, as we have seen, we have increased the support for other programs in the amount we needed to keep pace with our growth.

We will continue these efforts. What's more, it is not enough just to present this budget with its surplus and its proposals for meeting growth and for tax reduction.

You should also know that much thought has been given to the budget for the year 1970-71 at the same time this budget was being prepared. In effect, we really prepared two budgets at once, because it would be doing the state small service to balance one budget without new taxes, and leave a wide deficit for the next fiscal year.

Therefore, I can also assure you that--through the continued application of sound business practices in the administration of your state government--and with the cooperation of the legislature--we will again present a balanced budget for next year--and again without a tax increase!

We've resisted great pressures to add more new programs which would cost more money and skyrocket the total cost of government.

Surpluses always offer a great temptation for spending, but the surpluses we project are no more than safe margins against the possibility of a change of economic conditions, or the imposition of additional and expensive federal requirements and rules. For example, just this year we'll have to pay \$52 million more of your money than last year, simply because of changes by arbitrary federal welfare policies.

There are also other changes. There are some, for example, who will say that there are higher priorities for spending than tax relief, although doubtless they will not phrase it so bluntly.

For the record--let me say here and now that in my opinion, tax relief is not only a necessary priority--it is an absolute necessity. And here's why:

WEINBERGER: Governor, this (chart) shows California in 1969, last thousand three hundred fifty dollars (fiscal) year. One /was paid, that's man, woman or child, so a family of four is paying about \$5,000 a year for government.

GOVERNOR: Actually, that's \$5,400.

WEINBERGER: Yes, you've got a computer which I haven't. The federal government takes \$870 of that. This shows that the state taxes are \$243 out of that \$1,350, but \$138 of that was returned to local government by the state and as we saw a moment ago, more will be returned out of that \$243 next year. The rest of this is city, county, school districts and special districts; \$1,350 for each person in California.

GOVERNOR: Thus, my promise to you is this--based on the balanced budget we have discussed tonight--I will:

1. Send the legislature my request that they approve a measure to reduce your personal state income taxes--for the coming fiscal year--by the sum of \$100 million.

2. Continue the doubled standard deductions to save you another \$45 million.

3. Urge the legislature to return approximately \$235 million in state revenues to local government for property tax relief.....thus providing an overall tax reduction program totaling nearly \$380 million--instead of increasing the cost of government.

This balanced budget--with its provisions for tax reductions--is a very real accomplishment. But there is still much more to be done. Government still costs all of us too much money. There remain too many programs--thrust upon us as hold-overs from the past. We must continue

to reform--to cut and squeeze and trim. We must continue to replace the outmoded with the new; the outworn with the relevant. We must continue to reassess the priorities of the people and to assert new priorities for government, priorities which will meet the needs of a dynamic, modern society.

We have a fiscally sound state government: prudence must be the constant companion to progress. We can meet our real needs and still furnish necessary and long overdue tax relief to you.

This is what you want.....this is what Cap wants, what he has worked very hard for. This is what I want.

Thank you.....and good night.

# # # # #

(NOTE: The above text may vary slightly from the actual televised report. However, Governor Reagan will stand by the above.)

5/1/69



KCOY-TV  
SANTA MARIA

Showing on May 11th at 11:30 PM

KRCR-TV  
REDDING

Showing on May 11th at 7:00 PM

KQED-TV  
SAN FRANCISCO

Showing on May 11th at 11:00 PM

KTVU-TV  
OAKLAND

Showing on May 18th at 1:30 PM

KFRE-TV  
FRESNO

Showing on May 11th at 11:15 PM

KOGO-TV  
SAN DIEGO

Showing on May 11th at 7:00 PM

KERO-TV  
BAKERSFIELD

Showing May 11th at 8:30 PM

KTLA-TV  
LOS ANGELES

Showing on May 25th at 5:00 PM

KJEO-TV  
FRESNO

Showing on May 12th at 11:30 PM

KCRA-TV  
SACRAMENTO

Showing on May 11th at 5:00 PM

KXTV  
SACRAMENTO

Showing on May 11th at 4:00 PM

KNEW-TV  
SAN FRANCISCO

Showing on May 11th at 11:00 PM

KMOO-TV  
SAN FRANCISCO

Showing on May 12th at 2:00 PM

KUDO-TV  
SAN FRANCISCO

Showing on May 16th at 4:00 PM

KMBC-TV  
LOS ANGELES

Unable to show May 11th, will advise  
of scheduled showing at a later date

KABC-TV  
LOS ANGELES

Cannot show as a special program due  
to tight schedule. will show on news spots

