

California State Archives  
State Government Oral History Program

Oral History Interview

with

**DAVID R. DOERR**

Chief Consultant, California Assembly  
Revenue and Taxation Committee, 1962-1987

February 16, March 9, March 23, April 27, May 11,  
June 8, August 3, September 21, October 2, 1990;  
February 15, March 8, 1991  
Sacramento, California

By Carole Hicke  
Regional Oral History Office  
University of California, Berkeley

**TAX REFORM AND FISCAL POLICY**

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## PREFACE

On September 25, 1985, Governor George Deukmejian signed into law A.B. 2104 (Chapter 965 of the Statutes of 1985). This legislation established, under the administration of the California State Archives, a State Government Oral History Program "to provide through the use of oral history a continuing documentation of state policy development as reflected in California's legislative and executive history."

The following interview is one of a series of oral histories undertaken for inclusion in the state program. These interviews offer insights into the actual workings of both the legislative and executive processes and policy mechanisms. They also offer an increased understanding of the men and women who create legislation and implement state policy. Further, they provide an overview of issue development in California state government and of how both the legislative and executive branches of government deal with issues and problems facing the state.

Interviewees are chosen primarily on the basis of their contributions to and influence on the policy issues of the state of California. They include members of the legislative and executive branches of state government as well as legislative staff, advocates, members of the media, and other people who played significant roles in specific issue areas of major and continuing importance to California.

By authorizing the California State Archives to work cooperatively with oral history units at California colleges and universities to conduct interviews, this program is structured to take advantage of the resources and expertise in oral history available through California's several institutionally based programs.

Participating as cooperating institutions in the State Government Oral History Program are:

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The establishment of the California State Archives State Government Oral History Program marks one of the most significant commitments made by any state toward the preservation and documentation of its governmental history. It supplements the often fragmentary historical written record by adding an organized primary source, enriching the historical information available on given topics and allowing for more thorough historical analysis. As such, the program, through the preservation and publication of interviews such as the one which follows, will be of lasting value to current and future generations of scholars, citizens, and leaders.

John F. Burns  
State Archivist

July 27, 1988



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## INTERVIEW HISTORY

### Interviewer/Editor

Carole Hicke

Director, University of California at Berkeley State Government Oral  
History Program

Director, Pillsbury, Madison & Sutro History Project

Director, Morrison & Foerster History Project

M.A. San Francisco State University (history)

B.A. University of Iowa (economics)

### Interview Time and Place

February 16, 1990

Session of two hours

March 9, 1990

Session of two and a half hours

March 23, 1990

Session of two and a half hours

April 27, 1990

Session of two hours

May 11, 1990

Session of two and a half hours

June 8, 1990

Session of two and a half hours

August 3, 1990

Session of three hours

September 21, 1990

Session of two and a half hours

October 2, 1990

Session of three hours

February 15, 1991

Session of three hours

March 8, 1991

Session of two and a half hours

All sessions took place in Sacramento, California



### Editing

Hicke checked the verbatim manuscript of the interview against the original tape recordings; edited for punctuation, paragraphing, and spelling; verified proper names and prepared footnotes. Insertions by the editor are bracketed. The interviewer also prepared the introductory materials.

Mr. Doerr reviewed the transcript and approved it with minor corrections.

### Sealed Materials

This entire oral history transcript and tapes are sealed until the year 2023 or until David Doerr agrees in writing to unseal the transcript.

### Papers

Mr. Doerr's papers were available to the interviewer.

### Tapes and Interview Records

The original tape recordings of the interviews are in The Bancroft Library, University of California at Berkeley. Records relating to the interview are at the Regional Oral History Office. Master tapes are deposited in the California State Archives.

## BIOGRAPHICAL SUMMARY

David R. Doerr was born in San Jose on April 21, 1933. He attended grammar and high school in San Jose and neighboring Campbell, California. He was enrolled in San Jose State University from 1950 to 1956 and--following U.S. Army service at Fort Lewis in Washington--again from 1958 to 1959, earning his B.A. and M.A. He continued graduate studies at the University of California, Berkeley from 1959 to 1960.

Doerr was employed as a legislative consultant to the State Assembly from 1959 to 1987. Since 1987 he has worked as a legislative advocate and news editor for the California Taxpayers Association in Sacramento. He has also served as a San Jose Unified School District Board Member from 1976 to 1981.

Mr. Doerr has authored numerous books and articles.

[Session 1, February 16, 1990]

[Begin Tape 1, Side A]

HICKE: I'd like to just start this morning by asking you when and where you were born, and a little bit about your childhood and education.

DOERR: Sure. Start at the beginning. I was born in San Jose, 1933, and grew up in San Jose until the war, when we moved out to the suburbs in Campbell, and grew up in Campbell. I went to a very small elementary school. We had thirteen people in my graduating class. It wasn't a one-room school, but it was almost; it had four rooms. Then to Campbell High School; then to San Jose State College. At San Jose State I was active in a great many things, including class president, member of the student council, et cetera. I graduated with a B.A. [Bachelor of Arts] and M.A. [Master of Arts].

HICKE: In what?

DOERR: It was called the social sciences, which was interdisciplinary study of economics, political science, and sociology. And I had two minors, of which one was history, one was physical science.

HICKE: You covered the humanities and then you got a little science in, too.

DOERR: Yes. Which actually served me well when I came up here, because you have to use a lot of skills working for the legislature. So it was



a good background. After that I did additional graduate work at the University of California [at Berkeley], in the political science. And that's about as far as it goes. There's only one University of California. I refused. . . . I hated "Berkeley." It was always "Cal" when I grew up. You know, UCLA was "UCLA." Davis was "Cal Aggies."

HICKE: I guess for purposes of future historians, we have to just make sure that they know which campus we're talking about.

DOERR: Yes, right.

I applied for a legislative internship program in 1959 and was interviewed by the panel, which was a group of ten or so representatives of various institutions. Dean [E.] McHenry was there, I know. Others. It was run by a fellow named J. Doubleday. He was at Berkeley but I believe he's back east somewhere at some school. And I was selected. It was sponsored by the Ford Foundation; they brought up a certain number of interns.

That's a little bit of background. I don't know if you want a lot more or not.

HICKE: What I'd like a little more background on is how you got interested in the humanities, and then how you got interested in the Ford Foundation program.

DOERR: I was interested in it from a couple of different aspects. I'd been interested in politics; I ran for office in college and had been elected to various posts. Well, my grandfather [Fred Doerr] was on the San Jose City Council for twenty years. My great-grandfather [Charles Doerr] was on the San Jose City Council. My uncle [Robert Doerr]

was mayor of San Jose and also ran for the legislature and lost. So I had some family background in politics.

HICKE: Were there discussions of what was going on in your family? Lots of interest in that?

DOERR: Oh, yes. Lots of interesting discussions. Three generations of people in San Jose politics.

Then I became interested in California history and took California history courses when I was in school. I managed to acquire a little collection of California history material which I had, including some books of Franklin Hichborn, who wrote about the legislature after the great reforms of [Governor] Hiram Johnson. So that was always interesting. And then I taught California history in high school for a year.

So I was interested in California history, I was interested in politics and government, and had a background in political science. This looked like it would be an interesting time in my life. When I came to Sacramento, it was a one-year program; I came up here for a year not realizing I was going to stay. I thought I might go back to finish that additional graduate work at the University of California. I stayed. [Laughter]

HICKE: Do you know anything about the background of the Ford Foundation program?

DOERR: They had a goal of trying to improve the quality of the state legislatures, so they thought it would be good to bring up some people who could work in the legislative process and help legislators. Also, the goal was to then provide people with an understanding of how the process worked, who could go back to



teach in the universities or et cetera, et cetera. It was intended to help the legislature as well as broadening the understanding of legislature. It was also intended to increase legislative capabilities in analyzing and dealing with important issues, and giving young people experience with legislative activities that might be helpful in future careers such as teaching, et cetera. So it was a good program, and they paid a stipend which was enough to live on in those days. It wasn't a lot. So I decided to make the move to Sacramento.

HICKE: I want to hear about what you did, but before I forget, I want to also ask if there was any kind of oversight by the foundation itself, or foul-up.

DOERR: Yes, there was. We had, as I say, this person named J. Doubleday. We'd have maybe weekly--or maybe it was every two weeks--we'd have kind of a . . . We'd set aside a morning for what we'd call a seminar, which would more often or not be either hearing somebody like [Controller] Alan Cranston, who was in the State Board of Control, or [ ] Bill Bennett, who was an attorney with the PUC [Public Utilities Commission]. Various people talked and we'd ask them a lot of questions, or we'd have discussions among ourselves of the legislature and what we were observing, and what could we draw from that; was there anything, any trends, kinds of conclusions that we could draw? And we had to do a paper for the project, of some aspect of what we did. I remember, in my paper, I set out to prove that state buildings were being designed by the legislative analyst's office, curiously enough. Which I think I made a pretty good case for. My first assignment with the legislature--a study of



the Division of Architecture--let me go later to the study. And then at the end of the internship period, we had a retreat at Stanford where we kind of summed up what we'd learned, and again a number of legislators came down with us. [Assemblyman] John [A.] Buserud I remember specifically. Then after that, of course, they've had intern classes every year since.

So in the early years, I used to know all the interns, and in later years just the ones that were close to our operation. We usually had an intern for all the time I was there. And you keep in touch with these people. You get to be close. I think they've had a couple of reunions, where everybody got together from all the different classes.

HICKE: Oh, really? Who was in your class?

DOERR: My class? [Louis] Lou Angelo, who is still working with the legislature right now. He's with the Senate. [Richard] Dick Day, who was a judge in Sonoma County appointed by [Governor Edmund G., Jr.] Jerry Brown, but he got booted out because people thought he was one of Jerry Brown's judges. [ ] Bill Culver, who did work for the Senate, worked for legislative analysts, worked for Alameda County, and I think he's semi-retired. I think [Senior Vice President, Academic Affairs] Clive Condren still works for the University of California in the headquarters office. Well, I don't know; I haven't seen him for a long time. And several others that I really kind of lost track of.

HICKE: OK, now let's find out what you did when you were there. Well, you told me one thing you did, but maybe you could elaborate on that a little bit.

DOERR: When I first came to Sacramento?

HICKE: Yes, while you're on the foundation.

DOERR: Yes, this was the first year.

HICKE: This was '59.

DOERR: '59. I came up here in September '59, which was. . . . This was really an exciting time in Sacramento, for a couple of reasons. Because you had for the first time in '59 a Democratic governor [Edmund G. Brown, Sr.] and Democratic legislators who were generally sympathetic to the governor's programs, which I think you'd have to go way back before Hiram Johnson's time to find that same thing, because in the [Governor Culbert] Olson four years, he had a legislature that basically was not sympathetic to what he was doing. So it meant quite a bit of change, quite a bit of activity, and I was just coming in on it. I missed the first part of 1959 when it started, but got to Sacramento in September, so it became familiar listening to people describe what went on during the first session. The second thing that was happening, of course, was, in addition to this, the legislature was just pulling out of the so-called [lobbyist Arthur] Samish era, so that was still a significant issue.

I came up to Sacramento and interviewed with [Assemblyman] Ralph Brown, who was the speaker. He was a brilliant and shrewd man, but his appearances were deceiving because he was kind of down-to-earth. Kind of a country-type person. When I first went in to see him, he had his feet up on the desk and was very casual. That's when I was told about the Ralph Brown rules.

HICKE: Well, let's get that on tape.



DOERR: Yes. He gave me advice for my period in Sacramento, which I have termed the Ralph Brown rules, which were (1) you shouldn't take more from a lobbyist than you can eat and drink in a day; (2) you should not speak ill of members of the legislature; (3) and you should not fool around with the secretaries. You never knew what the relationships were. That was the surest way to get into trouble--fool around with a secretary that a member had his eye on.

HICKE: How did he happen to tell you this?

DOERR: I don't know. We had a good relationship, so when I first came up here, I started working for him before I got assigned off to a committee.

HICKE: Oh, you did?

DOERR: And I don't know why. Maybe he just kind of liked the fact that I was different from the others, in a sense.

HICKE: How were you different?

DOERR: I had come from basically a country background. My little four-room school, and so forth. The first thing he did, interestingly enough--I didn't work for him too long because then I got assigned to a committee--he put me on a project working on lobbyist controls. Which was very advanced for its time, because we were still pulling out of the Samish era, and of course that was still an issue: how do we control lobbying of the legislature? There wasn't a great deal in place then; much of it's come later, and some of those ideas that have come later were the ideas that we talked about and worked on during those first weeks I was in Sacramento.

It was really interesting when you compare then to now. He had one person who was [administrative] assistant to the speaker

whose name was [Francis] Frank Ruggieri, and he had two secretaries, Bette Coffey and Edith MacNair. That was the extent of his staff. And I was there too. So in view of what we have now, it was a very different time. We had the office that was right over the north entrance to the new wing, on the third floor. That was pretty much the speaker's office until they redid the Capitol and refurnished the old one.

So I did that work, which really didn't get anywhere because it was just far before its time, so to speak. But I became interested in that. What I tried to do--and I have it probably somewhere, but I don't know where--I tried to figure out who were the Samish legislators and who were the so-called anti-Samish legislators.

HICKE: That was not well known?

DOERR: Well, it may have been well known to members, but it was not outside of the legislature. I tried to go through a number of roll call votes, see if I could develop some patterns to identify them. Even though I mentioned the Democrats had taken control, it was not as partisan a place as it is now. If anything, the battle lines were formed on the good government group versus the Samish group--the remnants of the Samish group. And Ralph Brown, of course, was a member of the good government group because they had gained ascendancy and put him into the speakership.

HICKE: Who else was in the good government group?

DOERR: Well, that's what . . .

HICKE: That's what you were set to find out.

DOERR: Yes. [Assemblyman] Jesse [Unruh] was in the good government group, I do remember that, and then the person I was assigned to



was, too. His name was [Assemblyman] Gordon [H.] Winton [Jr.]. And [Assemblyman Robert W.] Bob Crown. But I have that study somewhere. I thought it worked out pretty well, because as I began to observe and hear things, they began to reinforce my study. I came to the conclusion that the good government group generally tended to be what you might call middle-of-the-roaders, in both parties. Your extreme conservatives and your extreme liberals tend to be the Samishites.

HICKE: Is that right? What was the connection between Samish and the extremes? I mean, why both extremes?

DOERR: I don't know. I don't know. I could speculate that part of it probably had to do with money. For the liberals, Samish himself, as I recall, was a liberal, a classic liberal, in a sense, although he demanded loyalty on things he wanted you to vote for, such as alcoholic beverage issues to benefit his people. But then he would help a member of legislature get through something, like on United World Federalists, or something like that. He would help them do that. Now, conservatives, I suspect, were motivated by the connections to Mr. Samish's business clients. I mean, I don't know of any other way to try and rationalize out why that would occur. But what occurs to me is that Samish helped out the liberal elements on the side, but also had big business clients that naturally appealed to conservatives.

HICKE: So liberal and conservative weren't the dividing lines; they were really irrelevant.

DOERR: In those days it was pretty much. . . . This doesn't apply to all the issues in the legislature, because Pat Brown had his programs, and

of course, those tended to get partisan. But in a lot of the issues that came up that would be where the Third House would have a say. The leadership fights during that time were basically between the Samish and the good government forces. Ralph Brown was in with the good government coalition. [Assemblyman] Caspar Weinberger, although he wasn't there in 1959, in the years before that, was a member of the good government coalition.

[Assemblyman] Luther Lincoln was too. A number of what we considered moderate Republicans. I think one legislator went to jail in the mid-fifties. So now they talk about it in terms of the [Assemblyman Joseph] Montoya trial. The last time that somebody's gone to jail was during this aftermath of the Samish era in the fifties. So it was an issue that pervaded the legislative atmosphere in 1959.

HICKE: That was quite some time after his decline and fall, though, wasn't it?

DOERR: Yes, his decline and fall were in the early fifties, but there were still a lot of people that in effect he had brought to Sacramento that he'd supported. . . . I'd say that this was the tail end of it, 1959, when I got there, because by the time Jesse Unruh became speaker, then it came to be more partisan. So Ralph Brown in a sense was the last of the nonpartisan Samish versus good government types, in terms of being elected speaker. We got off track here.

HICKE: Yes, we were talking about Ralph Brown, actually, and what you were doing for him.

DOERR: So I did this work on lobbyist control that I'd have to say nothing came of it, because it just wasn't ready. . . . Except maybe the



identification project, which was for my use, not his. But I gave him some thoughts about it.

HICKE: You actually did draft legislation?

DOERR: Yes. And I've kind of forgotten what was in it, but we had registration of lobbyists and reports and things that came, but they were still not ready for it at that time.

So then I was assigned to the Committee on Governmental Organization, which was chaired by [Assemblyman] Gordon Winton, who was kind of a key ally of Ralph Brown in terms of his good government group, because he was from Merced and Ralph Brown was from Modesto. So it was kind of a plum, but the biggest plus for me was the fact that there was no other staff there. The man who had been there had been drafted. So not only was I the intern, I was the chief consultant. [Laughter] So immediately, here I was in charge of a legislative committee in terms of staff.

The other aspect of it was that Mr. Winton was also the chairman of what was called a joint committee. We still have those now, but it was a committee of members of both houses that were formed. This was the Joint Committee on the Public Education System, which was established by the legislature in response to Sputnik. I remember Sputnik and the cries that, "Wow, the Russians have this thing that's going over, and something needs to be done to improve American education because we're way behind." So they set up this big commission. For a citizens commission [Citizens Advisory Commission], I'd say that was one of the few that ever really received a lot of notoriety and really had an impact in terms of the end product.

HICKE: This is different from the joint committee?

DOERR: The joint committee was formed, and they appointed the citizens commission.

HICKE: Oh, I see. OK. Citizens Commission on Education, or something?

DOERR: I've forgotten what we called it. And I gave all that stuff away, I'm sorry to say. Because that was not related to taxes, it was on education. I may have kept a few things that were personal to me. I worked with the government organization committee and did work there, and then I worked for the citizens committee because I was working. . . . It's the same chairman; he was just using me to do work in both areas.

HICKE: Who else was on the citizens commission? Do you recall?

DOERR: It was headed by a dentist from Glendale named [ ] Lawler. There was an attorney in Sacramento named [ ] Gil Rowland that I worked closely with because we were on the textbook study committee. I don't remember many of the parties on it. It was composed of citizens.

HICKE: Did it do anything?

DOERR: Oh, yes, it did a lot. It issued a report that was the basis for a lot of legislation in 1961 that really changed public education. The CTA [California Teachers Association] was just livid, and they lost. And it's rarely the CTA gets beat in the capital, but they lost all the way along the line. Some of the recommendations that were adopted, of course, they've been reversed. They mandated teaching of foreign language in elementary school; they mandated that P.E. [Physical Education] coaches couldn't become administrators. Everybody said there's too many coaches being administrators, so



the legislature put through the bill to stop that. Of course CTA was going crazy. In my particular area of expertise, I did the studies for textbooks for the commission. At that time the state was printing textbooks and giving them to the elementary schools, and they were no good. They were just no good.

HICKE: How did you know this? How did you know they were no good?

DOERR: Because we went around and talked to the schools. What they did was used them--I think I put in my report--they were using them for doorstops and this and that. They'd stack them away and they'd spend their local money to go out and buy a good textbook. Because they had this one textbook from the state, and it had to be printed at the state printing plant. You see, that was the key. It was a make-work thing for the state printing plant. So most of the textbook publishers wouldn't send plates for the textbooks to the state printing plant for them to print the books.

HICKE: Why?

DOERR: Because they wanted to print them themselves.

HICKE: Oh. Financial or other reasons.

DOERR: Yes. They wouldn't let the state print them.

HICKE: So only somebody who was desperate, without the . . .

DOERR: Yes. So all the major textbook companies said, "No thanks, we're not interested in giving up our plates to you to publish our books." So schools had. . . . The choice was a narrow choice rather than a large choice. So we put in the idea that school districts had a right to not take the state books, have what we called multiple selection of textbooks from a state-approved list.

HICKE: This was in '61?

DOERR: Yes. From a state-approved list. So we in effect, the state. . . . Of course that's a real old and long-gone issue, but it was really hot then. And the Sacramento Bee editorialized against me at that time. Because they were just livid; they could hardly contain themselves. So I was really upset.

HICKE: Why? Because local printers would lose business or something?

DOERR: Yes, it was a Sacramento. . . . We were attacking the Sacramento industry here, the local printing plant. It was these awful out-of-state textbook publishers that were trying to put the printing plant out of business. But we got support of the teachers, and that was one where we did have the support of the education groups.

HICKE: Is it always when you hit people in their pocketbooks that they cry the hardest?

DOERR: Yes. I published a report on that somewhere around here.

HICKE: That was well done.

DOERR: On textbook selection practices. And we got that practice changed.

So part of my time during this initial period was working on this joint committee. The other part of the time was working for the committee I was assigned to, which was government organization, which didn't have a consultant. Now, that committee had. . . . This goes back to our Samish discussion. We handled alcoholic beverage control issues, which was, you know, the Samish bread-and-butter stuff. So this was in the hands of the good government group. I had to get involved in the alcoholic beverage control issues and meet these people. We also handled horse racing, plus government organization. As I mentioned, in the beginning of 1960, Governor Brown, who was kind of competing with Governor



[Nelson] Rockefeller in New York, decided he had to have a government reorganization plan because Governor Rockefeller had one, and produced this big agency plan for California.

[End Tape 1, Side A]

[Begin Tape 1, Side B]

HICKE: You were just saying you did a lot of work but it was not adopted?

DOERR: This agency plan was not adopted. It became a partisan issue. This was just another layer of the government being imposed on the bureaucracy. But [Governor Ronald] Reagan implemented it by executive order in 1967, so it did become law, but not under Pat Brown.

HICKE: Well, it must have been a power issue because I think one of the things it was supposed to do was give more power to the governor?

DOERR: Yes. So that was part of it. There were various reasons why it wasn't adopted, and that was one of them. So our committee at the time was heavily involved in that.

Then, at the time, we were on a system that we called biennial sessions. The regular session legislature only met in the odd-numbered years. The even-numbered year was a budget session, and then you'd have a call by the governor of the special items he wanted the legislature to consider, one of which was this agency plan. We had a number of other issues--and I've kind of forgotten what some of them were--in 1960. So it did allow some time to really become familiar with the budget process and watch the Ways and Means Committee work, because I was still trying to be the student as well as the acting consultant, as well as consult for the

education group. This is why I got to watch Jesse Unruh in action, which is just the best theater that anyone ever had at any time during this whole process, when Mr. Unruh was chairing the Ways and Means Committee. There's a whole series of tales there. I think this would be the appropriate time to. . .

HICKE: OK, we'll stop here.

[Interruption]

OK, so we're going to go back to the Division of Architecture.