KHST-TV  
CHICO

Showing on May 11th at 2:30 PM

OFFICE OF THE GOVERNOR  
Sacramento, California  
Contact: Paul Beck  
445-4571 5-9-69

RELEASE: 4 P.M., SUNDAY, MAY 11.  
PLEASE GUARD AGAINST PREMATURE  
RELEASE.

TRANSCRIPT OF GOVERNOR RONALD REAGAN'S REPORT TO THE PEOPLE  
May 11, 1969

(Tax Reform)

GOVERNOR REAGAN: I would like to discuss with you a subject which is important to all of us---taxes and tax reform...that is, reforming, reorganizing and equalizing the tax burden which, over the years, has become a major burden on a disproportionate share of the taxpayers.

Joining us are Caspar W. Weinberger, director of our State Department of Finance, and Assemblyman Craig Biddle of Riverside, who has introduced this administration's two-part tax reform package.

Cap, Craig, and I want to discuss this program with you because I think in this way, we can all get a clearer picture of the basic principles and goals of the tax reform program.

Over the years, California's tax structure has become encrusted with add-ons and off-sets. Most of these have been precariously balanced one side against the other, like a teeter totter, so that an attempt to correct one fault, or one evil, often results in setting off a complicated chain reaction.

Because the tax structure has grown--often without apparent rhyme or reason, much less proper planning--the taxing system has become unfair, with a large percentage of the taxpayers paying more than their fair share.

It is this situation which we must correct and in this discussion it is important to remember we are talking about tax reform, not tax increases, not tax reduction. We have already started on tax reductions and, as you know, there is \$380 million of tax relief in the new budget. But, tax reform is something else: Revising the existing tax burdens so that they are more evenly and more fairly distributed among the taxpayers, among private citizens, and among the businesses, the corporations and companies doing business in California.

There are certain basic objectives which we must seek to achieve through a tax reform program. Let's talk about them for a minute.

We want a fair and balanced tax system; meaningful property tax relief, an increased state role in quality education, greater flexibility for local school districts and, no total increase in taxes.

Let me repeat that. This must be done without increasing the total tax burden in California. Contrary to what some have claimed, and inferred, we are not proposing a tax increase. We are proposing tax reform---a redistribution of the burden from those who have been paying much more than they should to a broader base of taxpayers, including some who have not been paying their share. As in any shift, some individual income taxes will go up. Some property taxes will go down. But, there will be no overall tax increase---no more money paid to or for government.

We are proposing a two-part tax reform package which, as I mentioned, Assemblyman Craig Biddle has introduced in the Legislature, on behalf of this administration.

Craig, why don't you and Cap review the concept of the immediate and long-term proposals---which we might refer to as Phase I and Phase 2 of the program---and then highlight the major points of emphasis in Phase 1.

CRAIG BIDDLE: Well, of course the magnitude of the program is going to require a constitutional amendment, so this will mean we will have to place it on the ballot for voter approval in the General Election of 1970. And all of the constitutional amendments which will be included in Phase 2 will be placed before the voters at that time.

Phase 1 will only require legislative action and can be approved by the Legislature during this session without voter approval.

The first portion of that phase, which I think is very important, is increasing the amount that was allowed as an exemption on real property tax last year. We placed on the ballot, of course, 1-A which was approved by the voters. That is, the \$750 exemption on real property. This proposal is to increase that, of course, to \$1,000 and make it identical to the veterans' exemption, and this would mean to the average residential householder in California \$100 off his residential property tax next year.

?

CAP WEINBERGER: Then, the other portions of our program that can be done this year would be the very vital necessity of a thing we tried to do last year, Governor, of reducing, or going back to, this method of personal exemption in the income tax, rather than this credit system. If we do that, if we give a personal exemption of \$600 for each dependent, it will remove a very substantial inequity that was experience in the income tax last year, particularly with middle income families with a large number of dependents.