DOERR: My first assignment with the government organization committee was to study the Division of Architecture from several standpoints. One was that there was concern that the costs of architectural services to the state provided by the division were in excess of those that would have been charged by private architects. Secondly, there was concern that the quality of the division's work was uninspiring at best and was absolutely shoddy at worst.

HICKE: That was a particular problem with San Jose State [College]?

DOERR: Yes. In fact, I eventually took the committee down to San Jose State to have a hearing on the campus and tour the buildings. The library was so poorly designed they had to close it, because the floor was sagging. There were a number of other just total defects. I did a lot of interviewing in the study; I went around and interviewed various state agencies, none of which were happy with the services they were getting and the costs they were being required to pay.

HICKE: For architectural design?

DOERR: This was something you could kind of measure. Usually what they charge. . . . Private architects usually charged a fixed percentage of the value of the project, so we could see what the state was



charging vis-a-vis the value of the buildings they were putting up, and make some rough comparisons which generally were, the division was charging more as a percentage of the project than the private architects were charging. So that was kind of interesting.

HICKE: Were these architects actually state employees?

DOERR: Yes, they're state employees with the division.

HICKE: It was not contracted out.

DOERR: No, very few are contracted out. We did find, though, they had a few projects they did contract out, and they seemed to be all going to one person, who was not highly qualified--I won't say incompetent--who was a former employee and a crony. So we had to expose what we thought was poor judgment on the part of the department in doing that.

HICKE: He was a crony of whom?

DOERR: Crony of the incumbent state architect and the others in the department.

HICKE: Who was the state architect, do you know?

DOERR: It was a man by the name Anson Boyd, who was the state architect. He was a typical unimaginative bureaucrat. He has defaced California with some of the worst-looking buildings ever conceived. He would have been good working for [Soviet leader Joseph] Joe Stalin. It's the style of architecture he's put up.

HICKE: Do you know any buildings offhand?

DOERR: Some of the state college dormitories are good examples. They're just dreadful, Stalin-like buildings. No imagination, just concrete bunkhouses.

So anyway, as a result of the study, we managed to hitchhike a provision on the Master Plan for Higher Education.<sup>1</sup> State colleges at that time were required to use the services of the state architect to design state college buildings. In 1960 one of the big issues was the Master Plan for Higher Education, where the roles of the various segments of higher education were spelled out. The university would have its graduate schools; state colleges would be primarily undergraduate, although they would have some graduate work, but not the professional schools. Community colleges would serve a two-year function. Probably most importantly, something that's rather interesting is that they put a control on the establishment of new campuses. Part of that time it was like an arms race. Every member thought that they had to have a college campus in their district; you know, that that was pork that they'd bring home. So there were all these bills to establish all these colleges around in almost everybody's district, so they had to put a stop to it. That was one of the key things of that plan. In fact, a number of the colleges that were authorized were never built. They had a state college authorized for San Mateo County, for example. One for Contra Costa County. Those were never built because of the Master Plan.

But in any event, when the bill got over to the Senate, on the Senate floor, we came out with some of the findings that we had developed in the study and made a major push and got an amendment inserted which provided that the state colleges did not

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<sup>1</sup>. The Donahoe Higher Education Act, S.B. 33, 1961 Reg. Sess., Cal. Stat. ch. 391.



have to use the services of the state architect. So in effect we booted the state architect out of design and construction of state colleges and improved the aesthetic quality of California campus life for generations and generations and generations. This was my very first study, so I have a soft spot in my heart for the architecture study.

HICKE: Wouldn't other state departments want to do the same thing, then? Get rid of this requirement to . . .

DOERR: Oh, I think so. Yes. They had a huge fight; it was not an easy thing to do. Again, the Sacramento Bee just went crazy because it was a hometown industry being savaged. Senator [Albert S.] Rodda, my good friend Senator Rodda, just had a fit. He was just beside himself. He had to vote against it, as I recall--the whole Master Plan for Education, because we'd amended this rider onto it on architectural design. So it was not an easy thing to do, and to get it beyond the state colleges was just very difficult. So we felt that was a major accomplishment.

HICKE: Indeed. That really makes me interested, though. I wonder how many times people vote against a bill for one very minor provision--or maybe it wasn't minor, but one part of it.

DOERR: It happens, I wouldn't say often, but it happens, because something that's important to their own district is inconsistent with the bill. They have to vote against the whole thing.

HICKE: That's very interesting. Do you recall what campuses have been built since then?

DOERR: There've been quite a few since 1960. I think there've been quite a few state colleges built. Because there have been. . . . Even the

ones that were there had a lot of new buildings added. I know they have at San Jose, and they have here at Sacramento.

HICKE: Was that Student Union at San Francisco State built after that?

DOERR: I'm not familiar with that building.

HICKE: That's really unusual in shape. It probably must have been built after, because it doesn't sound like your description of what he built. It's got a slanted roof . . .

DOERR: I don't think too many student unions were built before that, as a matter of fact, because of the needs at that time. They were busy. They still had quonset huts on campuses. It was after the war and they never had enough money to build what they needed to build.

That leads us, I guess, into the Ways and Means Committee.

HICKE: Well, let me ask about the other things. Was night harness racing of any importance? That was another one of the issues.

DOERR: There was a big push at that time to legalize night harness racing in California, which had not been legalized, so I had to prepare a study of that. You were in effect in the middle of two very powerful, competing special interests, which is what happens a lot in Sacramento. Two groups that have a big economic stake get into a battle that goes into the legislature. So this was where the night harness racing people wanted to establish themselves in California as they had in New York, and of course the thoroughbred interests didn't want them here at all because they felt that that would be competition that would hurt their interests. So I did the study, and the study was kind of irrelevant to this power politics issue. The tracks kept out night harness racing for a number of years. Finally they got in, but it wasn't at that time.



HICKE: What did you find in your study?

DOERR: I found basically that where it had been introduced, it had led to corruption.

HICKE: So you would have recommended against it anyway? If you'd made a recommendation.

DOERR: Yes. I didn't even make a recommendation. One of the expressions that goes around the Capitol is: "When the elephants are mating, the smart monkeys stay in the trees." When you have two huge special interests like this, I thought I'd just lay out findings and not try to make recommendations. Which is sometimes necessary for survival.

HICKE: I think the other issue was something to do with athletics sponsored by liquor interests. Do you recall that one? That was the other one before your interim committee.

DOERR: Oh, gosh. I kind of remember that. We had several important liquor issues, and again, these were sensitive issues because of the legacy of the Samish era. I've forgotten that issue.

HICKE: And then one more thing. When Governor Reagan finally implemented this reorganization plan, what were the implications of that? I mean, what were the implications of the fact that Brown didn't get it and Reagan did?

DOERR: It was just interesting that the Republicans who denounced it during Brown's time didn't have much to say because it was their own candidate, and now governor, who was doing the very same thing. It was kind of typical of Ronald Reagan. When we get to Reagan there, I'll have a lot to say, because he was the most duplicitous person I've ever known. He would do one thing and give everybody

the impression that he was doing just the opposite. He would rail about high taxes and raise taxes higher than anybody else in history. He would talk about economies in government and spend money like it was going out of style. It was almost like it was a cover: "Hey, I can get away with all this stuff." In fact, just talk and telling people we're going to do the opposite. As I've watched his career, it's been pretty consistent; what he's saying is not matching what he does. I think this is one example--denouncing this and then putting it into office, and then telling everybody it's a big savings and more efficient and all this thing, which nobody believed. What it was, it was more patronage. He had more exempt positions that you could fill at a high level with appointees.

HICKE: So again, more power to the governor.

DOERR: Yes. The argument was that there are too many departments and you had to filter the information up through them, but I'm not sure that was the case.

HICKE: Was it more of a battle against the legislature force?

DOERR: Well, I think it was more symbolic than. . . . But it had the patronage aspects. Sounds good to reorganize government--"We're going to make it more efficient, so here's something symbolic we can do," particularly if we're competing with New York. It is a political plus to convince the people that what you're doing is promoting efficient government.

HICKE: When in fact you're promoting yourself.

DOERR: Yes, exactly. So I think there was a study that came later showing that. . . . Maybe it was the Little Hoover Commission--I don't remember who did it--that was very critical, and they almost



repealed the agency secretary concept at one time. But that was a big issue during that 1960 period.

So we go to Ways and Means?

HICKE: Yes, OK. Let's do the Ways and Means now.

DOERR: This was one that was just a pure delight. It was great theater to watch Jesse Unruh run the Ways and Means Committee; he was just a master politician. There was so much levity. A number of the members had great senses of humor; there was just this bantering back and forth all the time. Everybody went there, and for three or four hours were just in stitches.

HICKE: Who were some of the other members that were in this?

DOERR: I'm trying to think. [Assemblyman] Bert DeLotto. [Assemblyman Thomas M.] Tom Rees was, I believe, there. I think [Assemblyman Jerome R.] Jerry Waldie was there. It's hard to remember the members of that committee.

HICKE: That's OK. I just wondered if anybody stood out in your mind.

DOERR: One that stands out was [Assemblyman] Bruce Allen. Bruce Allen was a liberal Republican from Santa Clara County who was very straight, I guess for want of a better term. High integrity, et cetera, et cetera. He used to blow his cork all the time in Ways and Means because of the way Jesse was running the committee. In those days you did not have roll call votes, so they'd have a voice vote and there'd be a chorus of nays and a few ayes. Jesse would say, "The ayes have it! The bill's out." Or just the opposite. There'd be a chorus of ayes, a couple noes--"The noes have it!" Bruce Allen would go crazy, and say, "It's outrageous!" Jesse would look at Bruce Allen and say, "I'm sorry, Mr. Allen, but my hearing in my left

ear is just a little weak." The battles those two fought in that committee that year were just. . . . It was very interesting.

One of the things that I noticed--and this was what I was going to get to--the paper I did concluded the legislative analyst was doing a lot of design work for state buildings, which was one of the problems the Division of Architecture was having. As I did my architecture study, I could see that part of the problem was their lack of imagination. And part of it was the fact they didn't have any guts to stand up to the legislative analyst. But you had a budget process where you'd budget for buildings in segments. So the department would come in with a request for half a million dollars for the new cafeteria at San Diego State [College]. Let's use that, because I remember that was one at the time. So the budget itself is reviewed by the legislative analyst every year. The legislative analyst puts out a book, which includes their recommendations, on a line-by-line analysis, of the governor's budget. The capital outlay provisions would say, "We cannot recommend approval of this item because we have not had a chance to study the working drawings."

As I began to talk to people about what was going on, it became clear to me that what the analyst was doing was taking those working drawings and saying, "I want to see this, this, this, this, and this. This is the way we need to do it, or I'm not going to recommend that we could go forward," and the committee was for some reason backing up the analyst: "Well, we can't take that item. I'm sorry, Mr. So-and-so, we can't take that up; the analyst hasn't provided a recommendation yet." So they were able to exercise



their power of recommendation to the committee to strong-arm the departments and the Division of Architecture into designing the buildings the way they wanted to see them designed. Which was an outrageous misuse of staff position. That's not what they're there for. If anything, what should have happened was they should have taken issues to the committee saying, "They want to do this, and we think it ought to be done this way," and allow the committee to make a decision. But here they were forcing the issue back down to the staff level and saying, "Well, we just won't recommend approval until you do it our way." And they got away with it.

So I wrote this little paper that never was circulated. Nothing ever happened. The paper wasn't for the legislature. This was for an academic part of our internship year.

HICKE: And that went to the Ford Foundation or somewhere?

DOERR: Yes, it went somewhere. It went to the University of California, the Ford Foundation--I'm not really sure where it went, but I submitted it as part of the work, to show, based on the conversations and certain records I'd uncovered in the study, how the budget process worked. And this really, I think, demonstrated that this was what was going on.

HICKE: Did you ever think about publishing it, or. . .

DOERR: I didn't. I probably have it somewhere, but I don't know where it is. It's one of those things. Maybe at home. Because I don't throw things away. I get criticized for not throwing things away, so I know I wouldn't have thrown it away, but I'm not sure where I could have put it.

HICKE: I meant at the time, would you have considered publishing it?  
Because it really was kind of important.

DOERR: Yes, I guess I didn't feel secure enough in my position. Because here I was critical of the way the institution was operating. It was critical of the legislative analyst's office, somewhat critical of the committee for letting that go on, and critical of the departments for not having the guts to stand up and say, "Hell, no," and going to the legislature and blowing the whistle.

HICKE: Was this problem ever overcome?

DOERR: As I got into the tax arena, I lost track of the problem. It could still be the problem; I don't know. It would be interesting to look and see what they're doing now. This was just a snapshot in time, and I came to that conclusion. Then I went on to other things and never came back to that issue.

I remember one issue that just got a huge amount of attention. [Assemblyman Charles B.] Gus Garrigus, who is now the state poet laureate, was a member representing the Fresno area. He was trying to get air conditioning in the dorms at Fresno State. There was just this huge battle. Jesse wouldn't let him have them. There's some great material on that, that kind of filtered out, giving people a better idea of how the process worked. Garrigus wouldn't go along with Jesse on some things he wanted, so Mr. Garrigus took the fight to the floor.

HICKE: Jesse was retaliating?

DOERR: Yes.

Then there was another issue that . . .

HICKE: How did that turn out?



DOERR: Well, he lost, of course. I think eventually they did get them, because they just couldn't operate down there during the summertime without air conditioning.

That was also the year the Winter Olympics was in Squaw Valley, 1960, so it was a big event for the legislature, because Sacramento was the closest metropolitan area. The Olympics was an issue in the same budget. It was the issue how much the state should pay for the Olympics, because the state was being asked to make a sizable contribution. This was touch-and-go for quite a few months, whether or not the state was going to put up money, and how much. As I recall, Democrats generally wanted to put the money up, and Republicans didn't. But the Republican leader at that time was [Assemblyman Joseph C.] Joe Shell, whom I consider one of the unsung persons in terms of California history.

HICKE: Is that right?

DOERR: He's a very conservative man, but a man of just a tremendous amount of integrity. He was minority leader, and he went out on a limb, took the position that the state had an obligation to help out in financing the Olympics. So it was his stepping forward and in a sense breaking ranks with his colleagues, of whom he was the leader, and saying, "This is something that's important; we ought to do it," that broke the logjam that year and got the money to the Olympics. And he then eventually became maybe better known.

He ran, then, against [former Senator and Vice President] Richard Nixon in the Republican primary for governor, 1962, and in effect pointed out all the so-called Nixon flaws that everybody's now aware of. [Laughter] Here's this man out there--really out on a

limb because everybody is kind of conceding the election to Nixon--running this kind of shoestring campaign because he didn't have a lot of money even though he was minority leader. And of course he didn't win, but he did get about a third of the vote, which was very damaging to Nixon. I think that helped contribute to the defeat at the hands of Pat Brown in 1962. It was the efforts of Joe Shell in the primary to take the nomination away from him. Anyway, he was the minority leader in the assembly in 1960.

HICKE: Can you remember anything else about him?

DOERR: He was a former football player at USC [University of Southern California]. Played in the Rose Bowl.

HICKE: Why is he your unsung hero?

DOERR: When you've been in the business and watch what goes on, this integrity can be a rare commodity. He just was unusual in that respect. Although I'd have to say during those years you would find a lot more than you do now. There were lots of world-class people in the legislature in the sixties. In fact, I would say that was the high-water mark of the legislature, was the sixties, and maybe the late sixties in particular. And at the end--I'd say the end of the decade, it's been downhill since then. Probably for three reasons, maybe four.

One, I think Jesse in 1966 put on the ballot the full-time legislature thing. I think that has had an unintended effect of putting in political hacks. Two, I still have a belief that there are men for the times, so to speak. Or women for the times. In other words, would we be seeing what's happened in Eastern Europe without [Soviet President Mikhail] Gorbachev? You might argue,



well, it would be another person doing the same thing. Maybe not. But at that time, you just had giants, just giants who could never be replaced. Jesse would be one, of course. [Senator] George Miller, Jr., from Contra Costa County, was another. He died in early '68. Right. Early '68. I'll talk about him later, but he's a giant. Some of the other people we've been talking about, either gone or close to gone, like. . . . [Assemblyman John G.] Jack Veneman was another, who left in '69. Jerry Waldie.

Then another factor, I think, was reapportionment. Mid-term reapportionment due to the one man, one vote forced. . . . The senate used to be representative of counties until 1966, when the [U.S.] Supreme Court said that you have to be representative of the people. I think the switch to some extent just didn't bring the same quality of people to Sacramento. I think it's hard. . . . In a metropolitan area where nobody knows who you are, you rely more on political machines, so to speak, rather than stature of who you are and what you've done. It's hard to be visible.

[End Tape 1, Side B]

[Begin Tape 2, Side A]

DOERR: It's difficult. There are exceptions, but as a general rule I think that the stature of the folks that came after was not the same as the ones who preceded it. You could just go down and look at the names, and everybody says, "Yes, these were the great senators." And then, there was a big overturning in the Assembly.

HICKE: The reapportionment?

- DOERR: Yes, because the members ran for the Senate seats, you had a wash of new people coming into the Assembly at the same time. I guess that would be 1967. A lot of them ran from the Assembly for the new Senate seats.
- HICKE: So you get a much more inexperienced Assembly but a more experienced. . .
- DOERR: Well, no, not . . .
- HICKE: Well, not more experienced senators either, because many experienced senators were forced out.
- DOERR: Yes. There may have been a lot of factors working, but I've tried to figure out why; it could be just the change in the times that people have noticed in our society. The so-called "me first."
- HICKE: Insider trading and that kind of thing?
- DOERR: Yes. There's a lot more mendacity in all elements of society than there used to be--at least perceived, anyway.
- HICKE: That's what I often wonder--is it just that it's perceived?
- DOERR: So we were talking about Ways and Means Committee, 1960.
- HICKE: Yes. Do you have any examples of Jesse in action?
- DOERR: I probably do at home. I wish I'd kept a diary and wrote everything down, which I never did. I used to clip things once in a while, stick them in folders, but they're probably at home. I remember one--this one comes to mind.

At the time, there was a big fight over the state disaster office. Everybody thought they were a bunch of nuts, because they were the folks advocating that people go out and build bomb shelters at the time. So Jesse didn't like them at all. . . . The disaster agency. Thought they were a bunch of useless people.



HICKE: The whole group of them?

DOERR: Yes. So he decided one day to eliminate them from the budget. Which he did. He had it all wired. So-and-so made the motion: "I move. . . ." "Seconded." Bango! The budget is eliminated to zero. And that was that. Then [Assemblyman Carley V.] Porter came up to him and asked him, "What did you do that for?" He says, "I just wanted to see how they would react in the face of a real disaster." [Laughter] Which is one of the great quotes of Mr. Unruh.

HICKE: That is good. That's terrific.

DOERR: But there's lots of things like that going on at the time. I got to know Jesse better at that time. We worked on some projects and as we went along I got to really know him very well. That will probably come later as we go through the sixties, because I became fairly close to him, had a good working relationship, did special projects for him, went around the state working on a couple of things with him.

HICKE: Just in general, what are your recollections of him? Your impressions of him?

DOERR: I think he was a great person. He had a quality of leadership that you would see in terms of inspirational kind of leadership. He just had an aura. People listened to him; he was very smart. Very smart, but he was tough. He was able to survive in a political atmosphere to achieve things that have not been achieved since, in terms of good public policy. We needed to have someone that's smart, could inspire others, and was tough enough to get the job done. He had all those qualities. He made some mistakes, of

course, like locking up the Republicans one time; I remember that.  
[Assemblyman William T.] Bagley slept in the ladies' room.

HICKE: Bagley did?

DOERR: Yes. But he was certainly somebody that we'll never see his like of again, I don't think. He probably couldn't get elected these days. He had that problem in running for governor; he just didn't have the image.

HICKE: Were you involved in the lockup at all? Were you around?

DOERR: Yes. I was there.

HICKE: What are your recollections of it?

DOERR: Well, it was over the budget. Jesse wanted to get a vote on the budget. The Republicans were refusing to vote for political reasons, and he decided, well, the rules say that you have to vote--which has never been enforced--but there is a rule saying you have to vote, be called to the bar, enforced. But the rule that they have is that you close the doors and bring in the absent members; that's what that means.

HICKE: The call?

DOERR: Yes. That's routine. They do that every day. So it's not a question of doing it. They lock them up every day. It's a question of having to have them extend overnight. But he was just trying to get the budget out. It was just wild, I mean, it was. . . . I remember wandering down there; it was like a circus, the decorum. Lot of people stood out on the balcony. I remember they could open those windows. [Points out the window to the Capitol]

HICKE: That round part?



- DOERR: There's a little. . . . See, there's the granite part and then the white part. Well, right there is the balcony.
- HICKE: Where the flagpole is.
- DOERR: No, on the north side here.
- HICKE: Oh, OK, in this wing. Yes, I see.
- DOERR: See, and there's a balcony that juts out over. . . . And you can slide one of those windows open and go out on the balcony. So I remember sitting out on the balcony with members that night, just listening to the chit-chat. It was fascinating; everybody was just talking about all kinds of things.
- HICKE: People were angry?
- DOERR: No, it was more like this was kind of an event. I don't remember people being angry.
- HICKE: No?
- DOERR: No. Not at all.
- HICKE: I guess they had dinner sent in, and so far they. . . . The Democrats couldn't go out.
- DOERR: Yes, they had dinner sent in, and there were places people could catnap. I've stayed up all night working over there more than once on projects, so it was not that unusual. But the press thought, "Boy, this is going to be great," so they played it for all it was worth. I believe that was at the same period where Jesse and the governor were feuding, because by that time Governor Brown and Jesse had begun to split apart. And of course the Brown administration made sure that all their friends in the press corps gave it to Jesse as best they could. There was just a guerrilla war going on between the executive and legislative branches at that time.

HICKE: Aided and abetted and probably promoted and finished by the media, is that right?

DOERR: Yes. In fact, I can tell you that I knew some reporters were doing this. They'd come in and tell either Jesse or Larry [Margolis], because I saw it happen, "Governor Brown called you a so-and-so." They would get a nasty comment back and they would take that one back downstairs.

HICKE: Oh, you're kidding.

DOERR: "Do you know what Jesse Unruh said about you today?" "He did? Well. . . ." So if there was nothing happening between the two sides they'd go in and promote the fight by making up a quote to get a reaction, and then taking that reaction down to get the quote back that they made up in the first place, or close to it.

HICKE: Oh, no.

DOERR: Yes. Because it was good copy. It was disgusting in a way, but that's the way some people in the press were behaving. I guess we're getting kind of ahead of the story here.

HICKE: Yes, well, that's OK.

DOERR: We're still about back in 1960.

HICKE: Yes, you were just finishing up with your recollections of Jesse in general, so in 1960 you were still on the Ford Foundation when you . . .

DOERR: Yes. This was my recollections of Jesse at that period. So I'll have more recollections of Jesse later.

HICKE: Yes, whenever.



DOERR: That was my first exposure to him, and it was just fascinating, that period in the Ways and Means Committee. How the committee operated, and what happened, and the way it happened.

HICKE: You were still on the Ford Foundation?

DOERR: Until June. The end of June. But as I mentioned, the committee had no consultant when I walked into it. So early in the year, Assemblyman Winton said, "Well, you're doing good work; I'd sure like to have you stay here as the committee consultant after your internship is up." And I said, "Great! That sounds like fun." I was having a good time; I'd had a few little successes here and there in accomplishing things. That gives you a feeling of, "Wow, I'm making a difference. This is the place I want to be." So I decided, well, OK, I'll just stay here. So at that time, then, I stayed on as chief consultant. Which is kind of interesting to an extent, because from the very first day I set foot in the place, except for the few weeks I worked for Speaker Brown, until I left, I was always the person in charge, on the staff level. I never worked for anybody other than generally you worked for a member, but they were busy on so many things they give you a lot of freedom. So I always was in charge, all the way through the process. Which was kind of nice.

So, that brings us to June of 1967. I'm sure I'm forgetting a lot; that's what's bothering me. Because I know that a lot of things happened there then. If I had more time to prepare for this, I could have looked through my notes or whatever. Probably would have jogged my recollections of things that happened I'm forgetting about.

I remember talking to [Assemblyman Houston I.] Hugh Flournoy, that's one thing. Hugh Flournoy was a freshman

assemblyman at that time. I became good friends with him because he was really interested in school finance equalization. He'd been elected in 1959 from the Pomona area. When he first came in to talk to me about this, I hadn't the foggiest notion what he was talking about. This was such a foreign issue, I said, "What are you talking about?" Eventually I just had to learn, and eventually I understood that this was an issue that we'll follow through California politics for a long period. It was the whole fight about school equalization--the so-called rich districts and the poor districts. Those with high property tax bases could levy low rates and get a lot of money for kids, and the others were just the opposite. So then we had the Serrano [Serrano v. Priest]<sup>1</sup> decision. I testified in the trial on Serrano.

HICKE: Did you?

DOERR: It was a factor in many of the tax issues that we did through a long period of time, even up through the implementation of Prop. 13.<sup>2</sup>

HICKE: What year was this, do you recall? I can look it up.

DOERR: It was the early seventies. I remember flying down to Los Angeles with Bagley. That was the first time I ever testified in a trial. I found it very frustrating. I was trying to explain the facts, and they didn't want to hear the facts.

HICKE: Who's "they"? The jury?

DOERR: The judge.

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<sup>1</sup>. Serrano v. Priest, 253 Cal. Rptr. 1 (1971).

<sup>2</sup>. Proposition 13, the Property Tax Limitation Initiative, was passed in June 1978. California Constitution, Article XIII A.



HICKE: Oh, the judge. There was no jury.

DOERR: I got admonished several times because I wanted to talk. I wanted them to understand how this works and what was going on. They said, "Well, you're just here to answer questions." "Well, wait a minute. I thought you wanted to find out . . ." "No, answer the question. I'm admonishing you to answer the question." So I'd get a question from one side or the other. The defendants were . . .

HICKE: And all you could do was answer.

DOERR: You'd have to answer. I couldn't explain and try and educate them about what we're doing and what this was all about.

That's off the subject. I remember Assemblyman Flournoy and I used to sit down and have quite a few chats about this during that first year, because he was really concerned. It was not a big issue until a few years later. It was obviously an emerging one. He was very interested in it, I remember that.

HICKE: Why did he come to you?

DOERR: I don't know. There weren't that many staff people around at the time, and he just did.

HICKE: It's a complicated subject, I think. School financing, and . . .

DOERR: Oh, it is. Oh, it was wildly complicated. That is one of the fun things about being on the staff, as I got into the tax area. The complicated issues are the most fun, because they are complicated, they give you more of a challenge. It also in a sense gives you more of an opportunity to do things, because people have to rely on you more. Because they don't understand it, and they have to rely on what. . . .

Unitary is the ultimate complicated issue. I used to say that not five members over there know anything about it. We did a lot of unitary work when [Assemblyman Thomas] Tom Hannigan was chair. It was about a year and a half after he became chair that I was sitting in a conversation with him, and suddenly it occurred to me that he didn't fully understand it, even though we'd talked about it for a year and a half. I thought, "Oh, my God." So then I made a real concerted effort to make sure that he knew exactly what was going on and what this all meant. And if he didn't understand it, I knew that the rest of the members didn't understand it.

So the complicated issues were the most interesting, were the biggest challenge.

HICKE: That's an interesting viewpoint. I see your point.

DOERR: Yes. That was one of the reasons why taxes were fun. Still are fun. Because it is more arcane to a degree, but it has such a major impact on everybody's lives.

HICKE: Yes. Well, how long did you stay as consultant to Ways and Means?

DOERR: I wasn't consultant to Ways and Means.

HICKE: Oh, I thought Gordon Winton asked you to stay on.

DOERR: That was Governmental Organization.

HICKE: Oh, OK.

DOERR: You see, I first started in Governmental Organization.

HICKE: OK, that's right. You were just talking about Jesse Unruh and . . .

DOERR: I did do some work with Jesse Unruh; that's when I got to know him better.

HICKE: And I think he was pretty interested in that, wasn't he?



DOERR: Yes. But what happened was, we found a scandal, and so he called me to come sit with him in the Ways and Means Committee. It was a night meeting, and it was like a congressional investigating committee, like [Attorney General Robert] Bobby Kennedy. What we discovered was the State Board of Education was burning hundreds of thousands of textbooks. Burning them!

HICKE: Why? Because nobody was using them?

DOERR: Yes, nobody wanted them. It was back to the original problem. Nobody wanted these books, so they just had these warehouses full of books that nobody would take, schools didn't want. So they were burning them, and that was uncovered. Of course there were just headlines all over the papers around the state. "Department of Education Burning Books." It just sounded awful.

HICKE: Oh, yes, I know. It sounds like the Inquisition.

DOERR: Yes. "Why didn't you tell us you were doing this?" It was like an inquisition. They brought these people up and they just worked them over. I sat next to Jesse and advised him all the way through this little episode, on the Ways and Means Committee.

HICKE: And how did that turn out?

DOERR: Well . . .

HICKE: They stopped it, obviously.

DOERR: Yes. It was on its way out because the system had been changed so that you weren't going to have a backlog of unused books. And that was the problem, because if you ordered from the publisher, they would send you whatever. . . . The state wouldn't have the books, but the state was printing them for all the schools, and they didn't want them. What were you going to do? You had them,

they were sitting there; you had to do something. Of course, Jesse made the point when we were in the hearings as well: "There's a lot of schools in Africa that would love to have these books; why do we have to burn them? Why couldn't we have given them away to these countries that need any kind of books, even if they're not as good as the ones our schools. . . ." He really went in and made a big point about that they should have come to the legislature and advised the legislature. The legislature could have made the decision of how they should be disposed of.

I guess maybe this is the time to say this, because I'm such a firm believer in this, and it doesn't happen much anywhere, but that was an early example of what I would call legislative oversight. I think one of the very important functions of legislature is general legislative oversight of the bureaucracy. I made that a point in the Revenue and Tax Committee for all the years I was there; we were going to do oversight. But as I see things the way things are done, they don't do much oversight anymore. I think that's part of the legislative function--the legislative oversight of bureaucracy.

HICKE: Didn't you tell me, or did I somewhere get the sense that not very many people were doing it even when you were doing it?

DOERR: I don't think there were that many people doing it. And I think part of the reason why they don't is insecurity.

HICKE: They're afraid to find that they're not doing . . .

DOERR: Well, in order to do it, you have to know as much or more than . . .

HICKE: Oh, the insecurity of the committee. I see.



DOERR: . . . people that you're looking at. And if the staff person, the members, don't know, you don't know the right questions to ask; you don't know, even if you have right questions, whether or not you're getting the right answer. And it can become a useless exercise, or worse, you can look stupid. So they're afraid. You know that if you have confidence--and Jesse had confidence, unbounding confidence--that you know what's going on and you know what should be going on, then you don't have any hesitancy if you believe that's the appropriate thing for the legislature to do, which he did and I did. You just go forward and say, "This is one of our functions. This is legislative oversight."

HICKE: So did he try to get more of it done?

DOERR: Yes, he was always pushing for it. Speakers generally were for more legislative oversight. There'd be occasional meetings with all the staff: "One of the things we need to do is more legislative oversight." "Right, yes, yes, that's a good idea." You'd get memos from the speaker's office. "When you're planning your study projects this year, be sure to include an element of legislative oversight." "Right, right, that's important." So it was always part of the litany of "This is what we should be doing," but whether we were actually doing it, I think, was inconsistent. Some people could do it; some people couldn't do it for whatever reason.

HICKE: They needed oversight of the overseers.

DOERR: Yes. Anyway, back to my. . . . Where were we? 1960. I was just saying how I worked with Jesse Unruh. One of the interesting things that happened in the '60-'61 period--I guess we're moving on to that?

HICKE: Yes.

DOERR: --is that I had my first intern assigned to work with me. I was an intern, then I became hired permanently. So the very next one who was assigned to the committee, which was then assigned to me to supervise, was Rose Bird.

HICKE: Rose Bird? This is the Governmental Organization Committee?

DOERR: Yes. Which also at that time was still Mr. Winton, who was chairman of the Governmental Organization Committee, but also still chairman of this joint study of the school system. Because this was the '60-'61 period. You see, that went through until the '61 session, when that all happened--all the school reform activity.

HICKE: That's when they started putting the bills through to . . .

DOERR: To do the school reform. Because '60 was budget session; there were only limited subjects on call, and that was one of them.

So Rose came to us in September of '60.

HICKE: Was she just out of school?

DOERR: I think so, but I'm not terribly sure. She was from Long Island, the north shore of Long Island. Kind of new, as I recall, to California. I believe she went to school at Long Island University. Could be wrong. I think she also had grown up in Arizona. But she was very interesting to work with, very smart lady. She got in trouble right away.

HICKE: Did she?

DOERR: Yes, this is an amusing anecdote. It will give you an idea of how things. . . . This time in our history was still a time of Red-baiting. [U.S. Senator Joseph] McCarthy had been gone for several years, but people still thought they could get political mileage out of



Communist investigations or this and that and the other thing. The legislature had one of these persons; his name was [Assemblyman Louis] Lou Francis from San Mateo, an assemblyman. Anyway, he introduced a resolution to honor somebody--I think his name was Lechner, Dr. Lechner--who, it turned out, had a very racist, anti-Japanese background. So the resolution was pulled off the floor and sent to the Rules Committee. So the Rules Committee had a hearing. And of course, this caught the fancy of the intern class, because they were. . . . Again, the interns were supposed to partly work but they were also partly to observe and learn.

So all of that intern group, or a number of them, went to the Rules Committee hearing, including Rose. Apparently they were demonstrating; they got involved in the issue. They obviously didn't like this guy. So when somebody made a big point against him, they'd clap. They all got called on the carpet; it was a major issue: "Hey, this intern program is in jeopardy." Because some members just were livid. And of course it depended really on full membership support. The program was going to be dropped if interns don't shape up, "and from now on interns won't be allowed to do this and this and this." I forgot the restrictions that were put on, but . . .

HICKE: They shut the barn door?

DOERR: Yes, they shut the barn door. So you had this group of interns demonstrating on one of these issues.

HICKE: Didn't they give the interns any kind of orientation?

DOERR: No. We didn't have any orientation. Other than these weekly seminars, they just turned them loose. In fact, they did that with me.

HICKE: Although it should be apparent that that's probably not too appropriate.

DOERR: Yes. I got the Ralph Brown rules to live by.

HICKE: [Laughter] Yes. Not demonstrating isn't included in one of those, though. Not part of them.

DOERR: Yes, I didn't see that there.

As I mentioned, we were doing the education study for this committee, so one of the proposals that was always coming up was, "Hey, we could improve California's education by installing a regent system of testing kids and not letting them graduate unless they pass tests." That's what New York had at the time. I don't know if they still do. So that sounded like something that would be good for Rose to study, because she was from New York. She'd just come from New York to California to be in this program, so I gave her that assignment. And she produced a study which I probably again have somewhere, saying that that was not a good idea; what we needed was a system of testing schools, see how they were doing, rather than prohibiting the kids from graduating if they didn't pass the test. In that way we could say, "Hey, this school's not doing very well; you need to do this, that, and the other thing to bring it up to standard." So as a result we have what we have now, this statewide testing where you see the schools arrayed in terms of scores.

HICKE: That's a result of . . .

DOERR: Her study and the bill that was introduced in 1961 to implement the study that she did. She spent most of her time on that as an intern, although she had others. But that was a big one.



HICKE: Yes. Important.

DOERR: So she has a major accomplishment. And it was after she left us, she went to law school.

HICKE: Oh, she went after . . .

DOERR: Yes, she went after her internship. She went to law school. And then after that she went to the Nevada Supreme Court to do her clerking there. Then she was public defender in Santa Clara County.

[End Tape 2, Side A]

[Begin Tape 2, Side B]

DOERR: She was appointed as director of Agricultural and Services Agency when Jerry took over. That was '74, so it would be. . . . She worked on his campaign in '74, as I understand it in talking to her. She took that over in '75, and then in '77 or '78 she was appointed to the [California] Supreme Court as chief justice. So that's pretty much how she flew through the system. She started as an Assembly intern and went to law school, went to Nevada, went to Santa Clara.

During my first year here I had my own office. It was on the second floor and it had no windows. I had this big mural of the Grand Tetons. But then Assemblyman Winton changed his office because he didn't have a window either; we were on the inside. So in 1961--'60 was an election, then '61 the new members came in and old members left--there was an opportunity for him to get a better office. So he moved directly across the hall, which is right on this north side of the Capitol on the second floor. [Assemblyman Nicholas] Nick Petris had one of the offices, and Mr. Winton had an

office, and there was a third staff office, so both of us had to share that one office, Rose and I. So we had a chance to really get quite close in terms of just the day-to-day work and philosophical discussions, of which we had quite a few.

HICKE: Was that also this period when you were telling me that you sort of went when the day was over, and just had these discussions about--how did you put it?--what was going on, and you were evaluating things that were going on?

DOERR: I think that came later. Later. I'm glad you mentioned that. You see, there were few staff, and I think it worked much better than it does now, with too many staff. We could know all the people. You knew the people who were the staffs of the Water Committee, all the committees. We'd all go out to lunch at the cafeteria, employment cafeteria, and they had an outdoor balcony on the third floor. We'd sit around and talk about everything that's going on, have all this interaction, which you don't get anymore. When I left the Assembly, I didn't know half the people that were there in terms of the other committees. But at that time we did, so we could work cooperatively as a team in solving problems. Which was something Jesse Unruh encouraged them to do. Jesse was great at that; he believed in bringing staff together as a team to work on problems.

HICKE: Collecting them from various offices?

DOERR: Yes. I did that several times. Jesse would bring different staff people together and said, "This is a problem. Why don't you guys sit down and work on it, and figure out what we should do?"

HICKE: Do you recall any specific things that you worked on like that?

DOERR: Oh, yes, health care was one big one.



HICKE: OK, we'll get into that I guess later, right?

DOERR: Yes, that was the forerunner of our health care programs.

HICKE: Since we're on this general subject, can you talk a little bit about the implementation of more staff? When that came about, and how it came about, and what its effects were?

DOERR: Yes, since we're there. It just evolved. But I think it primarily grew with [Speaker] Willie [L. Brown, Jr.]. I'd say that's when you had this monstrous increase. I started off as a single staff person to a committee. The very first year I was all by myself, this very first year. Then the next year I had an intern, so in effect there were two of us--one staff person and one intern.

HICKE: So it was a 100 percent increase?

DOERR: But kind of temporary. Then Rose left. I'm trying to remember, I had an intern the next year and I don't remember who it was. That's awful. For the next several years I had interns. After the 1963 session, when we started to do the major tax study, we hired a second staff person to help do that study. His name was Ray Sullivan. Then I got Jesse to hire a third lady to help me with it, whose name was Evelyn Love. But then she left after we finished the study. So we had two staff persons, and then pretty soon. . . . At that time, when we got the second staff person, we didn't take a fellow. And pretty soon we started taking the fellow again. So we had the two staff people plus a fellow. That lasted until Bagley became chairman. Then we had a third staff position and had a fellow. And that lasted until I left. So I didn't push for more staff. But you could see in certain other committees, gradually it would add the second, just kind of crept up, but still, it was fairly

manageable. I think when Willie became speaker, the staff expanded substantially.

HICKE: Legislators were getting staff, too, now, right about this time?

DOERR: That came. . . . I'm trying to think when that came. No, they didn't have any AAs [administrative assistants] or district office staff for quite a long time after I was there, though I can't remember exactly when that came in. But then eventually they got an AA in the district office, then they got two, and now it's just a huge bureaucracy.

HICKE: OK, is there anything else about your work with Rose Bird?

DOERR: I might think of things as we go on. I can't think of anything right offhand. Then as we went to the 1961 session, education was the major issue. I was working on the textbook issue. Then I became involved in a number of the other issues.

HICKE: This was the Master Plan for Higher Education?

DOERR: The Citizens Advisory Commission. We were trying to implement its recommendations in terms of. . . . It was really academically oriented, let's put it that way.

HICKE: What were some of the other issues, do you recall?

DOERR: Well, teacher credentialing. Teacher administration. I think that's when the legislature required teachers to have an academic major, not an education major. Because everybody thought schools of education were just pap, nobody learned anything.

HICKE: They were terrible courses. I never could take any.

DOERR: So the legislature said, OK, we want academic majors. I forget all the reforms that were passed at that time.

HICKE: You're still on the Governmental Organization Committee?



DOERR: Yes, I'm still on Governmental Organization, and I'm working on Education. Plus I'm doing the work of the Governmental Organization Committee, which I have to say wasn't all that great.

HICKE: What were some of the duties of that committee?

DOERR: Well, we had committee hearings every two weeks, so people would be filled in on tied-house. That meant California had laws that restricted liquor companies. . . . Coors can't set up a bar and sell Coors beer like they do in England, where the pubs . . .

HICKE: Yes, a brew pub.

DOERR: Yes. That's all the way through the industry, with all kinds of liquor. That's called the tied-house provisions. They're not tied together.

HICKE: Oh, OK. T-i-e-d.

DOERR: Yes, tied house.

I think that was when we heard the Oakland bottle bill--that you couldn't carry an open bottle of liquor in your car--which I thought was interesting. We had the different lobbying forces working with us. We had the department and the enforcement personnel; we had the liquor lobbyists, obviously; and we had the Prohibitionist fringe. So we would have these hearings, and the various elements reacting to each other. I'm sure we did some important things, but I can't really remember what we did.

HICKE: Can you define the subject matter of that committee in general?

DOERR: Yes, it was liquor, horse racing, general government organization issues like the agency secretary proposal. Obviously, that proposal came back; that was reintroduced, more hearings on it, Governor Brown tried to get it. We defeated it in '60, it came back in '61, it

was defeated again. Lot of talk, hearings. We had those kinds of activities.

HICKE: So were the hearings kind of exciting?

DOERR: Yes, they were exciting. Because this was my first day-to-day working with the committee, because this was the first full session. We had the bills there for a whole session. Because the prior [1960] session was just the budget session plus the special calls. And we publish the agendas, do the analyses, go over and talk to the department to find out their views, talk to the industry representatives who would come in, the liquor lobbyists, et cetera, et cetera. I guess the bottom line is nothing bad happened. [Laughter] I can't remember any major accomplishments. I'm sure we've had some, but that's so far back.

HICKE: How does liquor and horse racing fit in with the Governmental Organization Committee?

DOERR: It's interesting. They used to have a committee--and I still have one of the old committee reports right up there--a committee that was called the Assembly Committee on Public Morals.

HICKE: OK. And this is a report.

DOERR: That's quite a bit earlier, but you see, eventually, this committee . . .

HICKE: Oh, this is '49.

DOERR: Yes. This committee evolved into part of the Governmental Organization Committee.

HICKE: Oh, I see. OK.

DOERR: So in effect it was given what they would call the public morals issues--essentially liquor, horse racing, gambling, all the gambling kinds of issues.



HICKE: Did you have to deal with the lottery requests? Requests for a lottery?

DOERR: Yes, we had lottery bills at that time. I remember doing the analysis on them, which we always turned down because we thought they were a stupid way to raise money from the poor. In fact, it never did pass the legislature.

HICKE: The lottery?

DOERR: The lottery. It was an initiative.

HICKE: That's right.

DOERR: So we had those various issues . . .

HICKE: OK, that's exactly what I wanted to know.

DOERR: . . . in that committee at that time.

HICKE: Did you have any part in the hearings? Or would you be observing?

DOERR: Yes, I would sit up with the chair and occasionally ask a question, or I'd be asked a question by a member of the committee--"What is this? What is that?" or whatever--and I would answer. Then if amendments were needed, we'd prepare the amendments. This is pretty standard of what everybody does all the time. You sit there, keep track, prepare an analysis of the bill, keep track of what's going on. You make notes of what people say, you answer questions, occasionally you comment or ask a question. Do the amendments, the amendments that are proposed, or you suggest amendments to fix a problem that somebody has raised--"Hey, how about this?" "OK, that'll work." So all those things were new to me then, but that was pretty much standard operating procedure that I think most legislative staffers do. That's kind of the bare minimum.

Then you really should go beyond that to do a lot of other things that I eventually got into. But just to in effect manage the committee work was really a bare minimum.

HICKE: Did you have to deal with the racing commissioner at all?

DOERR: Yes, in fact, I went down to some of the horse racing board hearings--meetings--just to hear what was going on. There was some issue with the jockeys. I remember getting acquainted with the jockeys, now that you mention it.

Oh, and one other issue I got involved in was, you might call ethics. Conflict of interest.

HICKE: In horse racing?

DOERR: No, in government organization. We agreed that we were the committee that would get the bills to establish conflict-of-interest laws.

HICKE: Of legislators' behavior, and that kind of thing?

DOERR: Yes, or local government officials, those kinds of issues. I did work on the conflict of interest. In fact, a little later, the next interim, we had a hearing in Orange County--that's where I first met [Assemblyman Kenneth] Ken Cory--on conflict of interest and bribery and corruption in government. We brought in a man from jail, who was a former city official. Had the marshals bring him in; he testified about how he'd gone astray, and what the problems were, and what laws were needed, and this, that, and the other thing. So that's one of the other things we got into, as I recall. Kind of a fun issue.

HICKE: Yes, interesting.