The other thing that we want to do, and ought to do just as soon as possible, is reduce this business inventory tax by over 50 percent. And we can do that this year, if we eliminate some of these unwarranted sales tax exemptions such as, for example, the sale tax on containers. The business inventory tax is one of the worst that we have in this state. It costs a lot to collect, it doesn't bring in very much and it drives business out and discourages new business from coming in. We have to encourage new business and new capital to come to California. We need about \$2 billion in new private capital each year, and unless we get it, we can't provide the new jobs that we have to have to take care of our growing population. So repealing or reducing this inventory tax by over 50 percent is a vital objective we need this year. That, governor, is a summary of Phase 1 of our tax reform program.

GOVERNOR REAGAN: Yes, and as Craig said, we are talking about tax reform, revising the present inequitable situation which exists, and spreading the burden more fairly over a broader base of taxpayers. Now, this means, in part, correcting one of the most unfair burdens of our present system, the burden that the property taxpayer, the homeowner, has to pay.

What we have discussed so far are the proposals contained in Part 1 of our tax reform program and legislative package. These proposals are important in themselves, and they are also important as the initial steps of our long-range overall tax reform program.

These proposals should be passed this year---by the 1969 legislature.

Now, the second phase of the tax reform package is related to the first part in that it seeks to achieve a more balanced tax structure through a reduced reliance on property taxes and a reduction in those property taxes. The first part--the 1969 phase--must be approved by the Legislature before we can put it into effect. The second part--which we will now discuss--will require amending the Constitution, which means--and this is important--that the voters will have the opportunity to vote on the proposals in 1970. That is essential. In a move of such importance, we want every voter to be able to voice his opinion through the ballot box. The people should speak.

In this long-range Phase 2 comes the most far-reaching proposal---not only in the area of tax reform, but also for the benefit of our public school system.

Its approval and application would be a giant step in the direction of equality of educational opportunity for all children in the state's public school system.

It would reduce the far too heavy burden now borne by the residential property taxpayer.

That is a burden which has increased nearly 100 percent, with an average increase per year of approximately 10 percent. Bear in mind that there is not always a corresponding increase in the income of the homeowner to pay these double taxes. In many cases, he has already paid for his home, in whole or in large part, but he can't afford to keep it because of those property taxes. At the same time, many young couples can't afford to buy a home because property taxes are such a big piece of their projected monthly payments.

While it is true that the things property taxes are going for are important, the people paying the bill, the individual property taxpayers, have absolutely had it up to here. They have pretty much reached the end of their rope.

As a consequence, this absolutely must be the first major area of reform---to shift part of this burden from the property tax to the more equitable income tax.

Tied in with this would be a statewide program of providing stronger financing and more home rule for the local school district.

And at the same time, we must provide an effective guarantee that property tax rates would not be raised at the local level to offset the reductions proposed under this state plan.

There is widespread agreement that we must overhaul the tax structure used to finance our public school system. The existing financing program for elementary and secondary schools in California does not provide equal education opportunities for all children in this state.

Elementary school district expenditures, for example, range from as little as \$289 per ADA---this means per average daily attendance, or \$289 per student---all the way up to as high as \$2,662 per student per ADA in some school districts. Some low wealth districts struggle under an intolerable property tax burden while some high wealth districts are not so heavily burdened. In various parts of the state, specially incorporated areas have become virtual "tax havens," thus escaping a fair share of the costs of education while benefitting from the economic, sociological and industrial byproducts of the school system.



We propose to correct these situations in this way: 80 percent of the residential property tax now used for schools would be replaced by a statewide educational opportunity tax of one percent on adjusted gross personal income, and the statewide non-residential property tax. This shift from the residential property tax, plus the increase in the homeowners' exemption already mentioned in Phase 1---from \$750 to \$1,000---would reduce the average residential property tax throughout the state by about 50 percent. Let me repeat, what we are proposing here is a cut of about 50 percent---or one-half---in the average homeowner's tax.