DOERR: So anyway, I'm trying to think what else happened in the '61 session. Oh, yes. Yes, yes. This was something I didn't get directly involved in, but took a great interest in watching, was the reapportionment. This was the reapportionment year. Jesse played that like a virtuoso in terms of. . . . [Assemblyman Robert] Bob Crown was the chair of the Reapportionment Committee, and he put together the plan that of course Jesse had worked on. This gets into the next story, so maybe I should begin with the next story.

HICKE: What's the next story?

DOERR: What happened. . . . It's really now '61-'62.

HICKE: OK. I don't know how much longer you want to go on, but. . .

DOERR: Maybe we'll finish with this story, because it's kind of a big turning point.

HICKE: OK. Sounds good.

DOERR: And it's something that few staff people ever get involved in. At the end of the '61 session, Speaker Ralph Brown is appointed a judge. The Assembly had to elect a new speaker for the Assembly, so we had a speakership fight, and I was involved in the speakership fight. I was able to see it right from the middle.

HICKE: Winton was . . .

DOERR: Winton was my boss.

HICKE: And he was contending?

DOERR: He was contending against Jesse Unruh. And I was working for Gordon. So, I'd hear what's going on. People would come in, and there'd be meetings and strategy sessions and the whole thing. Gordon thought he could win because of two things. One was Jesse's reputation that I described earlier as being sometimes a little

heavy-handed on the gavel. Members liked Jesse but they weren't crazy about that.

HICKE: He was fairly arbitrary?

DOERR: Yes. And also Gordon Winton was from the San Joaquin Valley and was not as liberal as Jesse, so he thought he could put the coalition of conservative Democrats and Republicans together, which would be enough to elect him speaker. And he thought he could get these; in fact, he was confident. But apparently what had happened--and I'm not sure he knew this--Jesse had used the reapportionment bill as a way to get his votes committed for speaker; he worked with Bob Crown. In order for members to get districts that they wanted, they apparently had been required to pledge for Jesse, to Crown, because people were expecting that Ralph Brown might get a judgeship. So apparently there were a lot of votes that were committed in the reapportionment process, on the basis of getting the district boundaries drawn the way they wanted them, and this helped Jesse get elected speaker.

After Mr. Unruh was elected speaker, I thought I was then out of a job; I was convinced of it. Having been on the wrong side of the speakership, working with Gordon, I felt that's the usual political punishment. If you're on the losing side, you're tossed out, as well as your staff. So I thought this was the end. In fact, I'd lined up another job.

HICKE: Oh, really?

DOERR: Yes.

HICKE: What did happen to Gordon Winton?



DOERR: Nothing. Jesse was magnanimous in defeat. Gordon kept the Governmental Organization Committee; in fact, then eventually was appointed to the Judiciary Committee, which is a good committee, too. Jesse was confident; that's part of the self-confidence, that he didn't feel like he needed to punish him to keep the troops in line.

And then I talked to his staff, and Jesse apparently always thought highly of me because I'd worked with him on the textbook hearings and this and that. He knew what I'd done, so he wanted me to, of course, stay on, and not only that, he wanted me to take over two committees. So I was to stay with Winton on the Governmental Organization Committee, and also take over as chief staff person on the Elections Committee. Which is how I got involved in the politics that I mentioned earlier. Probably that's the next episode.

HICKE: OK, yes. That'll be a good place to start next time.

DOERR: That's my speakership fight.

HICKE: Let me just go back and ask you a little bit more about the strategy sessions. Is there anything you can remember about how they go about collecting people and votes and so forth?

DOERR: Yes. He'd have meetings in his office and ask people to commit. Apparently--this was new to me then, but now I know that it goes on--people have committed to both sides.

HICKE: Oh. That is interesting.

DOERR: Yes. As it turns out, it was not that uncommon. He was counting some votes as committed to him that had also committed to Jesse, because the members don't want to say no. And of course they always want to be on the winning side of the speakership, so

commit to both sides and see how the thing is going, and then at the last minute you go with the winning side, and say, "Well, I was always committed."

Which reminds me of just one more anecdote. There was this assemblyman during this period whom we got to know, who kind of was the shorthand embodiment for everything that's happened in the last thirty years, in a sense, in fiscal policy--at the federal level, at the state level. His name was [Assemblyman Samuel] Sam Geddes. He represented Napa County. He was kind of a crusty member, but pretty shrewd. Pretty shrewd.

It was a lot more informal in those days; there was time to just talk to people. So we were talking about politics, and getting elected. The Sam Geddes rule, he says, "The reason I keep getting reelected--I never have any trouble--I vote for all expenditures and I vote against all taxes. People love it."

HICKE: Oh, his constituents love it. Yes, that's right.

DOERR: And that's a parable for public finance for the last thirty years.

HICKE: Explains a lot about where we are now, doesn't it?

DOERR: Yes. So there was insight in that little anecdote which I got at that time.

HICKE: OK, that's a good place to stop. Geddes's rule.

[End Tape 2, Side B]



[Session 2, March 9, 1990]

[Begin Tape 3, Side A]

HICKE: Last time we were just talking about 1961, and you had just told me about the speakership fight, and you were asked to stay on, to your surprise.

DOERR: Yes.

HICKE: And then you were also asked . . .

DOERR: Jesse liked me, which was comforting. We got to be. . . . Over the next four years we grew pretty close. I used to write his--well, not all of them--most of his tax speeches.

HICKE: Is that right?

DOERR: Yes. That he gave around the state; those were written by me. He loved them. He said, "These are good speeches." So he'd take me places. Jesse and I went together down to the Commonwealth Club, where he gave a speech. I rode down with him, rode back with him. So we became pretty close; it's probably as close as I've been to any speaker, in that sense.

HICKE: Well, tell me a little bit about that. This was even before you were acting in an official capacity for the Rev and Tax Committee?

DOERR: No, this was . . .

HICKE: Or this was afterward? I'm not sure about what . . .

DOERR: Well, it came later. It came after he became speaker. I guess he had kind of watched what I'd been doing before he became speaker, so he wanted me to stay on. They not only wanted me to continue on the Government Organization assignment, they also put me in charge of the Elections Committee.

HICKE: OK, that's the other thing I wanted to hear about. You said that involved some politics.

DOERR: Yes, several kinds of. . . . Because in a sense, the Election Committee was considered to be kind of low priority. It takes high priority every ten years; they do the reapportionment. So this was the time after the reapportionment had passed. In other words, reapportionment was passed in 1961, so now we're at the end of '61 going into '62. That had all been completed.

HICKE: The redistricting had been done?

DOERR: Yes. So there wasn't a lot of work for the Election Committee to do, so they thought I could do two committees at once. The Governmental Organization Committee staff would do the Elections Committee work.

It was interesting because we worked on some issues. One thing I had to do was go down to the CDC [California Democratic Council] convention in Fresno. These were the days when it was a big deal. It was a really big deal at that time. Now people never heard of them: California Democratic Council. They were the kind of organization that brought the Democrats back into power in 1958. It was a citizens' grass roots kind of organization where Democrats formed clubs and then they'd go down and they'd have



their endorsement convention. These grass roots people would endorse--there'd be a number of people interested in running for, say, governor, lieutenant governor, et cetera, all the offices of Congress, and it was really thought to be very important that they'd have the endorsement of the CDC. So they'd have this big endorsing convention. The candidates would go down and present their platforms, and all the party rank and file would debate and determine who they wanted to endorse. That usually meant the others would drop out.

HICKE: The ones that weren't endorsed?

DOERR: Yes, as I recall.

HICKE: So this was not an official Democratic party organ, but it really sort of took on that aura.

DOERR: Yes, it was really a grass roots kind of thing. You don't see that anymore; that's such ancient history. Now the candidates have the big P.R. firms and TV, and there's little grass roots in the whole political process. There's probably more grass roots activities now in the Republican party in terms of volunteer endorsing organizations, as far as I can tell, than in the Democratic party, which is run by you might call special interests through campaign contributions. No real grass roots activities, which is interesting.

HICKE: How did that change?

DOERR: I don't know. It just changed.

HICKE: And why did it change more in the Democratic party than in the Republican party?

DOERR: At this CDC convention I went to, it was to be a watershed.

HICKE: This was '62?

DOERR: Yes, it was in '62, and Jesse was feuding with the CDC at that time because he thought that they were more liberal than they should be in terms of promoting candidates that could be elected.

HICKE: So they were divided on the kinds of candidates?

DOERR: Jesse wanted to see more of the official party organization take over. Not so much the citizen people; he thought they were nonrepresentative of the party as a whole, that they had too much power. They probably were nonrepresentative of the party as a whole because they tended to be more liberal. If you took a poll on issues, they'd be more liberal and the party would be more moderate. The Republicans would be more conservative. But they did have the grass roots organization. That was a very healthy aspect, to have ordinary citizens go down, meet, and try and determine who should be a candidate.

HICKE: Would part of the problem possibly be that Jesse had a certain amount of control over campaigns and campaign financing, but he would lose this control--I mean, he had no control over this grass roots organization?

DOERR: Yes, that's right. He had no control of the grass roots organization. He had, of course, begun to do what everyone has done since, but he invented the idea--in effect, raising money. At least, I like to give him credit for it; I couldn't say for sure whether he invented the idea, but he really became associated with raising the money and donating it to other candidates whom he wanted to see elected in the primaries, et cetera. But the office of the speaker became in effect the source of funds for various legislative races.



HICKE: Would that have been done partly by the Central Party Committee before that?

DOERR: No, I don't think it was done by anybody.

HICKE: Nobody ever collected funds statewide and allocated them?

DOERR: Not as far as I know. Candidates had either raised funds locally, from their friends and relatives and parents and supporters in their community, or they'd received money directly from various special interest groups. We voted to eliminate the practice of transferring funds at the last election.

One of the things that was stressed to me at that time--and I still believe it to be true--is that in other systems of government there's much more party discipline, such as in England. So the parties have a platform and they have a program, and they can implement it. But here the parties were weak. California traditionally had weak parties; we had the cross-filing that weakened them even further. With the party structure so weak, we had a bunch of so-called, you might call them independents. There was no responsibility to anybody but themselves and their constituents. So even though the party would put out this platform in an election time, there was never the muscle to implement many of their programs.

So with this method that Jesse developed, he was able to introduce party loyalty simply by the fact he was contributing to the campaigns. I'd say at that point there was the beginning of what we now see as a very highly partisan legislature, and it evolved from that point. I think I mentioned that Ralph Brown was kind of

a nonpartisan; he was elected by a coalition. Then Jesse started to put in the party . . .

HICKE: But would it have been party loyalty, or loyalty to Jesse Unruh?

DOERR: Well, it was loyalty to Jesse, but Jesse was trying to elect Democrats and to put across a Democratic program. It's like any party: [British Prime Minister] Margaret Thatcher has her program, and they're expected to vote for it if the leader of the party takes the message of the party to the people. So that's what Jesse was trying to do, and it worked. It's worked beyond anybody's imagination in terms of how that became one of the principal sources of funds for candidates as it evolved through the various speakerships, although [Speaker] Leo [McCarthy] never liked to do it that much.

HICKE: Leo McCarthy?

DOERR: Yes. [Speaker Robert] Moretti did the same thing. Willie Brown [Jr.] too. We got off the point. Oh, we're at the CDC.

HICKE: Nineteen sixty-two, Fresno.

DOERR: Yes, with the CDC convention. So it was kind of an acrimonious convention. One of its decisions was, of course, to endorse Pat Brown for reelection. This was a momentous election in California; it was a big thing because he was running against Richard Nixon for the governorship, who had just lost the presidency. I think I talked about my friend Joe Shell.

HICKE: Yes.

DOERR: Because he ran against Nixon in the primary, and that really weakened Nixon, so even though Pat Brown wasn't too strong, he was strong enough to defeat Nixon on the basis of the fact that



Nixon had had primary opposition, he'd lost the presidency, and he just didn't run a good campaign.

I remember one of the things in that campaign that sticks out in my mind are the activities of [Richard] Dick Tuck, who was--I think he was director of Transportation, but Brown had him appointed to a lot of jobs. He had a real creative mind, and in a sense he was doing things good-naturedly. He introduced the Nixon crowd to what you might call dirty tricks, [Laughter] which we saw reflected some years later. He would play all these dirty tricks on Nixon during the campaign.

One time, Nixon was campaigning in Chinatown, Los Angeles. So Dick Tuck got a bunch of signs painted in Chinese with the question, "What about the Hughes loan?" One of the issues was that Howard Hughes had loaned a lot of money to Nixon's brother. So here are these signs in Chinese that say, "What about the Hughes loan?" Dick Tuck hired these Chinese guys to stand next to Nixon with the signs. Nixon's smiling, and. . . . [Laughter] Because he doesn't know what the signs say. And everybody's laughing in the crowd. [Laughter] When he found out about it, he was just furious.

Another time--it was in San Luis Obispo--Nixon was. . . . They still did campaigning by trains in those days, which is another thing you'll never see again. So Nixon was on the back of this train giving a speech in San Luis Obispo. He had just started a speech, and Dick Tuck had a conductor's hat on, and was dressed up as a conductor. He waved to the engineer, "Ready to go!" and the train

pulled out of the station while Nixon was on the back of it trying to give this speech.

There's a series of them; I don't remember them all, but one after another, these gags that were played on Nixon by this funny man who was just hilarious. Nixon was furious. I could just see where that idea would stick in his head, you know--we're going to play tricks on my opponents. And he would use that, much to his demise, many years later. But it's possible that's where he got the idea, where it all started.

HICKE: Were you involved in this campaign?

DOERR: No, I wasn't involved in the governor's campaign.

HICKE: OK. Anyway, we got ahead of our story. We're still in Fresno.

DOERR: Yes, we're still in Fresno. If I had had a chance to look through some of my papers I could probably recall more of what happened. I enjoyed it immensely from just watching the friction, watching the grass roots kinds of activities, but also recognizing Jesse's concerns that these people really weren't representative of average Democrats. They had pre-primary endorsements. You'd have three Democrats on the ballot, and they would endorse one, and he would win because he was endorsed by them. So in effect they were trying to short-circuit the election process. So you kind of have mixed feelings. It was a very healthy thing in one sense, although it was antidemocratic in another sense.

HICKE: Who are the people who stand out in your mind?

DOERR: Well, Alan Cranston was the founder of this organization. He was at that time still the revered leader of the organization. Joe Wyatt, whom I met many years later, curiously enough, from Pasadena, was



the president at the time. He was just a dynamic fellow, very intelligent. I met him at a school boards convention many years later, because his wife was on a school board, and we had a chat about the old days. A number of the state legislators went to this convention, of course, because nobody felt that politically they could afford not to go. Jesse didn't go, though.

HICKE: Jesse didn't go?

DOERR: No. They booed Jesse. Jesse was this evil person to them.

HICKE: I've forgotten, how did you happen to go?

DOERR: Because I was consultant to the Elections Committee.

HICKE: Oh, I see. OK.

DOERR: Because this related to pre-primary endorsements, which was one of the topics we were supposed to be studying, as it related to the electoral process. Should we outlaw pre-primary endorsements, et cetera, et cetera. I was basically down there to keep an eye on things for Jesse, and to write a memo. I'm sure I did, but I don't remember what I said or where it is. You know, what happened, who was doing what, et cetera, et cetera.

HICKE: Do you recall who was doing what? What was Cranston doing?

DOERR: I know that one of the speakers was Henry Gonzales, from San Antonio. He became a congressman. He was a fiery liberal, and he just brought that place to its feet. It's so many years ago, I have forgotten about a lot of the little political things that were interesting.

I remember [Senator] Hugo Fisher--he'd carried the education reform bills in '61 that made the CTA [California Teachers Association] mad--was there. And I spent quite a bit of time with

him because we had worked together on the education reform bill. We'd sit up all night in hotel rooms and talk about politics and this and that. I guess like any conference, half the conference is the formal agenda--you go down to the civic auditorium--and half of it is the informal talking to people and this and that and the other thing that makes it such a good time and so interesting.

HICKE: Did the conference-at-large vote on the candidates?

DOERR: Yes, they endorsed Governor Brown for reelection; they endorsed the ticket that they wanted to see. There were some fights--I can't remember--floor fights on certain candidates, but I don't remember the details. I first got acquainted with [Richard] Dick Nevins at that time, with whom I worked closely later because he was on the tax board [Board of Equalization]. But he was a very staunch, pro-club-type Democrat, as I recall.

Anyway, it's a kind of an interesting phenomenon of California politics that kind of came and now it's gone. Another part of the political process was a formal party structure which was in the law, which they've always had. That was the meeting of the Democratic State Central Committee. There were ways to get appointed or elected to that. I know legislators made some of the appointments; they may have made them all. I don't recall if there were any elected independently. But anyway, it was a body that's charged to draft the party platform, so they meet in the Capitol. The CDC convention is way in the spring. It's in March or April, because it has to be well in advance of the primaries--maybe in March--so they can take a stand and get who they want in the primaries. The



central committee comes after the primaries, and it's the people who win the primaries, and their appointees, who come to Sacramento.

During this process I'd become friendly with Don Bradley and Van Dempsey in particular, who was Don Bradley's assistant. They were running the official state party.

HICKE: The central committee?

DOERR: Yes. They were the professionals; they were in charge. There was a party chairman. But they were the staff people. So I got acquainted with them, and they began to trust me. They were, of course, primarily, I think, working to get Pat Brown elected. But they also wanted to have everybody working together--including Jesse--in a united campaign effort. Van Dempsey asked me to help write the party platform. And I had to talk to a number of people, so I did. Maybe he thought that would help keep Jesse Unruh from taking shots at the platform.

[Interruption]

HICKE: You were just writing the program for the platform.

DOERR: At that time--I think I mentioned before--there were very few legislative consultants. So I knew everybody and we worked together, went out to lunch together. The effort to draft a platform was organized so the various consultants would have input in terms of what they're familiar with--the issues and what the stand should be. This was more of a collective effort. I got to advise delegates on the platform as it was being discussed. I don't know if Pat Brown ever knew that I did that, because he was grumpy with me for several years, which we'll get to. In fact, I found this morning

his transcript of the press conference where he directly attacks me. That comes later.

But then I got on his good side. I was on the list of sponsors for his eightieth birthday in San Francisco.

HICKE: Really? Oh, good.

DOERR: So things turn around. He liked me later.

The thing I remember most about the central committee meeting was this hard battle on the floor of this conference, in effect between [Senator] George Miller [Jr.] and Jesse. They didn't get along at all. And I admired George Miller, too; I think he was one of the greatest legislators of all time, and so was Jesse. Anyway, they didn't get along. So Jesse had [Assemblyman] Tom Bane running the meeting. He was chairman of Rules [Committee] at that time, and still is. There were some efforts by folks on the floor to try and add or embellish what was programmed to happen, and of course Tom just gavels them down like Jesse would have on the Ways and Means Committee. And then Miller was just furious, so there was this huge battle on procedure--"You're not democratic," Senator Miller charged.

HICKE: Between Miller and Bane?

DOERR: Yes, and then Jesse. It spilled over into the press and the meeting got a black eye over this heavy-handed use of the gavel. Just gaveling things down, ignoring people. It was too bad.

HICKE: Whose side was Miller on? He was the one that was against Tom Bane, so then Jesse . . .

DOERR: And then against Jesse.

HICKE: So then Jesse was supporting Bane?



- DOERR: Well, Tom Bane was one of Jesse's lieutenants.
- HICKE: Who won? Was there a winner?
- DOERR: Jesse won, as I recall, and lost in the press. He won the day.
- HICKE: He won the fight and lost the war.
- DOERR: Yes, that makes sense. I was think it was Art Hoppe who first called him Big Daddy in one of his columns.
- HICKE: Is that right?
- DOERR: But he may have been called Big Daddy by his. . . . No, I think it wasn't Art Hoppe. Art Hoppe just popularized that in his column. I think that came from his friends, earlier, who would call him Big Daddy. Cat on a Hot Tin Roof was a movie that was popular, I think, in the late fifties. The character was Big Daddy. So they kept referring to Jesse as Big Daddy. And initially, Jesse accepted it as a fun nickname. But then it got out of control when they started putting it in the press. Here's this big, heavy person smoking cigars; that this is Big Daddy; it's like Boss Tweed or some evil person. And that got played up through all this period; it never left our immediate perception. It was accepted as part of a private group, but when you're running for statewide office, it's not good to have Big Daddy as your nickname. People are antipolitics.
- HICKE: Tell me just a little bit more about the platform-writing committee. Did you start out with a draft? Somebody's draft, or you drafted it?
- DOERR: We drafted it. We just had some chats, and we knew what the issues were because we're all working in the legislature. We knew what all the state issues were. We generally knew what Jesse's views were. We knew what the governor's views were. There were suggestions from interested parties.

- HICKE: Who worked with you on the draft?
- DOERR: The various committee consultants in the various committees. We were all about the same age and we'd come to the Capitol roughly at the same time.
- HICKE: And did you try to incorporate all these different viewpoints, or meld them, or . . .
- DOERR: We just put down what we collectively thought the members would want the position to be, where we thought they stood on the issues.
- HICKE: Assuming they wanted the same thing?
- DOERR: Yes, assuming they wanted the same thing, we would write it so it would come out so it would sound like the same thing.
- HICKE: If they didn't want the same thing, you would try to word it so that it would be acceptable?
- DOERR: Yes. That worked out OK. We were kind of working behind the scenes to patch things up, to make things go smoothly.
- HICKE: Sounds like an exercise in diplomacy.
- DOERR: Yes. Of course during the same time period, I was with the Governmental Organization Committee. There wasn't a lot going on, we started looking at conflicts of interest. In fact, we passed, I think, some bills on conflict of interest.
- HICKE: What kind of . . .

[End Tape 3, Side A]

[Begin Tape 3, Side B]

- HICKE: You were looking at conflict of interest for government officials.
- DOERR: Yes. I remember writing a report and making some recommendations. We had a hearing down in Orange County,



because there was just a lot of corruption down there in local government. We brought a man out of jail who had been convicted of taking bribes for land-use decisions, and had an extensive discussion of the issue. The interesting thing--why I bring this up--is that this is where I first met Ken Cory. He was working for Assemblyman [Richard] Dick Hanna as a field person down there, so he did some of the fieldwork for us.

HICKE: On this issue?

DOERR: On this issue. He knew the politics of the county and who we should be calling in terms of witnesses, what the problems were, where the worst abuses were taking place. So you know, he helped me set that whole thing up.

HICKE: You picked out Orange County because they were having the problems and it was sort of a microcosm of what you might have to look at?

DOERR: Yes. That was when I first met him, and we became good friends for many years. Still are. That's where--as far as I know--Ken got a start in politics.

HICKE: What was he then?

DOERR: He was just out of school and joined Assemblyman Hanna's staff.

HICKE: So he was on the staff.

DOERR: Yes. In some fashion; I'm not sure exactly what it was. Then he came to Sacramento in 1963 and he became consultant to the Education Committee. Or Rules Committee, one of the two. I've forgotten which one.

HICKE: What came out of this investigation?

DOERR: We introduced some bills. The legislative aspect wasn't significant.

HICKE: After the election was over, most of your work in the Elections Committee was over, is that right?

DOERR: Yes. In 1962, the governor was reelected. The Democrats were in strong control of the legislature and the governorship. Then that brings us to 1963, which was a big turning point. One more point, because it will help. The chairman of the Elections Committee was [Nicholas] Nick Petris at the time. So I'd been working with Gordon Winton on the Governmental Organization Committee and with Nick Petris.

HICKE: I have one more question about Jesse. Did he have any thoughts or indicate anything about wanting to run for governor at that time?

DOERR: Oh, sure.

HICKE: In '62, we're talking about?

DOERR: Yes. If Pat Brown hadn't run, he probably would have run, although he knew that Pat was going to run. But he thought that he might be the candidate in '66. He worked hard for Pat. . . . [Pause] Then he got sabotaged later on, which we'll go into, as far as he was concerned. Probably; I think he was treated a little shabbily myself.

So we come to 1963, and this is when I moved to Rev and Tax Committee.

HICKE: Let me just ask you about your impressions of Nick Petris before we move on.

DOERR: This is how I got to the Rev and Tax Committee: it was through Nick Petris, because he was my chairman for the Elections Committee. He was satisfied that I was doing a good job. He liked me, and we worked well together. So he became appointed



chairman of the Rev and Tax Committee, and then I was asked to go with him. So I'm now the consultant on the Rev and Tax Committee, the chief consultant. Nick is a great guy. Just marvelous. Intelligent, idealistic, very fine person. Nice to work with.

HICKE: OK, well, we can do two things. We can either start out with your first years with the Rev and Tax Committee, or you can start back and give me the historical perspective on California taxes, which I mentioned once before.

DOERR: Yes.

HICKE: I have a chronology here that I worked up myself. I don't know if it's going to be of any help to you. [Takes out chronology] The period from 1850 to 1910 was the era of the property tax.

DOERR: Yes, well, the outline of California's tax structure was prepared for a committee study.

HICKE: That's where I got it. [Laughter]

DOERR: Here is Governor Brown's 1963 tax program.

HICKE: OK. Do you want to start on that, then?

DOERR: Yes. Because it's kind of interesting. It will shed some light on the things. I'm not sure I know the exact sequence of all the things here. I think this was the Lockup year, when Jesse locked the Republicans out.

HICKE: Yes. I have that date someplace but I don't remember it myself exactly. [July 1963]

DOERR: I think it indirectly involved this.

HICKE: It had to do with the education bill. That was the sticking-point.

DOERR: Yes. But they were really furious about this tax program.

HICKE: Do you want to start with that, then?

DOERR: Yes. Now, this was sort of an exception to my general rule of California politics--that every ninth year you have a tax increase.

HICKE: That's the Doerr Rule of California politics?

DOERR: Every eighth year, when a governor goes out of office, the budget goes to hell, and then when the new governor comes in, a tax increase is proposed to balance the budget. The last budget of the prior governor has gone out of balance, due to a number of factors. They may have inflated the revenues--whatever happens, the budget goes out of balance. The ninth year you have to come in and have a tax increase. So all the major tax increases we've had have come every ninth year. You know, you just take them. The 1959 Pat Brown program, the '67 Reagan program, the first Jerry Brown year, the first [Governor George] Deukmejian year, and the first Wilson year. Those were the years. You could almost put that as a rule--a rule of California politics.

But although this was an exception to the rule, it is related, because a tax increase was proposed the year after a gubernatorial election. So here's 1963, and the governor feels like he needs more revenue, for whatever purpose, and I've forgotten exactly why.

HICKE: He had implemented a lot of new social programs, such as the Master Plan for Education and things like that.

DOERR: Yes. So anyway, for whatever reason, the current revenue stream wasn't adequate. So Governor Brown brings in a program. There are several provisions in it.

HICKE: Was it introduced as a bill in the legislature?

DOERR: Yes. Petris introduced them. I am required to work on these bills.



HICKE: Oh, so it's a series of bills.

DOERR: It's a series of bills. Because this was before I invented the single bill. I'll talk about that. I kind of invented the package. That comes a little later.

HICKE: Omnibus bill?

DOERR: The omnibus tax package. Prior to when I did that, all the bills were introduced separately. So we had A.B. 1946,<sup>1</sup> which was a change in how corporation taxes were paid, to bring them to current--more current. A.B. 1945<sup>2</sup> was the proposal to adopt withholding. This issue is one that's huge. You couldn't imagine, nowadays, how big the issue of withholding was in the sixties.

HICKE: Provoked quite a reaction?

DOERR: This was one of the big political issues of the time: whether or not the state should have withholding on its personal income tax. Now, we didn't, of course, at that time. Then there were a couple other minor provisions--an insurance tax quarterly payment system, a change in the gift tax. But the big element was withholding, because taxpayers paid the state at the time a lump sum. But the tax rate wasn't high at the time, and of course, incomes weren't so high, so it was not a huge amount, but anyway, taxpayers did pay it in a lump sum.

HICKE: Who wrote the governor's tax program? Who drafted it?

DOERR: That year? [Chief Financial Economist W. R.] Ralph Currie in the Department of Finance prepared it. Nick agreed to carry it, so I had

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<sup>1</sup>. Citation not found.

<sup>2</sup>. Did not pass.

to work on it in terms of the legislative strategy, and the Republicans were just dead set against it. This would make it easier for the state to raise taxes. They didn't like withholding one iota. There's probably a ton of information around about what they were saying about it. It was a difficult issue because a lot of the Democrats didn't want to vote for it either, because they thought politically it was too hot.

HICKE: Too much control by Big Brother?

DOERR: Yes. And of course the governor desperately wants this. I'm kind of shortening the story a little bit. So Jesse goes out on a limb; he really cashes in his political chips to get this through for the governor, OK? So the bills pass the assembly and go to the senate.

HICKE: How did he get it past. . . . Oh, you said he just sort of ramrodded it through with his prestige in calling in the chips.

DOERR: Yes. At that time it was a majority vote bill, so it went through. When the program goes to the senate, and it gets to the senate floor. . . . One thing I might mention is during this period of time, when it was first introduced, at that time it was just before Martin Huff became the executive officer of the Franchise Tax Board. So they had this person [John J. Campbell] who was in charge who was just dragging his heels. He viewed this proposal as an attack on the Franchise Tax Board for not collecting taxes. Because the governor says, "If we put in withholding, we'll get in all this extra revenue." "What do you mean? You're implying we're not collecting the money that's owed. You're implying we're not doing our jobs." So you had this administrator dragging his feet and not cooperating. After he retires--it's either '63 or '64--he goes and Martin Huff comes



in and turns things around. So he wasn't helping at all, and I don't know to what extent he got to people in the senate.

So the senate turns the governor down and defeats the bill.

HICKE: Because of the Republican . . .

DOERR: Well, the Democrats.

HICKE: And some of the Democrats also?

DOERR: Yes. The governor's so-called friends in the senate. So what happens is then they send the governor an unbalanced budget, which is not too uncommon these days, but at that time it was kind of a big thing. OK, we don't have the revenues to pay for what's in the budget, but here it is. So the governor says, "Well, I'm going to have to cut things out of the budget."

What actually happens, I don't know. Some of this material is in Jim Mills's book. I don't know if you've read that. A Disorderly House.<sup>1</sup> This is one thing I think he missed. I believe actions subsequent to the failure of the withholding bill were a factor in the deterioration of relations between Jesse and the governor, based on some of the time I spent with Jesse. Jesse really worked hard to get the withholding bill through for the governor. He had called in his chips, been a loyal leader of the party and the assembly. Then he goes down to talk to the governor after this happens about "What are we going to do?"

When he gets down to the governor's office, he sees the same senators who sabotaged the governor's program in the senate, sitting with the governor, helping him work out the list of cuts that are

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<sup>1</sup>. James R. Mills. A Disorderly House (Berkeley, California: Heyday Books, 1987).

going to be made in the budget. And Jesse is shut out. And Jesse just figures that is so outrageous, that he's been loyal and these guys have sabotaged him, and they're the ones down helping the governor make the cuts and figure out the strategy and not him. He was just livid, furious.

From that point on, relationships became more strained.

The governor cut a number of items out of the budget with the advice of the senate leaders, and then he put out the list, which is this list, which is an extra copy.

HICKE: Supplemental appropriations . . .

DOERR: He calls the legislature back--"I'll put these back into the budget if you'll pass the revenue program for me to fund it." So the legislature comes back and passes the corporation acceleration part of the program where the corporation tax was paid sooner, and I believe some sales tax adjustments were made to bring in some revenue.

HICKE: So then he did put these back in?

DOERR: Yes. Because the legislature did pass some bills generating some revenue. They didn't pass withholding. It did not pass. But one of the other things the senate decided at that time to do--because they were kind of looked at as the bad guys for the original opposition--was to initiate a comprehensive tax study. Instead of a joint effort with the assembly, the senate decided it's going to have a separate tax study. Jesse then decides if the senate is going to have a tax study, the assembly is going to have a tax study too. As a result, we launched into a big study; a lot of tax policy changes stem from that.



HICKE: That's this twelve-volume . . .<sup>1</sup>

DOERR: Yes. It came about as a result of the failure of this governor's original tax program and this fight between the assembly and the senate. There's a couple of other issues that were interesting in the '63 session. I'm not sure if that's when we had the Lockup, but I think it was. It was during this period.

HICKE: We can check that.

DOERR: Because I remember I was down on the assembly floor at the time, watching this going on, and people sleeping, and I think Assemblyman Bill Bagley sleeping in the . . .

HICKE: He was in the men's room, I heard? Or something, sleeping?

DOERR: I think he was in the ladies' room.

HICKE: Oh. [Laughter]

DOERR: That's what sticks in my mind, but . . .

HICKE: That would make a better story than sleeping in the men's room, that's true.

DOERR: But you see, there was only one lady legislator at the time; that's [Assemblywoman] Pauline Davis. It was called Pauline's potty. It was off the floor. It was a special room; it was different than just a restroom because there was only one person using it, so it was kind of fixed up. It was more of a lounge. As I understand it, having never been in it.

HICKE: Probably had a day bed or something in it.

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<sup>1</sup>. California Assembly Interim Committee on Revenue and Taxation, Assembly Interim Committee Reports, 1963-1965 (Sacramento: California Legislature, 1965).

DOERR: But a couple of other interesting things I do remember from the '63 session. Part of the '63 session for me was a learning experience in terms of tax policy, because I was trying to learn more about tax policy, although I had some college economics.

HICKE: State tax issues aren't exactly the same as what you learn about in college, either.

DOERR: There were two issues in particular that I recall. One was the Du Pont bill. This was when I got acquainted with [Assemblyman Philip] Phil Burton, who missed becoming speaker by one vote in the House of Representatives. He ran against [Congressman James] Jim Wright for majority leader, as I recall. Wright won by one vote.

Anyway, Phil Burton was assemblyman at that time, and he was larger than life, in a sense. He had an overriding presence. He was smart, but he was sort of abrasive. Not too many of the members liked him at all. The issue in this bill was the [U.S.] Supreme Court had ordered the divestiture by Du Pont of its General Motors stock. Or was it vice versa? But anyway, General Motors and Du Pont had this relationship, and the Court said that there was violation of free trade because General Motors was buying things from Du Pont rather than on the open market, et cetera, et cetera. The Supreme Court ordered a divestiture, so the question was, when they spun off all this stock, was a tax owed or not?

HICKE: To the corporations or the stockholders?

DOERR: The stockholders. Was this a dividend? Instead of a dividend, you got a share of stock which you could sell, which in a sense is somewhat the same thing as money. The tax officials in Washington ruled that it was a taxable dividend. Congress passed the bill to



make it not taxable, saying this was a tax-free reorganization, became unfair to people. The receipt of the new stock was not something they did on their own volition. This was forced on them by the courts, so this shouldn't be taxable.

HICKE: So it only applied to this one transaction?

DOERR: Yes, it was the Du Pont bill. So then the bill is introduced in California for the same treatment for California tax. This bill became a huge issue. And Phil Burton decided that he wanted to get into this. I developed background material on the bill. After reviewing the material, he decides that he is going to fight this bill.

HICKE: He's going to fight against this bill?

DOERR: Yes. He thinks this is wrong; he believes it is just a rip-off by these stockholders and not fair taxation. So he's going to try and stop California from doing this. He was smart, and he was energetic. I never saw anybody with more energy. He was always working on something. He knew the welfare system inside and out. All these provisions in welfare law nobody understood, he understood, and he could do things on the floor and could get things through before anybody knew what they were doing.

But he wanted to work on this issue. As I recall, the bill got out on the floor--went through our committee and got out on the floor. By then it had become a big issue, and people were talking about it and there were articles in the press.

HICKE: Which got out on the floor? The bill to . . .

DOERR: The bill to grant the exemption to the Du Pont stockholders. I'm a little hazy on what exactly happened to the bill, to be honest with you. I think it may have passed. I know it didn't become law. It

may have been that Governor Brown vetoed it. I think that's what happened, although maybe it was stopped somewhere in the legislative process. But I definitely know it didn't become law. So California taxed the stock distribution while the federal government didn't. The outcome was due to Phil Burton making it this big issue. He was calling union representatives that he'd worked with all over the state, having them intercede, so he had all this union pressure coming in. He knew how to work the system.

HICKE: But why was he so interested in this?

DOERR: Because he thought, from his liberal perspective, that was a rip-off by special-interest, high-income people that was wrong. It just struck him as wrong; he wasn't going to permit it.

This was really a good education, seeing how you could work the system. I adopted some of the things that I learned from Mr. Burton at that point, such as how you go outside the system to work the system. What I used to call later on, when I would do it, lobbying the lobbyists, so to speak. Instead of lobbyists lobbying legislators, legislators are lobbying lobbyists to get them to take a position which will influence the legislature as a whole.

HICKE: Oh, that's interesting.

DOERR: So that's when I first learned that so-called technique, which was invaluable many times. Many, many times. So I can thank Phil Burton for that.

I remember when the bill came to the floor of the assembly. I'm pretty sure it passed the assembly, because he had a bunch of funny amendments that he was trying to put in the bill. The first one was--and these were actually put out on the floor--was to title



the bill. So he said, "I move the bill be amended to title this bill 'The Aid to Needy Du Pont Stockholders Act.'" [Laughter] There was a series of amendments like that he put on the floor, just to embarrass people, which was again strategy I learned from him in terms of what you could do in a floor fight other than just argue against a bill flat out. You can use the amendment process to make a lot of points and dramatize them more than you could if you just stand up there: "This is a bill that's wrong because of A, B, C, D, E." People, they don't listen, they don't understand. But if you have five amendments and each one has to be debated, you get your points home really much more effectively than if you just stand up and make a speech against it.

HICKE: Oh, yes, that one you just mentioned makes the point very clearly.

DOERR: Yes. I learned that from him at that time. As you're immersed in this process, you're trying to learn all the time. I was there for quite a while and I worked on many bills, but I continued to learn from the process. That was an education. I remember sitting in Mr. Burton's office; he called the oilworkers' union official in Martinez or Antioch or Pittsburg, somewhere along there, to get him to put pressure on whoever he had influence with. He comes up and pats me on the back after this is over, says, "Boy, you really did a good job on this. I really am very pleased." Considering his reputation, this surprised me.

[End Tape 3, Side B]

[Begin Tape 4, Side A]

HICKE: You were just saying this is a little out of character for him.

DOERR: Yes, he rarely praised anybody. He just had his mission, and he set his goals.

HICKE: So maybe it was even more impressive when he . . .

DOERR: As his career went on and people recognized more how he operated and thought back on this episode, I thought he was a very interesting person. My colleagues on the staff also had concluded that he was brilliant, smart, abrasive. If he was less abrasive, he'd probably become president. But how far can you get with his skills but with his personality?

HICKE: So a little charm would have taken him a long way?

DOERR: Yes, well, he clearly would have been speaker of the House of Representatives. He lost by one vote. A lot of people there didn't like him. From what we heard, he had the votes counted. He had commitments, but when it went to a secret ballot there were members who stabbed him in the back because they didn't like his personality. He would have been speaker, and possibly from that he would have run for president.

HICKE: Did his amendments have an effect? Were they effective?

DOERR: Well, they didn't pass. On this bill.

HICKE: But he made his point.

DOERR: They were for debating points. The end result was the bill didn't pass, and it was stopped somewhere because of this tremendous pressure he built up through his amendments and through his lobbying the lobbyists. As I said, I think the governor vetoed it because of all the pressure that Burton had built up among the folks that were the governor's constituencies--the unions, et cetera, et cetera. That was an interesting little episode; it was 1963.



Another thing that happened in '63 which was interesting because it relates to subsequent events was passage of a bill called the Uniform Division of Income for Tax Purposes Act,<sup>1</sup> which was an apportionment system for corporate tax purposes. Later on people talked about it in terms of the unitary issues.

HICKE: So this was the beginning of the unitary system?

DOERR: In terms of the legislature, yes. Before that there had been some court cases and administrative actions, but this was a statute. Legislature bought into this system by passing this big act. I remember working on that bill; I spent quite a bit of time on it. Tom Knight was the president of the California Manufacturers Association. Of course, their support was needed before this bill could pass. This again was a Petris bill.

HICKE: I was going to ask you how it came about.

DOERR: The Franchise Tax Board gave it to Petris.

HICKE: And did they get it from other states?

DOERR: Yes, several states, as I recall, had done that. I couldn't tell you which ones. Several states were trying to adopt the same system, so the corporations all over the country would have the same rules to follow so you wouldn't be taxing more than 100 percent or less, which is still a goal but it's nowhere near reality. State systems are all over the map. So many businesses pay--if you take their U.S. income--they'll either pay taxes on a lot more than 100 percent of their income, or they'll pay a lot less. Because one state will determine state income by one formula, and another in a different

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<sup>1</sup>. 1966 Reg. Sess. Cal. Stat. ch. 2.

way. This was an attempt to try and get some kind of standardization. It was also the first bringing into California law this whole concept of unitary apportionment.

Tom Knight was with the CMA; he was the head of the CMA at the time. Bill Sprague was their lobbyist. I think Mr. Knight's initial reaction was to be concerned about this proposal, so we just had long discussions. He was not sure it was a good idea. But finally he acquiesced, sent a telegram that they were OK on the bill, and with that, the bill went roaring through because there was no other opposition.

HICKE: So you had to negotiate with Tom Knight?

DOERR: Yes.

HICKE: What was his objection?

DOERR: Some of the problems we've heard about since, that this was giving too much power to the Franchise Tax Board to fix the amount of corporate income. This was going to bring income into California that was for tax purposes that wasn't earned here. He was concerned about these things, but he didn't quite know, and nobody was quite sure at that time, how this was going to work.

HICKE: What it does is basically allocate a corporation's income to various states.

DOERR: Yes.

HICKE: But it was going to bring in more income to California than it had been getting before?

DOERR: No. We argued, and the analysis on the bill, I believe, said it was not going to do that. [Inaudible]

HICKE: So it was basically to make life easier for the corporations.



DOERR: Yes. That was our argument. My work on this bill was the start of my history with the unitary issue.

One other interesting bill at this time was a bill Nick Petris carried. This relates to Phil Burton again. Nick Petris decides, at the request of labor. . . . This was very interesting. Organized labor came in and said, "We'd like to have you introduce a bill to prohibit local income taxes." Nick says, "Fine," so he put the bill in, we push it through, and it's signed, prohibiting local income taxes.<sup>1</sup> That's still there; it's still in the law. So California doesn't have local income tax. Labor had been looking at the taxes in Pennsylvania and Ohio where a lot of communities levy local income taxes. They didn't like those; they thought they were unfair, et cetera.

HICKE: Didn't anybody object?

DOERR: Yes, Phil Burton objected. So he was furious because at the end of the session, of course, labor puts out their report cards. You often see these in the paper. Well, of course, labor had that on their list this time, because it was one of the bills they were sponsoring. Mr. Burton had voted against it because he thought there should be local income taxes. So the labor report card ranks him down on it. So he said, in fact it's the first and last time he's ever not been rated 100 percent by the AFL-CIO in terms of his voting record.

HICKE: But that was also one thing that he was unsuccessful in fighting?

DOERR: Yes, because labor was for it, and the Republicans just were all for it. Today that would never happen.

HICKE: That's a strange coalition.

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<sup>1</sup>. A.B. 661, 1963 Reg. Sess. Cal. Stat. ch. 812.

DOERR: Yes, it was very strange, the politics of that. Nick Petris was the author, he was the chairman of the committee. You had the Republicans and Democrats going along, and labor in favor. There was no way that anybody could stop that.

Another example of a position taken by an organization that was puzzling occurred in 1973. In 1972, as part of S.B. 90,<sup>1</sup> the schools won a cost-of-living COLA [Cost of Living Adjustment]. I thought, well, that's pretty significant for schools. Then the very next year, I'm attending a meeting down in the Department of Finance where we're trying to work on a so-called "trailer" bill to S.B. 90 with a lot of changes. And at the meeting the lobbyist for CTA, named Oscar Anderson, of San Francisco, is trading away this COLA that they'd won for a declining enrollment adjustment. It's like getting twenty-four dollars' worth of junk jewelry for selling Manhattan. I thought, "This guy's crazy, that's not in his organization's own best interest." But of course, the Department of Finance was anxious to make the trade. Here's CTA and the administration both agreeing. So the legislature passed the change and the CTA gave away their COLA. That was in 1973. They finally got it back again much later, but after they lost significant inflationary adjustments.

HICKE: Why did they do that?

DOERR: That's what I'm saying. People don't always act the way they're supposed to act. Once in a while you see that. I'll never forget that; I thought that was the strangest thing I'd ever seen. And it

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<sup>1</sup>. S.B. 90, Property Tax Relief Act of 1972, 1972 Reg. Sess., Cal. Stat. ch. 1406.



turns out--because then with inflation in the Carter years, schools would have received a great deal of additional revenue--one couldn't believe that they'd traded their COLA away. So of course their apportionments were held down. Eventually they did get a COLA later. But much later.

HICKE: After the big inflation.

DOERR: After the big jumps in inflation had passed and they'd lost out. But they had only themselves to blame. I would have never done that if I'd been representing them. I'd have told them. But people don't act the way they're supposed to act, and this is another example of what happened in 1963 when labor supported this prohibition against local income taxes.

HICKE: Another interesting thing about that 1963 bill is that it's never been changed.

DOERR: Right.

HICKE: How do you account for that?

DOERR: Well, it's part of the tax revolt now. Nobody wants the cities to have the authority to levy income taxes.

HICKE: Back to the COLA, do you think trading it away was this one person's decision?