The rate for this statewide non-residential property tax would be approximately \$3.50 per \$100 assessed valuation. Now, this is not a new tax added on to business or industrial property. It simply means that \$3.50 of the tax rate they are now paying will be used for statewide education. The increased personal income and the non-residential property tax would total approximately \$1.6 billion and would be given to the schools in addition to the existing \$1.3 billion in state subventions that we are now giving the school districts. This would mean a total of about \$3 billion for state financing of California's local school districts, or 80 percent of the costs. The funds would be provided to the various school districts on the basis of a flat dollar amount per average daily attendance, thus eliminating the extremely complex financial structure, the red tape and undesirable state requirements that are forced on some local schools. It would mean that we could spend more of the educational dollar on education and less on bureaucracy. The only requirement we would attach to the distribution of these vastly increased state funds would be an ongoing cost effectiveness review of such expenditures. Cost effectiveness yardsticks would be devised and instituted to evaluate the performance of our educational system. In effect, we would require that "report cards" be given to our school systems. In that way, the people of California could be assured that they were getting a full measure of results for each dollar spent.

This flat dollar ADA payment, which, as I said before, means the amount paid to school districts for average daily attendance, would increase at various grade levels, from kindergarten to junior college, recognizing the increasing educational costs involved as the student moves up through the school system. The amounts proposed, by grade level, range from \$500 per student, or more accurately per unit of average daily attendance, for kindergarten through the sixth grade; \$600 per ADA for grades seven through nine; \$700 per ADA for grades ten through twelve, and \$725 per ADA for junior colleges. \$400 ADA also would be provided for adult education courses. One other important feature is that these proposed levels would be adjusted annually to reflect reasonable changes in the cost of living index.

These state funds for education, totaling approximately \$3 billion, should help provide true equality of educational opportunity throughout the state, and provide virtually every school district with a solid foundation program. No longer will your children be penalized for living in a particular part of the state. No matter where you live in this state, your children would have access to a high quality education.

The people in some school districts may want to spend more per student and, therefore, in addition to the state's foundation grants, local school districts would have the ability to enrich their programs through additional expenditures should they desire to do so.

However, to make sure that property taxes do not creep back to absorb the proposed 50 percent reduction, the property tax rate which could be levied by the local school board would be limited to \$1.10 per \$100 of assessed valuation for all grades, kindergarten through 14, or the current level, whichever is lower. Bond redemptions as previously authorized would, of course, be continued.

Should the people in a school district wish to exceed this tax rate, such a permissive override would require the approval of 60 percent of the voters in that district.

Over the years, each time more state revenue has been raised to ease the burden of residential property taxpayers for the support of the schools the result has simply been a higher total tax burden for each of us. The requirement that 60 percent of us must agree before our taxes could go up is designed to protect the taxpayer from just such an occurrence.

We also would hope, and will certainly urge, that the federal government permit California taxpayers to allow this school opportunity tax as credit against their federal income tax payments.

One of the problems with any tax reform program is that in spreading the base and easing the burden that has been carried too long by a given segment---in this case, the property owner---some citizens are going to pay more than they have been paying in the past. In cutting property taxes by some \$750 million and picking that amount up elsewhere by broadening the base and increasing the amount paid by all state income tax payers, one group that will carry more of the burden than they have in the past will be the renters. To ease this situation we are proposing that the landlords be required to notify their tenants as to that portion of their rent which could be reduced because of the cut in property taxes. Such a notification would stimulate the free play of the rental market. We further anticipate that this will encourage the landlord to share his property tax reduction with the tenant through reduced rent. We also believe that because the excessively high property tax is one of the factors that causes homes to cost so much, a major property tax reduction will enable many people who cannot now do so to buy their own homes.

We know this is not a perfect situation, and we will continue to work on this and other aspects of the program as our tax reform package moves through the legislature. And, we hope you, too, will participate and let us know your views.

We are also concerned that the property taxpayer---who has so long been burdened by this oppressive tax---really gets the relief he needs and that his taxes will not be increased by the counties, cities and special districts, thus again eating up the tax relief which our tax reform program is designed to provide.

But because we do not want to rely on hope alone, we are asking that specific limits be established for local property taxing procedures. We propose that a vote of 60 percent of the people be required before any local property taxes are allowed to go back up again, after this program brings them down. Should local governments want to exceed these set maximums, they would have to get voter approval.

Now, Cap, would you discuss these safeguards and procedures in a little more detail.

CAP WEINBERGER: Yes, actually, what this does---and this is a novel and a very welcome feature of this program---is put a lid on property taxes right at the local level, and it would require, as you said, Governor, a vote of 60 percent of the voters to lift it. At the same time, any increase in taxes at the state level would have to be approved by a two-thirds vote of the California state legislature just as is now required when we spend our money, because we have a two-thirds vote before the budget can be adopted.

GOVERNOR REAGAN: There are several other things which I wish you would discuss briefly which are also part of our long-range tax reform proposals. Though less far reaching, they, too, will require voter approval and should be considered on their individual merits, and as part of an overall program.

So, Cap, why don't you outline the parts of that particular program.

CAP WEINBERGER: For one thing, we have a necessity here to relieve part of the double misery which is caused by figuring both federal and state income taxes every April. It would be essential that we have what amounts to a carbon copy of the federal income tax, paid as part of the state income tax. So all you would do would be to tear off your top copy and send it to Washington, and send the bottom copy to Sacramento with the percentage adjusted so the income tax would be as it is now.

Another thing which I think is essential is that we try to make land speculation a lot less attractive, and to do that, we are urging that the capital gains treatment of the sale of unimproved property, held less than 10 years, be removed, and that such a tax be paid as ordinary income. The revenues realized by this would be used to help preserve open spaces in and around these tremendously, rapidly growing urban areas. Also, it would retain California's competitive position. Under our proposal 2, agricultural property would be taxed solely as farm property as long as it is used for that. At the moment, as you know, farm property is taxed on what it might bring if it were turned into a subdivision. The legislation also would provide that if land is converted from agricultural to non-agricultural use (such as a subdivision), then the counties would be given the means of recapturing that lost tax revenue.

Another thing that I think is tremendously important is to assist the old-age property owner. In order to do that we are proposing that needy individuals over 65 be permitted to postpone the payment of taxes on their homes. If they authorize the county to secure eventual payment of these taxes, after the property is transferred, this would be counted as a lien against the property, which can be paid either by the individual, or, in the event of death, by his survivors.

GOVERNOR REAGAN: Cap, fine. Since this total tax reform program does represent a partial shift from property taxes to personal income taxes, we are also proposing a voluntary prepayment plan, with four options:

This is something that Craig Biddle has worked out after great thought, study and discussion. Craig, why don't you go over these proposals.

CRAIG BIDDLE: I think what you are doing in this proposal is you are addressing yourself to two very serious problems we will be having in California, the first being individuals who come into the state and immediately get all the services that are available to them from the State of California, but, yet, don't pay income taxes. And then, secondly, the individuals who want to have their income taxes withheld and pay on a monthly or weekly basis, rather than the total lump sum payment. So this proposal says that the individuals who are new to this state, who did not file an income tax return for the State of California the preceding year, they must have their income taxes withheld, just as we do on the federal level.

But those individuals, the Californians, the residents, who have had their income tax filed for the preceding year, have four options at that time of what they want to do in connection with their income taxes.

The first option, of course, is that the employer can withhold the income tax payment at the employees' request, and then they remit these sums to the state, receiving a credit for the cost of the employer's added bookkeeping expense. Also, the employee would get a two percent discount for the voluntariness of his act which brings about the withholding.



The second option: The individual could pay, if he wanted to, his state income tax on a quarterly basis. If he did this in advance, he would also receive the two percent discount, or credit on his taxes at the end of the year.

The third alternative is that the individual employee could make his own arrangements, with the cooperation of his employer, to deposit in an account under his control the monthly amount necessary to pay the estimated tax at the end of the year.

Or, of course, fourthly, he could continue to not participate in any program of any sort, but he could pay on an annual basis or a semi-annual basis as he does at this time.

I think the provisions for these voluntary options would simply be a convenience for the taxpayer, and, of course, the state would not make any money on any of these plans, and if any windfalls were realized, the law provides that this would be placed in a special tax relief fund to be returned to the taxpayers as a one-time rebate, as we are advocating be done with the \$100 million next spring.

GOVERNOR REAGAN: Thank you, Craig. And on that last point, let us be certain there is no mistake about that. I want to make it absolutely crystal clear that this administration's proposal to provide a rebate of \$100 million in personal income taxes is totally separate and is in addition to this overall tax reform package. The one-time rebate is designed to return to the taxpayer a surplus, produced by our economies and by national inflation, rather than spending it here in Sacramento.