DOERR: I don't know. The CTA relied on Oscar Anderson to give them advice on school finance. However, some school administrators were also concerned about declining enrollment.

[Discussions omitted]

Getting back to 1963, one thing Jesse told me at the time was that he had his influence in the Republican caucus. I don't know how widely that's known. Because he'd do favors for certain

Republicans. So he told me once that he got the Republican minority leader elected to his post. He pulled the strings for the Republicans he knew to have that happen.

HICKE: Who was that?

DOERR: His name was [Assemblyman] Charles Conrad. Nice guy. He was a movie actor. A bit player.

HICKE: I've never heard that.

DOERR: And interestingly enough, Conrad was a real conservative person.

At the time of the Lockup, Jesse thought his friends in the Republican ranks would stay with him. You see, a lockup is something that happens all the time, every day. A "call of the house" is routinely applied to bills that do not have the votes to pass on the first roll-call. When a "call" is applied to a bill, "The sergeant-of-arms will close the doors and bring in the absent members." It's done a thousand times a year; they lock the doors and bring in the absentees. So in a sense, the Lockup started out no different than any other call. The bill didn't have the votes and a "call of the house" was moved. Usually, proponents of bills in call go around and work some of the members, and Jesse would bring a few in and talk to them, and they'd switch votes, and bills would pass.

So when the Lockup started, there was no idea that members were going to be locked up for overnight or anything. It was just another bill, it was routine, lock the doors.

HICKE: So it started out as a perfectly standard procedure.

DOERR: Yes, it was standard procedure. That's one thing people didn't understand, because it got interpreted as this was intended and Jesse



was this Machiavellian person that was in charge of this. Then there was another provision--it's either in law or in the rules--that said you could require a person to vote if they didn't vote. As I recall, it wasn't that they were voting no; they weren't voting. So that came into play. Members were required to come and vote; they can't just sit there and not vote. The rules require you to vote. But as it started, it was started as any other bill: the bill didn't have the votes, so proponents put it on call to see if added votes could be obtained. And Jesse thought, because he'd influenced the election of the minority leader, after a while some Republicans would vote for the bill.

But I think--and this is what I heard, so part of this is just what I heard, and how true it is, I don't know--that the so-called Young Turks in the Republican caucus decided to make this stand to in effect try and take over the caucus, to gain the upper hand, which they did.

HICKE: The Republican caucus.

DOERR: Yes. The more moderate Republicans, so to speak. In retrospect, I think some of the greatest legislators that ever existed were in this group.

HICKE: Who were they?

DOERR: [Assemblymen] [Robert] Monagan, [John] Veneman, Bagley, Fluornoy, et cetera. That whole group. Alan Pattee. The whole group, the so-called Young Turk Progressive Republicans who were not philosophically close to Charlie Conrad.

So this was the beginning of that struggle for control of the caucus. This is what I was hearing, so whether this is true or not I

don't know. So that Jesse's Republicans couldn't afford to back down because it gave the other Republicans an opportunity to say that they were stooges of Jesse. Which of course made Jesse mad.

So he said, "Well, we'll make them stay here until they vote." Jesse went out to dinner and I guess he got pumped up. And I went back to my office for a while. Then I went up and watched the members. Nothing was going on, except the press was having a field day and there was a lot of posturing by the Republicans. It was a brilliant strategy.

HICKE: On whose part?

DOERR: The Monagan, Veneman, Bagley group. Now, I'm not sure that those are the reasons. That's what I was hearing secondhand.

HICKE: As a power struggle between and among the Republicans, really.

DOERR: Yes. Jesse wasn't able to cash in his usual Republican votes, which then made Jesse really mad. He just got furious. So he decided to force them to sit there until they voted. And of course, some of his advisors probably thought, "Well, maybe we ought not to do that," as I recall. Bobby Crown was in there a lot, and [Assemblyman Jerome] Jerry Waldie, and others whom he relied on, that he wanted to do it. Some of that's still kind of hazy now. That was my impression of what was going on.

HICKE: What about the aftermath?

DOERR: Well, it was a disaster for Jesse, because now he became in the eyes of the public Big Daddy. He'd locked up the Republicans, this was an abuse of power, et cetera, et cetera. It left this indelible impression in people's minds, that he was a politician, a heavy-



handed, crass person, from this one episode that I think he never lived down. It was too bad.

That was an interesting day and night.

HICKE: What happened on the Republican side?

DOERR: Well, they took over.

HICKE: The Young Turks?

DOERR: Yes. And then Monagan eventually became speaker. The whole group did a lot of good things for California when they got in control. But that comes later in the story.

HICKE: Are there any more things about '63?

DOERR: I'm sure there are. Let me see from this. [Looks through file]

HICKE: This Brown tax bill, I believe, increased inheritance taxes, corporation taxes, but no increase on the severance tax on oil.

DOERR: That was the '59 program.

HICKE: Oh, that was '59. OK.

DOERR: That's when he first became governor, he put through tax increases. That was part of the tradition, the eighth-year tax program.

[Discussions deleted]

[End Tape 4, Side A]

[Begin Tape 4, Side B]

HICKE: You've got a newspaper article?

DOERR: Yes. [Looks over article] The call girls scandal of '63.

HICKE: "Call Girl Probe Hits Moral Tone of '63 [Legislators?]"

DOERR: Yes, I remember that quite well, as a matter of fact. Not that I was involved in it, but I remember all the talk about it. I guess it was run through the El Mirador Hotel. At the time, the El Mirador was

where much of the action was after a legislative session. It was on 14th and N Street, across from the Capitol. It's now a retirement home. They had a bar at the top which overlooked. . . . It had really a nice view, and a bar downstairs that looked into the swimming pool. So you'd always find some legislators there. Jesse went over there occasionally. A lot of political functions were there. I met [Senator] Hubert Humphrey at the El Mirador. That came later.

People have commented on that. There's a great similarity--at least there was at the time--between him and [Senator] Milton Marks. The senator. In terms of looks and everything else.

What else happened in '63? Anyway, the call girls.

HICKE: You were telling me about the call girls.

DOERR: Yes. So this was a big deal, because this was going on.

HICKE: What was going on? They were hanging out in this hotel?

DOERR: They were hanging out in this hotel, and there were some folks who were supplying call girls to members as a tool of lobbying. So this hit the press, and it got a lot of coverage.

HICKE: Yes. According to this article, Chief Deputy Attorney General Charles O'Brien was investigating. The police chief was involved? Oh, he disagreed. "I don't agree at all that call girls were operating openly," he said. Was anything done in the legislature, or was it just strictly a back-room issue?

DOERR: It got in the press, and nothing ever came of it in terms of indictments or anything like that. But as far as I know--and there's a lot I don't know--I didn't really ever hear much about the use of call girls with respect to legislation after this. If it went on, they



did it very secretly. So even though this didn't result in anybody going to jail or anything like that, it did, in effect, end the practice, at least as far as I know. One person used to say, "This is ridiculous." The practice ended because as things evolved here, there was too much free competition. Legislators didn't have to be provided with call girls.

HICKE: They could get them easily on their own, is that what you're saying?

DOERR: Yes, there were enough of them in the Capitol that were willing to do that for free without any strings attached. Which is . . .

HICKE: The market was saturated?

DOERR: Yes. Which to a certain extent is true. Was true. Probably still is true. I mean, there was a lot of activity going on. It's one of the things you. . . . I'd like to see a study done sometime, but it's amazing, the number of members who come up here and then subsequently get divorces. It's always struck me as kind of an occupational hazard of being a legislator.

HICKE: I guess the rationale for that early on was that they couldn't bring their families up. They came up for shorter periods.

DOERR: Yes. Then they went out and wined and dined, found girls, and then the wife hears about it.

HICKE: But you're saying that that continued even when it became a full-time legislature and people started moving here?

DOERR: Yes, there's always been a lot of that.

HICKE: It would be interesting to compare that as an occupation with others.

DOERR: Yes. So I think that it may be the scuttlebutt that this went away because they didn't need call girls. There was more than a germ of

truth to it that there was a lot of other activity. But anyway, that was kind of one of the things that was overlaying the '63 session. That was gossiped a lot about.

HICKE: Was there starting to be more staff now?

DOERR: No. Most committees had one consultant and one intern in '63, and that's what we had on the Tax Committee, as I recall. In fact, my intern was named Paul Baker that year. He's a tax attorney now in Monterey. So the staff was still small; everybody knew each other. And that was again still an advantage in terms of working out problems that overlapped committee jurisdiction. The staff had not started to expand. [Inaudible]

HICKE: Were there any particular things that you found that you had to work on? You said you were learning during this session.

DOERR: Yes.

At the end of the '63 session, the assembly decided, in response to what the senate was doing, to do a major tax study. Jesse had started earlier, and I'm not sure when this started, a program of regular contacts with the University of California. We had a big dinner at a place on Seventh and O that's now a savings and loan, but it was a restaurant at the time; I've forgotten the name of it. Several people came to Sacramento from the university with the idea that the university and the legislature were going to work together in terms of the university providing information. This was one of Jesse's big ideas. There was a lot of research going on at the university, and the legislature could benefit from the ideas that were generated. This relationship has continued intermittently since that time. In the '74 to '76 period, we had another intensive



relationship. We had dinners with folks who come up from the university, like [Professor of Economics] George Break, et cetera, et cetera. Then we had dinners at the UC Faculty Club during the early eighties that were sponsored by [University of Southern California Professor of Law] George Lefcoe. Senator [Alfred E.] Alquist also sponsored retreats for his fiscal committee. But the whole groundwork was kind of laid in this period with Jesse.

So as a result of that meeting in 1963, we decided to have a little tax conference, just for Assembly Rev and Tax and Ways and Means Committee members who were interested. Jesse was there, Nick Petris, and we had the key legislative folks in the leadership. The university brought people from the various campuses. George Break was there, as was Harold Somers from UCLA, Malcolm Davidson from Berkeley, and Peter Gordon, among others. They gave presentations about the tax structure. We met at the house which is now where the president lives. He didn't live there then.

HICKE: At Cal?

DOERR: At Cal. That house. We stayed overnight there. I remember staying up in the upstairs bedroom, on the southeast corner. We began formulating ideas about what needed to be done with the tax structure, and thinking we really needed a comprehensive review of the tax structure. This pre-dated the committee's 1963-65 tax study. It was a kick-off, in a sense. It was important in more ways than one, because it gave us some ideas of what needed to be done. And we heard all this wonderful discussion.

HICKE: Was that where the people in the university sort of convinced the people in the legislature that there was the sales tax had always

been thought to be regressive, but that discussion turned around the thinking a little bit on that.

DOERR: Yes. This was a real good discussion. Senator Alquist said at a dinner during a Senate fiscal retreat at the Morrison Library [at UC Berkeley] in 1989 how he likes to do these retreats every year so that senators can study an issue and have the benefit of the academic people. He always refers back to this meeting we had in '63. Because he was on the Rev and Tax Committee, at that time.

HICKE: Yes, I was going to ask you about that.

DOERR: Yes, he was a member. So he went to that; he was a freshman member, I believe. It must have impressed him so much. So that idea lasted from that point until now. He said, "This is because I went to this thing that Nick Petris set up." He said, "Dave Doerr had a part in working this up and getting things put together." So anyway, the upshot was this was really the start of the tax study that we conducted.

That gets us into the next phase, which was the tax study. That comes after the close of the '63 session, lasting until 1965. That activity really consumes that whole period of time, because it was a major effort.

At the UC seminar I met a professor named Harold Somers from UCLA. I admired that man; he was easy to get along with and understood everything. We hired him as our consulting economist to help us with the study. I did the coordination from the legislative level and he did it in terms of bringing in academics and reviewing material that was coming in. He played a major role. He



was our chief academic person on the study. I worked with him a lot.

Harold Somers. . . . I've quoted his advice for years.

Remember I told you about the Ralph Brown Rule?

HICKE: Yes.

DOERR: I have the Harold Somers Rule. Every time I get a new staff person to work with me, I say, "You have to learn some of my rules." One is the Ralph Brown Rule. The second is the Harold Somers Rule. This rule comes about from concerns and pressures of writing reports. And it works. It worked with my daughter's wedding, even. So it works in all cases.

Because I was just petrified during the study. I was still young, trying to manage this huge study, a heavy responsibility. And, you know, I want everything to be perfect; everything has to be perfect. I'm sweating bullets for two years. So he's always, during the study, calming me down. He says, "Don't worry." We did the property tax piece of the study. We farmed out some of the other pieces. A fellow I'll come to, named Ray Sullivan, and I wrote the property tax study, which was a very huge study. So I'd have these discussions with Harold Somers: "Oh, my God, what about this? We need to cover this. How are we going to cover that? We need to cover this." And then he'd make the point, "Don't worry about it, don't worry about it. What you're going to do is fine. What you don't put in there, people will never miss, because they won't know that it should have been there in the first place."

Generally, what you don't include, people don't know that it should have been included, so they don't miss it. That's what I call

the Harold Somers Rule. That's maybe an obtuse explanation, but I mentioned my daughter's wedding. She was so petrified that things weren't going to go exactly as planned. I kept telling her, "Nobody will know if they don't go according to plan because nobody knows what the plan is except you."

HICKE: Excellent point. That's right.

DOERR: I said, "So don't worry about it." If somebody makes a mistake, nobody will know it's a mistake because they won't know that it wasn't planned in the first place. I said, "This is the Harold Somers Rule." You see, I always taught that to my staff, saying "Don't worry about. . . ." They would be doing a bill analysis. They'd be very worried about "I'm going to miss a couple of points here." I said, "Once you get the analysis out, nobody's going to notice what's not there. So you don't have to worry about it."

HICKE: That's an excellent point.

DOERR: I've used the rule with the Cal-Tax [California Taxpayers' Association] staff. They're worrying about a conference and how well that's going to go. I said, "By definition it's going to go well, because people don't know anything else. They won't know that you invited So-and-so and that he didn't come. All they see is what's there, and so it works."

HICKE: That's a nice opposition to Murphy's Law, which says that everything that can go wrong, will.

DOERR: Yes, it's exactly opposite.

HICKE: I like that much better.

DOERR: Yes, it's the Harold Somers Rule. So God bless him. He saved me, probably from getting an ulcer and a lot more with a nice little rule



that was just based on common sense. And he had a lot of common sense to help us through this thing, as well as the academic talents.

HICKE: He was a professor of tax?

DOERR: No. In fact, he was the head of the department down there: Economics and Social Sciences. He was also a lawyer, so he was an economist and lawyer. He actually did some teaching on the side at Yale Law School. But very unpretentious. So that's how we got acquainted with him, at this seminar. We hired him to do the tax study.

HICKE: That seminar had a lot of far-reaching consequences.

DOERR: Yes. The seminar spawned all these other activities over the years. That's again giving credit to Jesse, who wanted to make this happen. He thought it would benefit both the legislature and the university.

We had a series of these meetings in the seventies that John Cummins used to set up, and I really thought it benefited both parties a lot, because we did a lot of what you might call pure research. After the tax study and as I went on into the seventies, I got more and more interested in doing studies. We had access to data that university professors didn't have. I could go in and get the Franchise Tax Board records and say, "OK, we can use this to do this, check this and that." So we were able to bring to the seminars a lot of information that was just right off the firing line, so to speak. It was very academically oriented.

HICKE: They had facts to back up their theories?

DOERR: Yes, as we got into this relationship. Now, this started in '63 at the first seminar.

HICKE: Yes. Nineteen sixty-three sounds like quite an exciting and important year.

DOERR: Yes. It is appropriate now to review the 1963-1965 tax study. Because that's really important. I think I should talk quite a bit about the tax study: how we organized it, what we did. I mentioned I invented the omnibus tax bill as part of the study.

HICKE: Yes.

DOERR: That came out of the tax study. And then one other thing--because this goes into the tax study--right at the end of the '63 session, I met this very interesting man, whose name was [Phillip] Phil Watson. He was just elected assessor of Los Angeles County. He was elected in '63, so when he came up to see me towards the end of the '63 session, he was new and I was new.

I went to the assessors' conference in 1963 for the first time. Watson was telling me how he used the Max Rafferty campaign organization to help him get elected assessor. He had the same constituencies. But anyway, he was a reformer in his own right, because he somehow had got wind of the hanky-panky that was going on by some assessors.

HICKE: This was what was going to be the scandals?

DOERR: Assessors' scandals. So he was telling me. . . . He was feeding me information: "You should check on this and check on that."

HICKE: So you knew that you could. . . . You saw that coming?

DOERR: Yes. And as you see, when we got into the tax study, we concentrated on the property tax. We wrote the property tax piece. Then we came out at the end of the study with a laundry list of property tax reforms which we thought were essential. We had no



proof of any wrongdoing, just what I'd been picking up from Phil, plus a lot of his ideas for what we should do to reform the system.

At the Los Angeles airport in 1964, we had a big meeting to discuss property tax reforms we wanted to adopt, and we put them into our bill which came out of our study in '65, which was the Petris bill, which didn't pass. But then the assessors' scandal became public, and all these reforms passed in '66.

So the initial tip-off regarding the assessors' scandal came in these meetings I had with Phil Watson in '63 when we were both kind of new kids on the block in terms of tax. He was a brand-new assessor, I was just the first year as consultant to the committee.

We developed an omnibus bill out of the tax study, including all the suggestions for property tax reforms, none of which was immediately adopted after the tax study, because our bill was killed in the senate, partly due to the feud between Unruh and Miller. But they--all but one, I think--eventually were adopted. So they're all on the books now. It took from '65, when we made the report, to '79 to get all basic suggestions we made into law. So it took fourteen years.

HICKE: Never give up hope?

DOERR: Yes. I saw it through from beginning to end. So I tell people. . . .  
I use that as a story.

[End Tape 4, Side B]

[Begin Tape 5, Side A]

DOERR: Members get discouraged when they don't get a bill passed. I said, "Well, wait a minute. Let me give you this story. We had this tax

study, we had all these wonderful reforms; it took us fourteen years after we did the study and had the research supporting what we wanted to do, and then it took time to get the political process to act to eventually accomplish what we wanted to get done. So you don't need to necessarily give up hope that because what you're trying to do now doesn't pass. You may have to wait ten years." And I use, of course, the same story for unitary reforms. We had the first big unitary hearing and study in '79. It took us to '86 to get that done. Seven years. So these things don't happen overnight.

HICKE: Another thing to remember to avoid ulcers?

DOERR: The Harold Somers Rule.

HICKE: Yes. It's not going to happen immediately.

DOERR: Yes. Which goes to this. I know I'm leaving things out, but what I've left out, nobody's going to miss.

HICKE: Oh, I know, but. . . . That's true.

DOERR: Because they won't know that I knew it in the first place, to put it on the tape.

HICKE: But if you remember any, but when you're looking at the transcript, you can add a note here and there.

DOERR: When I get some more free time.

[End Tape 5, Side A]



[Session 3, March 23, 1990]

[Begin Tape 6, Side A]

HICKE: Last time I think we talked about starting this time with a little background and historical perspective on California taxes.

DOERR: Yes, I think we did. And then we'll start talking about the tax study.

HICKE: And then the tax study is next. I don't know if you want to see this chronology I did from your tax study, but you probably know it by heart. It starts at '53.

DOERR: What do you have?

HICKE: There are some other things I added into it. I think yours actually starts back in the 1850s, doesn't it?

DOERR: Yes.

HICKE: So that's the place to start.

DOERR: This is going to be a thumbnail sketch of how the tax structure evolved. In the past we've talked just about tax structure from 1850, but I thought since California was here before 1850, maybe we'd go back a little further and start during the Spanish and Mexican period, since we were California then. Basically, during the Spanish period there were just taxes on imports and exports. In 1817, there was a 12 percent tax on imports.

HICKE: This was collected by the local . . .

DOERR: By the Spanish governor.

HICKE: . . . Spanish governor?

DOERR: In 1820 it was reduced to 6-1/4 percent. That was still with the Spanish. I think the revolution was 1821, wasn't it?

HICKE: Yes, that's right.

DOERR: When the Mexicans threw out the Spanish?

HICKE: Right. Mexico declared its independence.

DOERR: Besides these, the Spanish had a few other things they gained revenue from: from the sale of indulgences, the tithe from settlers who had been in California more than five years, from a tribute of one fanega of corn levied on each settler from the postal service, and from sale of tobacco, which was a government monopoly.

HICKE: Well, now, those first things would have gone to the church, is that right? The tithe and the . . .

DOERR: I'm not sure about that.

Anyway, the figure for 1821 was. . . the total receipts were about \$35,000 in taxes.

HICKE: [Laughter] Things have changed, yes.

DOERR: Yes. The Mexicans took over; in 1822 they levied an import duty of 25 percent and an export duty of 12 percent. An anchorage tax, tonnage duty. And in 1823 they enacted some taxes to build and repair highways, support schools, and defray costs of legislation. So there was an export duty of 6 percent, a tax of eight to ten dollars on every barrel of brandy, a tax of four dollars on every barrel of wine, a . . .

HICKE: On exported, is that what we're talking about?

DOERR: I think this is just a consumption tax.



HICKE: Oh, OK.

DOERR: A slaughter tax of one real on each head of cattle or sheep killed, and two reals on each hog killed. So you see, in a sense some of the things that were taxed way back when are still intact. In fact, the taxes on brandy are lower now than they were in 1823 during the Mexican period. And they were spending it on some of the same things that we are spending money for: roads, schools, general government administration.

HICKE: Yes, that has a very familiar ring--roads and schools.

DOERR: Yes.

HICKE: Those would have been horseback or wagon roads in that time.

DOERR: Yes. Not paved roads, but just roads for wagons and horses.

HICKE: I wonder, maybe city streets?

DOERR: Yes.

Anyway, then when California shifted to control by the United States, we went on taxing property. In 1850 the first legislature imposed a tax of fifty cents per hundred dollars of assessed valuation.

HICKE: Property?

DOERR: Of property. And that always went to the state. You had to set up county assessors then to value property. I don't know at the time how property was valued, whether it was valued at its full cash value or whether the assessors were valuing at some lesser ratio. But let's assume that it was valued at full cash value, at a 50 percent tax rate; that's in a sense a 1/2 percent rate. Now, the most recent studies we have right now of Prop. 13. . . of course, we have a 1 percent rate, but the average value is about half of its

full cash value. So the actual property tax now in terms of burden, assuming they were assessing at full value in 1850, would be the same as it was in 1850. So the more things change, the more they stay the same.

They also, at the first legislature, imposed a \$5 poll tax, a \$240 foreign miners license tax, duties on the sale of property at auctions, a \$2 yearly military commutation tax.

HICKE: Was that to get out of the military?

DOERR: Yes, to get out of service. Well, that sounds like a good investment for two dollars. In 1851 they added a gaming license tax, which we have again in the form of a lottery. In 1852, a business and occupations license fee. In 1862, a 2 percent insurance premiums tax, which is now 2.37. So it's very close to what we started with.