The tax reform program we have been discussing, which is now in the hands of the legislature, is an effort to achieve a long-term overhaul of our tax system on a relatively permanent basis. There should be no confusion or distortion on this particular point.

There is just so much we can do about tax reform at the state level. When you get right down to it, the big part of total tax reform has to come from the federal government since that is where most of our taxes go. We are encouraged by the amount of discussion in the present federal administration about the need for tax reform. Ultimately, the only true tax reform will be that which involves a major reliance upon a more fair and more equitable income tax in which various exemptions are virtually eliminated, a much lower total tax rate is imposed, and a great many of the existing inconsistencies and loopholes are closed.

Furthermore, the federal government must share some of the income tax revenues that our citizens send to Washington each year, by returning to the states a portion of these revenues, without strings attached, just as we propose to return state revenues to school districts, without strings attached.

But, with all of this, there is one irrefutable, unyielding fact of government life which must also be faced squarely, and coped with constantly.

There is only one way to reduce taxes and that is to reduce government spending. One is impossible without the other, especially under our state constitution which prohibits deficit spending.

At present, federal, state and local taxes take \$1,350 for every man, woman and child in California. That is \$5,400 a year for a family of four, and of that, more than \$3,400 goes to Washington. That is ridiculous.

While we can't do anything directly about the federal situation, we want to do something about it at the state and local level. Admittedly, real tax reform is going to cause some problems in some areas. As property taxes are cut 50 percent, some people are going to have to pay much more in state income taxes in the form of the educational opportunity tax, and they will be unhappy.

But, this is the best that we can do, and, again, we reiterate, we are not getting any additional money from the taxpayer. We are redistributing the money to a certain extent.

We want to hear from you with your suggestions. Write to us, mark on the outside of the envelope, TAX REFORM, and let us hear your ideas on this.

In other words, we don't want any more tax gimmicks. We want true reform, so keep those cards and letters coming, folks.

# # # # #

12/22/69

Following is the text of a filmed Report to the People (104 sec. in length) by Governor Reagan which has been distributed to California television stations for use after 5 p.m. Monday, December 22. (The governor's recorded statement is available to radio stations at 916-445-0101. Members of the Capitol Press Corps who serve radio broadcasters in the state may wish to reproduce a tape-recording of the governor's statement which is available in the governor's press office---also embargoed for use after 5 p.m., Monday, December 22.)

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Air Pollution

"When I took office I promised you this administration would wage an all-out war on air pollution.

"We have done this. We have adopted the strongest controls on air pollution by any state in the union. Automobiles literally have to be manufactured to California specifications.

"Today I am proposing a six-point program that will bring California one step closer to victory. I am ordering:

1--Immediate conversion of 175 state vehicles to a dual fuel system that will permit the use of smog-free compressed natural gas.

2--Conversion of other state vehicles to this system on a programmed, continuing basis.

3--Locating all cars converted to natural gas and 1970 model state cars with emission controls in major smog-affected areas.

4--Requiring all 1971 autos and trucks purchased by the state for use in smog-troubled areas meet the proposed 1975 emission standards.

5--Proposing that as an incentive, the fuel tax on natural gas be reduced to all fleet operators---both public and private.

6--Developing a new systematic testing and tune-up procedure to insure sustained low vehicle emissions.

"As I have pointed out, this war against foul air must concern not only government and industry but every private citizen as well---not some mysterious "they", but "we" cause pollution, and "we" can remedy it.

"This new program will help us win another skirmish in the war we are fighting to protect our environment for this and future generations.

"I will be announcing other new programs and policies in the coming months."

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EJG



Governor Ronald Reagan today announced a six point program designed to use the state's fleet operations and purchasing and taxing powers to encourage and expedite the use of smog-free motor vehicles in California.

Terming the fight against air pollution "a matter of urgent necessity--a war which we must win; a war we intend to win" the governor outlined his plan:

1. Immediate conversion of 175 state vehicles to a dual fuel system which will permit the use of virtually smog free compressed natural gas (CNG);
2. Conversion of additional state vehicles to the dual fuel system on a programmed and continuing basis;
3. Locating low emission cars, and new 1970 model state cars in major smog affected areas;
4. Requiring that 1971 autos and trucks purchased by the state for use in smog troubled areas meet the proposed stiff 1975 vehicle emission standards;
5. Reducing the fuel tax on natural gas as an incentive for other fleet operators--private and public--to join with the state in this part of his clean air campaign, and
6. Developing a systematic testing and tune-up procedure to insure sustained low vehicle emissions.