Now, from this period, for about the first sixty years, let's say, property tax was the mainstay. Essentially, it was the same level as it is now, so you can assume it was, in terms of the structure of government, generating relatively a lot more money, it seems to me. Costs were so much cheaper, I would assume. I don't know for sure, but it was apparently adequate for the time. And it was the mainstay for state and local government.

HICKE: The percentages were higher of revenue from this form of tax . . .

DOERR: Oh, yes, that was the mainstay of the whole revenue system. But see, it was administered by the county assessor but spent for state purposes. So this created a tremendous amount of problems, because why should the counties keep the assessments up? They could lower their assessments, vis-a-vis some other county. They



would have to pay less of their statewide share than somebody else. So the system set in a tremendous incentive.

HICKE: Sort of a price war.

DOERR: Yes, to undervalue, because you'd get a better deal, because the statewide tax rate was a fixed amount. I have a note here that in 1864 the tax was \$1.25 per hundred of assessed value, which is 1-1/4 percent--which is a higher rate than it is now--at the end of the Civil War. As the rate goes up, of course, you get more incentive than to reduce the values and try and shift the burden to other counties. So this created a huge problem for the state.

So in 1870 they set up a State Board of Equalization, which was set up by statute and I guess had some constitutional difficulties, so in 1879 they set it up by constitution, which it is now, it's a constitutional body. But you see, for the purpose it was aptly titled at the time. It was designed to equalize the assessments in the various counties because of this problem of the assessors undervaluing property. And it was indeed the State Board of Equalization's responsibility to protect the state's tax base.

HICKE: That makes sense.

DOERR: And it worked along those lines.

HICKE: How did they do this? By supervision of the . . .

DOERR: . . . counties, and issuing orders. They were authorized to issue equalization orders to raise the assessment levels in counties, based on the ratio of assessed values, the full value, and the comparison between counties. Which is a function then they did from 1879 through 19. . . . Well, they had the authority though 1978. I'm not sure when the last equalization order went out; I'd have to check

that. It was some time before '78. They issued orders nearly up to now, because you continued to have the problem throughout history that counties would underassess.

Later on, when we got rid of the statewide property tax, it wasn't the problem of the statewide property tax, it was the way the school formulas worked. State aid was based on local property tax capacity, and of course if you had less capacity due to low assessments, you got more state aid. Unless the state came along and jacked up your assessments to make them equivalent.

So you had that problem continually--from the early days when you had a statewide property tax through the end of the 1970s--for school aid. And then Prop. 13 changed all that. So we don't have a Board of Equalization in the classical sense, because that function stopped with the passage of 13.

By the start of the twentieth century, there began to be agitation. You kind of can put the tax structure into four periods--well, five, if you count the Spanish and Mexican periods. So that was the first period. This was the second period, which was the property tax period. And the third period began with people being grumpy about taxes. There were a number of tax studies in the 1900 era, around 1900. So they did a lot of discussing.

HICKE: Was that part of the Progressive movement?

DOERR: Yes, the Progressives. The so-called separation of tax sources. The state would relinquish the property tax of the local government, and what they would do in lieu of that would be to adopt an increase in the insurance tax, impose a franchise tax on banks and corporations, and a gross receipts tax on utility companies in lieu of property tax.



HICKE: Could you elaborate on that separation of tax sources a little bit?

DOERR: Yes. The state turned over the property tax to local government.

HICKE: It was a state tax, but it was turned over to the local government?

DOERR: Yes, it became a local tax.

HICKE: Oh, OK.

DOERR: This was when the property tax became the local government tax. In 1911, for example, 70 percent of state revenues came from property taxes. In 1913 the property tax share dropped to 44 percent.

HICKE: This is the state share?

DOERR: Yes.

HICKE: OK. And the rest of that then went to the counties?

DOERR: Yes. But see, what the state did keep was in effect the taxation of railroads and utilities, but they did it on a gross receipts basis. They didn't pay a property tax under this plan, so the locals taxed certain properties and the state taxed others.

Then this led to problems. In 1921 it got out of kilter. Probably one of the fiercest tax battles in legislative history came in 1921 on the King Tax bill.<sup>1</sup> Franklin Hichborn has almost an entire book on this legislative battle. The argument was that, well, the utilities under the gross receipts tax were paying a lot less than they would have paid had they been subject to property tax. In other words, in effect the two systems got out of alignment; so there was a fight to bring the utility taxes back to the level they would have been.

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1. "King Bill," (1921) 44th Leg., Second part, Cal. Stat. ch. 22.

HICKE: Hichborn discovered this?

DOERR: No, he wrote about it. It appears to be one of the biggest tax battles in California history, this big fight. It was first defeated; it was reconsidered. They had to get a two-thirds vote. They finally brought it across so that the bill passed.

HICKE: Do we know what the bill was, or any way of identifying it?

DOERR: The King Tax bill.

HICKE: Yes, you mentioned that.

DOERR: I don't have a bill number, unfortunately.

HICKE: OK, well, we can probably find that.

DOERR: Then in the twenties, with the car becoming a more important feature of life in California, we had the registration fees, the gas tax, and truck taxes imposed in the twenties to help defer the cost of providing roads for the vehicles.

HICKE: Registration fees and then gas taxes?

DOERR: Yes. This was the tax system that the state operated on, so this was the third period, the separation of sources, which would have lasted through the teens, the twenties, and into the thirties. Of course, the Depression hit, and this created a lot of problems, so in the thirties you had the next major revolution in taxes.

HICKE: Is that the Riley-Stewart?

DOERR: First you had the Riley-Stewart Plan, which was designed to reduce property tax burdens. The state took over more of a share of the public school cost.

HICKE: It reduced taxes but it took over more responsibility?

DOERR: Yes. Schools were fully funded by the property tax, and this started the state's participation in funding of schools, so the property tax



rates could go down. It also gave the utility property back to the local roll. Put them back on the property tax and repealed this gross receipts tax. To do this, they enacted a sales tax.<sup>1</sup>

HICKE: That meant that the income from the property tax on utilities now went to the county.

DOERR: Yes, like it does now. It's a property tax.

HICKE: Instead of to the state?

DOERR: Yes. Because during this period, between 1910 and 1933, utilities were exempt from property tax and paid the gross receipts tax to the state. That was pretty much a major state revenue source. Now it went back to part of the property tax, enabling burdens on property taxes to be, along with the assumption of school costs, to be less so that people could hold their property during the Depression. There was concern that people were being taxed off their property, because they were having trouble making payments.

HICKE: They couldn't pay the tax.

DOERR: Yes. So it was in response to the Depression, and they enacted the sales tax.

HICKE: That's to make up for this lost income from the state?

DOERR: And to fund the schools. You may have heard from years later, "California enacted a sales tax to fund the schools. Schools shouldn't be on the property tax." This belief stems from this argument. People were calling the Riley-Stewart Plan the state plan to use sales tax to fund schools.

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1. Retail Sales Tax Act of 1933, 50th Leg., 1933 Cal. Stat. ch. 1020.

Then California enacted in 1935 the personal income tax,<sup>1</sup> which had rates from 1 to 15 percent, depending on income, which were higher rates than we have now, interesting enough.

So you had in the thirties, these major state taxes, and you had adjustments in other taxes--alcoholic beverage taxes, et cetera. That pretty much then brought us into the fourth phase . . .

HICKE: Let me just interrupt. The Franchise Tax Board: didn't that come into being somewhere along here?

DOERR: Well, it didn't come into being until later. As I recall it, there was a franchise tax commissioner.<sup>2</sup> You see, the franchise tax started, remember, some time before, so they just took the income tax into that program. And at some point here--I'm not sure I can pinpoint when we established the board--but there was a scandal with the tax commissioner so that they had to change the structure and they created a tax board. It was due to the scandal, which usually causes change in government structure. It probably in the long run doesn't mean anything.

HICKE: On the other hand, maybe we need a few scandals occasionally, to get changes?

DOERR: Yes, at least it changes the faces. It may not change policies.

HICKE: Oh, I see.

DOERR: So this is the thirties, then. We started at the beginning of the, you might call it the modern tax structure with the sales tax and income

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1. Personal Income Tax Act of 1935, 51st Leg., 1935 Cal. Stat. ch. 329.

2. Office of Franchise Tax Commissioner created by 48th Leg., 1929 Cal. Stat. ch. 13.



tax to fund state government. We already had motor vehicle and the other little taxes. The property tax went off to local government, in total. We pulled up much more of the school costs of the state. During World War II they reduced that 15 percent tax rate down to 6.

HICKE: This is the income tax?

DOERR: Yes. Because they didn't need the money.

But this whole period from the mid-thirties, the tax structure, you can see it change in relative amounts, but the idea was pretty much the same through the last of the thirties, the forties, and the fifties. So that was that structure.

I would say even in '59, when Governor Brown came in and pushed through his tax program, it really didn't change the basic structure very much. They added a cigarette tax--a three-cent-per-pack cigarette tax. The income tax went from 6 percent to 7 percent. They raised the bank and corporate tax from 4 to 5-1/2, and doubled the tax on beer. If you look at these global changes, those are tinkering. Those are incremental changes in an existing system.

It is open to debate how long this period stretches. It started in the thirties with what I call the era of the diversification of the tax structure. So we have the property tax, separation of sources, the diversification. So that's the fourth era, counting the Mexican-Spanish era.

Then the fifth era: there are differences when we should start this era. This I call the era of property tax reform and relief, because it could start from when we did our study, it could start

from Prop. 13, which really completed the property tax relief effort, in a sense. But that was another upheaval in the tax structure, which was comparable to the 1910, the 1933-1935 changes, and then you have this huge change coming about in 1978 which had been simmering since about 1965.

HICKE: OK, so you've got a period of fermentation there.

DOERR: Yes. With the culmination with an epoch-type action. So those are the five eras: the Mexican-Spanish era, the state property tax era, separation of sources era, the diversification of the tax structure era, and then the property tax reform and relief era, which is what we're still in primarily right now. There haven't been any major changes in the tax structure since passage of Prop. 13.

HICKE: That really clarifies the historical picture a lot.

DOERR: Yes. And we'll talk more about it. As we get into the tax study, we begin to see how this new era evolved. Did it start with the tax study? Did it start with 13? It started in a sense with the tax study, but it culminated with 13. When we actually try to put a starting date on it, it's just up to how you want to look at it--at the start of the agitation or the culmination of the changes.

So that takes us through how the California tax structure evolved in the different periods. It's a really broad overview, but I think it's pretty . . .

HICKE: It's very helpful in looking at the present situation and the recent past.

DOERR: You get the feel for change and how things evolved. And how things stay the same.

HICKE: That's good. Thank you.



- DOERR: So I guess now we go back to the tax study.
- HICKE: Right. Do you want me to pull that down? You know it by heart.
- DOERR: I know it pretty well, but maybe it would be nice to have a . . .  
What we're getting right now is a box that holds a series of reports.
- HICKE: Yes, it's nice to have them all boxed together in a slip case.
- DOERR: At the last minute, we didn't know how we were going to put these out. Harold Somers said, "Let's put them in a slip case like this; it'll really make it a lot more attractive." That was one of the things that just sold it, among other things: just the packaging, that you never had with this kind of report issued in this way before. You always just had them floating around in little pamphlets.
- HICKE: It has how many pamphlets?
- DOERR: There are twelve volumes in the study that fit together in this little slip case.
- HICKE: It makes a wonderfully easily carried-about package.
- DOERR: Yes. So I will begin to talk about this, because this is how I got my reputation in taxes: doing the study. In 1963 I was an unknown quantity in terms of taxes. I'd worked on other things, but nobody knew quite what to expect. As we got into this tax study, people took a look at it and thought, "Wow, this is really pretty good." We've had good reviews. People tell me they still have it and they still use it. It's lasted for a long time, so that's good. We wanted to do a study of the tax structure, to see what should be done to make it better, but also to try and put out material that was easy to understand so people could understand what the tax structure was like and how it worked. So it would be a useful tool.
- HICKE: Whom did you see as a consumer? Legislators?

DOERR: One is legislators, because they're just average people. They aren't technicians in taxes; so for them you're writing for an average audience and you want them to understand it. And then people in town, people in organizations. The various groups that follow legislation. And the academic world, too, to a degree.

I think we went into how this study came about before.

HICKE: We did.

DOERR: The senate wanted to do a study, and the assembly felt that it had to respond in kind and we had to do our own study. I think we talked about Harold Somers at some point before, how we got acquainted with him, and he became our advisor.

So then I guess after the end of the '63 session we said, "How are we going to do this?" And that was the first step.

[End Tape 6, Side A]

[Begin Tape 6, Side B]

DOERR: The first thing we decided to do was to take stock of where we were. We did this through research, through help from the tax agencies and through a committee hearing. That was to go through what I've just gone through in terms of how the tax structure evolved and what it looked like in 1963. That's the point of departure. So we did that. I remember having the hearing at the Oakland Airport, which was the first hearing on this.

HICKE: Who came to that?

DOERR: All the members of the committee, and then there was a large audience of interested parties. It was a preliminary look at the tax structure, of what it was at that time. In organizing the study, we



did it on a three-pronged basis. We'd have the committee hold hearings on specific topics to get input. At the same time, we had research done which was embodied in a lot of these books.

HICKE: Statistical research?

DOERR: No, just policy research on all the various taxes. What we did was we interviewed a number of academic people and we contracted out for certain studies. After this preliminary work, we knew what we wanted to have studied, so we talked to. . . . And of course Professor Somers knew all these people, and he did a couple of studies himself. He did the sales tax. A lady named Corinne Gelb did the income tax piece. Alice Vandermeuten did the fees and licenses. The alcoholic excise taxes on cigarettes and alcoholic beverages, Ellis Austin. Financing local government, Wilma Mayers. Insurance tax, Sylvia Lane. Capital gains, death, and gift taxation, Harold Somers did that one. And he did the corporate income tax. So for most of them, you see, we contracted out for the academic studies as well as doing the hearing process.

HICKE: Did you just have a free hand to go ahead and do whatever you wanted to?

DOERR: Yes, fortunately the Rules Committee gave us a free hand, which in retrospect, I think, is really surprising, because they let us go ahead and do what we wished to do. And they didn't know whether we were going to be able to pull it off; in fact, they were somewhat worried at a couple of points.

The biggest one, the biggest volume in the whole study, and as far as I'm concerned, the most important, is the one we did ourselves. This was written by me and my associate, Ray Sullivan.

HICKE: And what's the title of that one?

DOERR: Property Tax.

HICKE: Yes.

DOERR: At the end of 1963 I had an associate in the office named Ray Sullivan who had just graduated from Cal. Again, I didn't know who he was. He was a friend of Nick Petris's law partner, who was [Edward] Ed Fitzsimmons. So I didn't know whether he was going to be any good or not, but he was really a quick study and had a good mind, and it worked out very well. He was very helpful on the study in terms of analysis and research, et cetera.

So while all these other studies were going on, we were doing the property tax study and going through just nuts and bolts--how the base rates exemptions, the problem with the county equalization assessment practices. So we got all into the problems with assessment practices, and we got into tax burdens and the fact that property tax was inequitable in terms of . . .

HICKE: The equitability of it.

DOERR: Yes. All these various issues, and then special problems with specific kinds of property. So it got to be a very large report as a result.

HICKE: What kind of guidelines did you set for the reports, both yours and the others?

DOERR: They just evolved, really.

HICKE: What was their agenda?

DOERR: To thoroughly look at the tax and how it worked and what the problems were, and that's what we did. It may have been really just pure luck this came out as well as it did.



HICKE: I don't think it could hardly be pure luck. [Laughter] I disagree on that one.

DOERR: There was a chapter on property tax and land use, for example. It was going into the whole issue of how the property taxes were affecting land-use decisions.

HICKE: Oh, interesting.

DOERR: So there's a lot in here more than just a list of assessed values. We went into the welfare exemption to see who was getting the exemption, what kind of standards were being set. We had the Businessmen's Art Institute getting one, all kinds of weird ones.

HICKE: Under welfare exemption?

DOERR: Yes. "The members received instruction of paintings at a cost of a hundred dollars a year." Including fifty dollars from the Los Angeles Dodgers. [Laughter] It went into the nitty-gritty. It was fun; it was very time-consuming, as you can see.

HICKE: Was it mostly talking to people, or library research?

DOERR: Yes, a lot of talking to people. This was when I first went down to my first assessors' conference. I remember that well. This was held in November of '63 at the Ambassador Hotel in Los Angeles. So I went down to see who these people were that were going to be studying. And I'd met Phil Watson earlier, at the end of the legislative session, because he was a brand-new assessor. So I knew a few people, and then I just started getting acquainted with all the assessors. What I'll describe continued for a few years, but then eventually it ended.

It was an incredible event. I mean, it was something out of Arabian Nights. They had all these hospitality rooms like I'd never

seen before. And they had this reception which was just the most glittering. . . . All the food, and wine, and music. . . . it was just so overwhelming. I thought, "Wow!" Because here were the assessors, who were . . .

HICKE: They hosted it?

DOERR: No, they didn't host it.

HICKE: Who hosted it?

DOERR: All the people who were being assessed.

HICKE: Oh, OK.

DOERR: So you had a situation where they were treated like royalty. The assessors were treated like royalty because of the absence of standards, which we got into as we went into the study. And all the things that were going on, they were just absolutely. . . . it was not like a democratic government. They were autocrats that had life-and-death power over the property tax bill. I mean, that was it. They weren't checked.

So anyway, that helped us get started, to talk to people at these kinds of meetings to see why this was happening, what was going on, doing research in the property tax issues. Just pulling it all together and putting it into a report.

HICKE: How long did this take?

DOERR: This took about all of '64. About a year to do the study.

HICKE: That's really amazing, I think, for what you came up with.

DOERR: So we're spending this year doing this. Going out in the field, and studying records, and this and that and the other thing. One of the things we did here, you have redevelopment in here [Looking at outline], what was going on with redevelopment. We compared the



taxes in Berkeley--this was fun--with the taxes imposed by Alameda County.

HICKE: You mean city taxes?

DOERR: Yes. You see, at that time, some cities had their own assessors, strange as that may seem right now. That's a stupid government policy to have two separate assessors assessing property, but we did. We went into timber tax, went into taxes of trailers, personal property tax problems. Economic and psychological limits of the property tax.

HICKE: Oh, that sounds like a good one.

DOERR: Which is kind of the issues we have today, in talking about problems with the elderly.

HICKE: What happened when you compared Berkeley and Alameda County to each other?

DOERR: You saw these grave distortions between. . . . The city of Berkeley is at this level [hand held high], and Alameda is at this level [hand held low], and what's going on here? Why is this such a difference? So of course we came to the conclusion that these folks had to go. Let's see, here's differences in assessment, city of Berkeley versus Alameda County. These may not look so big now because the assessments were smaller, but at the time . . .

HICKE: Percentage is what you . . .

DOERR: So we just showed. . . . And it's the same property, you know, with these grossly different values, and there wasn't any uniformity at all. Just a lot of things we had to go into, so it took a lot of time.

HICKE: Here's one [tax] that's almost double in the city. It's just somebody's private home, it looks like. Sixteen twenty-six Francisco, and it's \$9,860 city assessment and \$5,750 county assessment.

DOERR: Yes. That made no sense. We stopped that in a hurry.

HICKE: [Looking through list] In general, the city assessors seem to be higher.

DOERR: Except they were lower on a lot of property, too.

HICKE: Well, OK, I'm coming to some where they were lower now. Yes.

DOERR: So if they were uniformly higher and had a lower rate, then it wouldn't be so bad, but it was just . . .

HICKE: It looks like on the residential property they were higher, but on the commercial property they tended to be a little bit lower.

DOERR: Anyway.

HICKE: Well, for the people doing the other reports, did you evaluate the reports before they were printed?

DOERR: Yes. We had meetings and discussions of what they were getting, finding, and what they were . . .

HICKE: All along?

DOERR: All along. We monitored it, and of course Harold Somers was very helpful.

We'd been spending a good deal of time on this, so let's move to the end of 1964 now. And a couple of things: one is that the assembly leadership, Speaker Unruh and Bob Crown and Tom Bane and some others, were getting nervous. We had started the study in '63, they had invested their own political reputation on the project.

HICKE: And they didn't know what was going to come out?



DOERR: They didn't know what we were doing. We could have been incompetent and the thing would have fallen apart. Of course that was partly our fault, because we were keeping Nick Petris, who was the chair of the committee, informed. We weren't keeping anybody else informed. Everybody was really nervous; so they decided they'd better have a meeting and find out what's going on.

By this time--this was towards the end of '64--while we had been working on all these studies, we'd been kind of doing our own evaluation too of what recommendations would be appropriate. We're getting the feedback and the information coming and trying to decide what to recommend.

So we sat down and discussed. . . . basically Ray Sullivan, Nick Petris, and I decided *this is what needs to be done*. So we put this program together, which we called "The Program for Tax Reform in California."

HICKE: OK, that's one of the volumes.

DOERR: Yes, this is the last one.

HICKE: It must be, yes.

DOERR: Which was the culmination of the others. Jumping ahead a little bit--they loved it. I mean, they just absolutely loved it.

HICKE: Tom Bane and Bob Crown, or everybody?

DOERR: Everybody. Jesse just thought it was excellent. It became known as the Unruh-Petris Tax Bill. Or Petris-Unruh, however you want to call it. It was A.B. 2270<sup>1</sup> as it got introduced. But at this meeting in late 1964 we laid out the recommendations. We won friends for

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1. A.B. 2270, 1965 Reg. Sess. Did not pass.

life, because we gave them a very impressive, a solid program; it was based on a lot of research. But it had a lot of political sex appeal and it tried to deal with the major tax structure issues.

HICKE: For all they knew, you'd been in Acapulco all year.

DOERR: Yes, they didn't know what we were doing, and here we walked into this meeting. I remember the meeting was in a motel room at the San Francisco Airport that they had rented. We just walked in and they didn't know what to expect. We laid out the summary of what we were all about, and they were very impressed. And also, after that, we had a meeting of the committee.

HICKE: The Rev and Tax . . .

DOERR: . . . Committee. I don't know what the name of the hotel is now; it was the Hyatt for some time. It was kitty-corner across from the L.A. Airport, at the corner of Sepulveda and Century, up at the top of the hotel. We spent two days going over all the things we'd found with the committee, who thought again this was by and large something that was really outstanding.

HICKE: Can you outline in general what you recommended?

DOERR: Yes. Because this is the key now to our fifth epoch or era. Of course, since we'd been spending much of our time on the property tax, we decided that's where much of the reform was needed. The reform was in a sense in two areas. It might take too long to go into one of the areas.

HICKE: Well, let's do it.

DOERR: One of the primary goals was to reduce property tax burdens. That was probably politically the most sexy part.

HICKE: People were already starting to think about that?