The first phase of the program, the conversion of 175 state operated vehicles to the CNG dual fuel system, will begin immediately, the governor said. With the dual system, the vehicle could be operated on the highway or in open country on regular gas, then switched to natural gas for driving in the smog-plagued metropolitan areas.

"The state is one of the very large motor vehicle fleet operators", the governor pointed out. "It should lead the way in this specific effort to reduce vehicular air pollution in our cities."

At the request of Assemblyman Pete Schabarum (R-Covina) the State Highway Commission allocated funds to test the dual system on 10 state autos. The tests were conducted under the supervision of the State Air Resources Board and the satisfactory results of those tests prompted the governor's decision to begin converting a portion of the state auto fleet to compressed natural gas. The governor said the test vehicles scored below the state requirements set for 1974 models, and that with some modifications, they could meet the even stiffer 1975 model requirements.

The governor's program calls for additional dual system autos to be converted and added to the state fleet on a monthly basis. Under the program, the state will also put into operation vehicles powered by other low emission fuels and engines when these prove practical. Such vehicles might include steam and electric powered cars and trucks as well as those powered by improved gas turbines.

During recent months, the Reagan administration has been making stringent efforts to cut back on the total number of motor vehicles operated by the state government. Part of the savings realized by the cutbacks will be used to pay for the conversion of internal combustion engined cars to the dual system. "At the same time," said the governor, "some 1970 model autos will be purchased with the conversion system installed before use."

All converted and 1970 low emission state vehicles will be located and operated in major cities such as Los Angeles, San Francisco, Sacramento and San Diego, areas considered to have smog problems. Older vehicles will be transferred to rural and other areas not experiencing air pollution problems.

The Air Resources Control Board recently called for emission controls on 1975 model cars which would be even stiffer than the California standards set for the 1974 models. The governor announced that he has instructed Verne Orr, director of General Services, to require that those 1971 models purchased by the state for use in high pollution areas meet the stiff 1975 standards. In lieu of meeting the 1975 requirements with internal combustion engines, CNG switchover dual fuel system installation would be permitted.

The governor urged other major fleet operators in California--public utilities, city and county governments--to make similar dual system conversions.

As one incentive, the governor said that he will ask the legislature to cut the present state tax on natural gas for automotive use by almost 60 percent-- from 7 to 3 cents per 100 cubic feet, the amount of CNG comparable to a gallon of regular liquid gasoline. The state tax on a gallon of gasoline is 7 cents and would remain unchanged.



If the legislature approves the governor's request, the cost for natural gas would be about 14 cents, compared to about 30 cents per gallon of gasoline.

To encourage city and county governments to convert their vehicles, the governor stressed that the state's massive purchasing power was available to them. Many city and county governments already work with the state's department of General Services to save money in the purchase of police and other vehicles.

The average cost of converting an auto to the dual system is \$400. It is estimated that tax and fuel cost savings should average \$100 a year under normal fleet operation. The dual fuel unit can be switched from an old to a new vehicle when the car is sold or traded.

The governor acknowledged that there are some disadvantages in operating on compressed natural gas including the initial conversion cost, the present scarcity of natural gas stations (the state plans to install its own), the relatively limited operating range on a tankful of gas, and the amount of trunk space needed for the natural gas tanks.

"However, the point is--we can start achieving low pollution now, and that outweighs any disadvantages as far as we are concerned," the governor concluded.

# # #

MEMO TO TELEVISION NEWS EDITORS

The accompanying color videotape contains a Report to the People by Governor Ronald Reagan for use AFTER 5 P.M. DECEMBER 22, 1969. It runs 1:44. Please guard against premature release.

Enclosed is a news release---also embargoed for use after 5 p.m. Monday, December 22---containing additional details of the program being announced by the governor.

Following is the text of the taped Report to the People:

"When I took office I promised you this administration would wage an all-out war on air pollution.

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