- DOERR: People were feeling that property taxes were going up and they were too high, and they were worried about the future. This was just a tremendous political issue. I believe this was the start of the issue of property tax relief. Now, this Johnny-come-lately came along in 1978 and stole our issue. [Laughter] We'd started this issue fourteen years before that.
- HICKE: But didn't that come along because the legislature wasn't able to solve the things that you said should be solved?
- DOERR: Yes. We didn't get this bill passed, but we started the issue. Jesse would go to meetings, I'd go with him. He went all over the state. It was a huge political issue.
- HICKE: One of the things that I read somewhere was that Jesse saw it as a statewide issue but Pat Brown didn't.
- DOERR: We had fights with Pat Brown and with the senate. Getting back to the assembly-senate battles, I think that was one of the factors that caused the defeat of Pat Brown in the '66 election. In my view, that's one of the reasons he lost to Reagan, although he probably lost because Reagan was a new face. Reagan adopted the property tax relief issue after he saw what we'd done in '65 and '66 in terms of all the publicity and newspapers and how Jesse was using it. The Republicans thought, "Hey, this is a great issue." Pat Brown had been absolutely negative all the way through.
- HICKE: Why?
- DOERR: I don't know.
- HICKE: Whatever happened to the senate study?
- DOERR: They put out a study that nobody paid any attention to--it was nothing. It was just a series of reports that didn't say anything or

recommend anything. These were good studies from data development standpoint, but there was no program.

HICKE: You're pointing to the studies that were done, but the important thing was the recommendation.

DOERR: Yes, and the program that we put together. What we proposed was a major reordering of the state tax system. I just went through it. I mentioned that our primary emphasis was property tax, but we did other things too. The two aspects of the property tax--one was to reduce the burdens. So we had a series of recommendations to do that. And then the other part was to clean up the mess in assessments. So we had a long shopping list of assessment reforms that had to be made in response to what we believed the assessors were doing and what we'd been getting feedback on. This is going to lead to another very interesting story.

HICKE: The assessors' scandal?

DOERR: Yes.

HICKE: Oh, OK.

DOERR: We'd developed the reforms before the scandal hit publicly, so when it did hit they were all ready. So we had the assessment reforms and we had recommended reducing property taxes. We recommended major reduction of property tax rates through state assumption of a lot more of the cost of schools.

HICKE: So this takes the burden off the counties?

DOERR: Off the property taxpayer by reducing property tax rates.

We recommended exemption of household personal goods, which were taxed at that time. People don't remember that. They



used to come around and assess you for your furniture and stuff in the house. So we said, "That has to go."

HICKE: Was that a cause of a lot of disequilibrium or inequality?

DOERR: Yes, people didn't like that at all.

We recommended we exempt solvent credits, which were being taxed, which was a funny kind of tax on receivables of business.

HICKE: Solvent credits?

DOERR: Yes.

HICKE: What is that?

DOERR: It was kind of an intangible. It was a receivable of business.

HICKE: Oh. A bill due, money to be coming to you?

DOERR: Yes. Why those were ever the subject of property tax, I'll never know. We also recommended for the low-income, senior citizens a circuit-breaker, where there would be a state program to refund property taxes based on income.

HICKE: Why do you call that a circuit-breaker?

DOERR: Well, that's what it's known as.

HICKE: It cut the cycle of their taxes?

DOERR: Yes. The taxes got to be a burden.

HICKE: Because the state was paying it back anyway, and it helped aid . . . ?

DOERR: They didn't have to pay it, the state paid it. And we recommended the exemption of business inventories from tax.

HICKE: Why was that?

DOERR: Because we felt that was bad for the state's economy for a variety of reasons. One, it was being passed on to consumers in the form of higher prices. Businesses were stopping what they would bring into California, warehousing in Nevada, taking stuff out of the state that

was movable on the lien date, disrupting economic cycles. For a variety of reasons.

HICKE: It was too much of an interruption to normal business?

DOERR: It wasn't a good tax. A lot of the academic work we looked at that had been done before by people who've studied property always said taxes on personal property are very bad taxes from all the standard criteria that you measure taxes. So we took steps, in effect, to eliminate the two biggest personal property taxes--one on the household goods and furnishings, and the other on the inventory. The only thing we left in place was the tax on business equipment and machinery and things a business uses. Not sales, because those taxes would tend to be paid by business, not passed on. The tax on the merchandise is like a sales tax only it discriminated against merchants who didn't have a big turnover of their goods.

HICKE: Did you study whether these were progressive or regressive taxes?

DOERR: Yes. All that was done.

HICKE: And you recommended elimination of the more regressive ones?

DOERR: Yes. So we had all those property tax features. This was a major effort to reduce property tax burdens, both by reducing rates and by saying a lot of things shouldn't be subject to tax at all. I might add, all this has come to pass. It didn't happen then; it took fourteen years, but it did happen. So we have the tax structure now generally that we originally recommended, in a sense, although the one thing we didn't have was Prop. 13's assessment provisions. We had reforms in assessment practices; we didn't have an acquisition value assessment system. But we had the rates going down, we had



the inventory exemption. We started the inventory exemption in 1968, after this recommendation.

HICKE: Agitating for the bill?

DOERR: No, we started agitating in 1965 with A.B. 2270. In 1968 the legislature first exempted 15 percent of inventory value from property tax.

HICKE: Oh, they started.

DOERR: They started, but it took three years. People gradually became educated and said, "Well, that makes sense." Then it was a bill by [William] Bill Lockyer--Senator Lockyer now--in 1979 that fully exempted inventories from property tax. It had been inching its way up. It went from fifteen to thirty to forty-five to fifty, and finally to 100 percent. So between the time it started and the time it was finished, it took fourteen years.

When people sometimes come to me and say, "Gee, we can't get this bill passed," I say, "Well, wait a minute. Let me tell you about how things happen." Then I say, "Look at the inventory exemption." We started with this major study, couldn't get anywhere, took three years to even get people to say, "Yes, it's a problem." And then it took fourteen years from start to finish to do what we'd recommended. So things don't happen overnight.

HICKE: If the legislators would say, "We can't possibly get this through 100 percent" cutting out this tax, would you then recommend, "We'll get through a little bit," or something like that?

DOERR: Yes, you start the education process.

HICKE: With the idea of doing this gradually?

DOERR: Yes, you have a goal. It's important to establish goals. These were goals that were established. We established these as a program, but they were essentially goals that we established for a better tax structure.

The other thing about this--and I'll go into some of the other features--but one of the things that was totally different, too, I like to think we invented the modern tax bill. I have a copy of the bill here; that's why this is so thick. All the provisions of the package are in the bill.

HICKE: How many pages is that bill?

DOERR: This is the bill part.

HICKE: Oh, OK.

DOERR: This is one bill. Two hundred and thirty-eight pages.

HICKE: That's what I wondered. Oh, gosh. [Laughter]

DOERR: So what we did, we took all the proposals that we wanted to change, and we put them in one bill. Now, that's the way things are done now, but prior to this time, they'd never been done that way. In other words, when Governor Brown had his tax package in 1959, each segment had its own bill; so it was like an "a la carte" system. You're going, "I like this one and this one, and I don't like that one." You can pick and choose, which is what the legislature did at that time; you didn't get this full package through.

We said, "No, these are all interrelated and this is a proposal, so we're going to structure it as one bill." Take it or leave it, so to speak. But it won't work if you pull it apart. See, a portion was changing assessment systems, a portion was income tax.

HICKE: So you in effect started this new way of handling the . . .



[End Tape 6, Side B]

[Begin Tape 7, Side A]

DOERR: So from this time on, all your state major tax proposals were integrated into one bill. So when 1967 came and Ronald Reagan decided he needed a tax increase and a tax program, that was one bill.

HICKE: And then they started doing that with other bills, too, making them more comprehensive?

DOERR: Yes. Then gradually it's become more of a practice in other areas. Even the '63 Brown tax program which I described before was in individual bills. You had the withholding bill--that was one bill; the bank and corporate acceleration was one bill; the insurance acceleration was one bill. There's no reason why those shouldn't have all been one bill. But I was just thinking, you know, they always did it that way.

HICKE: Let me interrupt you again here. When you have all these recommendations for lowering taxes, did you come up with some way to make up for that income loss? Or was that not part of your goal?

DOERR: Yes, well, that's when we get to . . .

HICKE: You're getting to that. All right. I'll just have patience.

DOERR: I think maybe we'll save time if I wait on the property tax administration provisions until we get to the assessors' scandal.

HICKE: All right.

DOERR: Because a lot of that becomes more relevant.

So we also at this point, remember, we did an income tax study. Our researcher--Corrine Gelb--came out with a strong recommendation for conforming a number of the California tax provisions with federal law. This was the start of the conformity movement, which now is in full fling.

HICKE: Conformity of state personal income tax laws to federal personal income tax laws?

DOERR: Our study concluded that it makes no sense not to conform with federal law from administration, from policy, et cetera, et cetera, et cetera.

HICKE: The goals for conformity were to . . .

DOERR: Bring the state and federal tax bases closer together so that taxpayers wouldn't be confused.

HICKE: But also so that some policy considerations of what taxes are used for would be in line with the federal policy?

DOERR: Yes. It shows a nice summary here. Ms. Gelb looked at that policy, and thought that that's what. . . . [Looking through report] There's predictability and control over revenue, power distribution. In her study, Ms. Gelb analyzed that issue and concluded the state really doesn't have a lot of power, which we've argued ad infinitum. That state tax incentives don't really do much.

HICKE: Not so much of a policy issue here.

DOERR: Because California tax rates don't change people's behavior very much by putting in state tax incentives. The federal impact is larger and controls behavior.

HICKE: I see. So the major thing, then, was just for the ease of the taxpayer?



DOERR: Yes. So that was included. And then as you mentioned, we had to have some way to finance this program. So what we did was we proposed to raise the cigarette tax by a nickel. We advocated certain sales tax reforms, which was equipment leases, taxation of occasional sales of auto and aircraft. There wasn't very much. We really didn't touch the sales tax much. We recommended a major change in the income tax--first of all we recommended withholding. Then we dropped the personal exemption, narrowed the brackets, and raised rates. Now, all that was done in 1967 with Reagan's bill, but we recommended it. That's basically how his bill looked.

So our plan generated a lot of money from the income tax by making those changes--raising the rates, narrowing the brackets, reducing the exemptions. We increased the bank and corporation tax rate, we increased the inheritance tax on inheritances over a hundred thousand. And then we raised the sales tax rate by 1 percent.

HICKE: So what was it then?

DOERR: Three.

HICKE: So you would raise it to four?

DOERR: Yes. So we had all those things. It was well over a billion dollars in new revenue.

HICKE: You estimated how much each one of those things would bring in?

DOERR: Yes. At that time, which was a billion-six-o-nine. Which was in those days a lot more than a billion is now, but still, a billion is still a lot.

HICKE: And how much would the tax cuts have cost? Did that balance pretty . . .

DOERR: Pretty much, yes. Pretty much balanced.

HICKE: Were some of those recommendations made by people you talked to and academics?

DOERR: Yes.

HICKE: Tax collectors?

DOERR: It came out of the study in terms of all the various. . . . We studied withholding and thought that was a good idea. All these things we looked at. We studied the sales tax and came to the conclusion that it was not regressive. This was Dr. Somers' study. This was a breakthrough in the analysis of the sales tax. Because you've probably heard now that the sales tax isn't considered as regressive as it once was.

HICKE: Yes, it used to be considered . . .

DOERR: And here's what he did. He looked at it slightly differently. There's a lot in here; I don't think I can even find it, but as I recall, the difference was you were trying to measure ability to pay. What is the measure of ability to pay? And what had been distorting the thing was that measuring it by pure income, of course, showed to be regressive. But he took a different look at it.

HICKE: He was looking at the ways that the individual's income was measured, rather than the way the tax was computed?

DOERR: Disposable receipts. That's the way he was looking at it.

HICKE: Which is after tax?

DOERR: They're net resources, you might say. It relates to who is in the low-income group, and that was always what was distorting all these statistics. There were a lot of people that have ability to pay



with low net income that are be counted as low income for statistical purposes.

HICKE: Are you talking about the size of the family that they're supporting?

DOERR: No, the people. . . . A lot of them are retired people that have a lot of . . .

HICKE: Oh, I see. Assets.

DOERR: They have a lot of assets. I mean, they have a lot of money.

HICKE: They have assets but not much income.

DOERR: Yes, a lot of money.

HICKE: Right, OK.

DOERR: Dr. Somers showed the impact of the sales tax using taxpayers' net resources.

HICKE: You've got a bar chart here.

DOERR: The line rises for quite a while and then slightly declines.

HICKE: What page is that on?

DOERR: That's on page 48. But it shows that the sales tax is proportional at all income levels, slightly dropping at upper income levels.

HICKE: It also strikes me that there's a difference between the kinds of products that people buy.

DOERR: Yes. Well, that's the other thing. The two factors that he used in the study in a sense were breakthroughs in the whole study of the sales tax. One was that if you count people's resources, then you get a much different curve; two, you've got to factor in the exemptions. He's got a chapter on that. "The Key Role of Exemptions in the California Sales Tax." Because what do we exempt in California? We exempt food. We exempt housing: it's not subject to the sales tax. We exempt utility services: they're not

subject to the sales tax. We exempt medicines: not subject to sales tax. We exempt services such as doctors, et cetera, et cetera. Barbers cutting hair, you name it.

So you pull all those out. Those are the things that make a sales tax much more regressive. So you pull those out and you look at resources. You get a different picture. It was startling to people when this came out. This study was a whole new way of thinking about the sales tax. The Democrats would never before have touched a sales tax increase. Here's Jesse Unruh and Nick Petris saying, "Well, based on our studies and looking at the overall burdens, this is fairly flat." We have a progressive income tax component as I described, with the changes in rates and brackets, et cetera. We're reducing a very regressive tax (the property tax) each year. You have to look at all your components together.

HICKE: That's very interesting. Amazing.

DOERR: So this was the study, and it just captured everybody's attention because of one, the backup material; two, because of the comprehensive nature of the plan; and three, because we hit a sensitive issue: the property tax. Nobody really at the state level talked much about property tax relief I guess since 1910, maybe, when California made the property tax a local tax.

The bill was introduced. Of course, it passed the assembly. It was very controversial; I mean, very controversial. The governor absolutely didn't like it. I remember we used to go down and have meetings with the governor and [Director of Department of Finance] Hale Champion. They'd just rant and rave. "Now, how could you do this?" The governor even attacked me at one of his press



conferences. He didn't like these consultants working for the Legislature at all; they were just muddying up things and it's better for the administration to propose legislation.

HICKE: You were clearly cutting out some of his territory, or what he thought was his.

DOERR: Yes, we stepped on toes.

HICKE: But you said you got on his good side later on.

DOERR: That is an interesting story. In 1966 the state was facing a very serious fiscal problem. I hate to say this because this is somewhat embarrassing. The governor is desperate to find a way to get some money to balance the 1966-1967 budget. He was thinking about raising taxes, and of course, knowing he was running for reelection against a strong Republican challenge, he wasn't sure he wanted to do that. He invited the Democratic legislative leadership to a fiscal summit in Palm Springs. We all went down to Palm Springs. It was a two-day meeting. I got to get acquainted with him there. Everybody was wringing their hands. So I just innocently said, "Well, you don't have to raise taxes. Just change the accounting system."

HICKE: Oh, so that's how that got started. [Laughter]

DOERR: He loved the idea. He went back and worked on it and came up with accrual accounting.

HICKE: That's when they started accrual accounting?

DOERR: Yes, after that meeting in 1966, the governor proposed this accrual accounting system to balance the budget. They balanced the budget. It was considered a gimmick.

HICKE: Had you thought about this before?

DOERR: Congress and the state has done this periodically up to this year. No, I hadn't thought about it.

HICKE: It just came out from . . .

DOERR: Yes, I was just sitting there and it came to me after listening to people moan and groan, "We can't raise taxes." "Well, here's what we could do," and everybody. . . . Hale Champion had a little plan, and the governor's talking about that, and people were stewing about it.

HICKE: Talk about world-shaking ideas!

DOERR: Yes, I just kind of threw it out. Just saying, "Well, you can do this." The governor brightened up. From then on, he thought better of me. My suggestion led to the solution of his most serious problem.

HICKE: I should think so; you saved his life. At least on that occasion.

DOERR: At least he thought my idea saved his life at that time. Also in 1966 we'd passed the assessment reform bill, which was a major property tax reform bill supported by the governor. There were many administrative reforms in this bill. Nineteen sixty-six. In '65, we couldn't get these reforms passed as part of A.B. 2270. Then the assessors' scandal hit. So in '66 the governor had to have a response to the assessors' scandal politically, right?

HICKE: Yes.

DOERR: Well, here it was: this terrible bill [A.B. 2270] that he'd been attacking the year before. We had a ready-made plan to reform the assessment system all ready, so we pushed that through. I still have a picture of the bill signing ceremony in his office. It's hanging in my room. Included are the people that worked on the bill with him.



He signed the picture with a nice inscription, "To Dave, with Thanks from Pat Brown."

So with the accrual accounting idea and with the assessment reform legislation, I believe he had positive feelings towards me. From then on we always had a pretty good relationship.

HICKE: Well, we want to get into that a little more, but let's go back to this bill. What is it? A.B. 2270.

DOERR: The Unruh-Petris Tax Reform Bill. Let's see, I think this document has the date of introduction. [Looks through papers]

It was introduced on April 6, 1965, with Petris and Unruh as the lead co-authors. But we had quite a series of other folks that were co-authors of the bill: [Assemblymen] Alquist, Waldie, Crown, [George] Danielson, [Mervyn] Dymally, [Charles B.] Garrigus, [Lester] McMillan, [Charles] Meyers, [John P.] Quimby, [Byron] Rumford, [Leo] Ryan, and [Vincent] Thomas, who were considered the assembly Democratic leadership at the time. Jerry Waldie, I think, was floor leader. Bob Crown was chairman of the Ways and Means Committee. Obviously we had the votes to put the bill out of the assembly, and we did.

HICKE: But you said it was controversial, even in the assembly. Is that right?

DOERR: Yes, it was controversial with some assembly members, the governor and with the senate. The senate hated it. The senate's position at the time was that this was a local problem. If property taxes were too high, that was a problem of the supervisors and councilmen. That was their problem; they should reduce the taxes. They

imposed them, they should take the heat for them, and it's not a state problem. Basically that was their position.

HICKE: How do you account for the difference between the assembly and the senate?

DOERR: Well, that's what they believed. And they believed it strongly.

So we got the bill out of the assembly, and the senate wouldn't even consider it. It almost refused to acknowledge its existence.

HICKE: Oh, really? They didn't have any hearings or queries?

DOERR: Well, they finally did. The pressure built that they were being unreasonable, so I guess they decided that they had to have a hearing. So they had a hearing at three in the morning, and nobody knew about it. Of course, we didn't even know what was going on.

HICKE: Three in the morning?

DOERR: So we complained, "You didn't even tell us there was going to be a hearing." They said, "Yes, we did. We slipped a notice under your door at one o'clock." [Laughter]

HICKE: Was this the Senate Revenue Committee?

DOERR: Yes, the senate committee.

HICKE: Do you know who was the head of that? I can look that up. [J. Eugene McAteer]

DOERR: Who was the head of it then? [William] Bill Smelsley was the consultant at that time. They'd done their study, and of course they had no program to offer.

In those days, you know, they didn't have the procedural rules. When I used to work for the legislature, people would come in and



say, "How does the institution look now, compared to how it used to look?" And of course I always defended the legislature, because I worked there. At present, the legislature's reputation is at a low ebb, for a variety of reasons. You have a lot of money, so much money involved in so many decisions.

But there is one bright spot in the difference between then and now. In the old days, there was no procedural democracy at all. They had limited notice, they had few recorded votes in committee. Now the legislature has all these procedural safeguards. You have committee analyses that are public that you didn't have then, that are generally impartial. You have notice requirements, you have committee voting recordation--you have all these reforms, so it's a much more open process. And I'll defend that.

But one thing that's happened is the money has become such an overriding consideration. . . . I remember that Jerry Waldie, when he first ran for the assembly, Jesse gave him a check for \$5,000 and that's all he needed. That was his in a race for an open seat. There was no incumbent. Now they have to raise half a million dollars when they don't have any competition from an incumbent. It's changed a lot in that sense.

So anyway, A.B. 2270 was killed.

HICKE: It died, anyway. [Laughter]

DOERR: It died, yes.

HICKE: So how did you feel about that?

DOERR: We were devastated, because this was our big, big effort. And of course Jesse was. . . . By that time it was war between Jesse and the assembly and the governor and Hale Champion. Hale Champion

tried to discredit A.B. 2270 in the assembly Ways and Means Committee. Jesse never forgave him for this. He came in with revised revenue estimates to try and show the state had more revenue so we didn't need the taxing parts of A.B. 2270. So people were reacting to that. Well, it turned out to be wrong, because later on they found out they had a revenue shortage. They were doing everything they could to try and discredit it, the governor did. Hale Champion was unpopular with many members of the assembly. Of course, Jim Mills talked [in his book] about some of the episodes that he had with Hale Champion. He was a bright man, but he was dead set against A.B. 2270.

HICKE: He had his own agenda, was that the problem?

DOERR: Well, he didn't have much of an agenda to start with. But then the bill is defeated, so the press is talking about how this was wrong. Because the press wrote about the bill in a favorable light.

After the 1965 session, there was established a tax research group, which included us, the senate, the Franchise Tax Board staff, the Department of Finance, the L.A. assessors' office, and the Board of Equalization staff, to talk about all the issues.

HICKE: This was the staffs of all these groups?

DOERR: Yes. And the governor appointed that in '65.

HICKE: And you were head of that group, no doubt?

DOERR: No. Because it was governor-appointed; we were just there. Martin Huff, I believe, was the head of it. Martin Huff had just been appointed the director of the Franchise Tax Board slightly before that. So he was kind of designated to make peace between the



administration and the assembly, because they knew they had a political problem, going into an election year.

So the idea was to sit down with us and to make us feel good by saying, "Well, we'll sit down now and listen to your ideas and see if there's anything that could be worked out." I remember Martin telling me after the meetings, "You guys really made a good impression on these people." We were not civil service staff so they probably didn't like us to start with, because at that time we were young. I think their attitude was, "Who are these young guys coming in and trying to tell us how to run things?" So at least we gained some credibility among the tax people. But events overtook us with the assessors' scandal breaking out.

HICKE: So this research group didn't go very far, is that what you're saying?

DOERR: No, it didn't. And then the election. . . . remember I told you about the accrual accounting proposal. They didn't want anything in the election year to rock the boat. So it was kind of pointing towards '67, but as a result of the 1966 election they lost control, so they didn't have a chance to pursue any tax plan.

So '65 was an interesting year. I remember I used to travel with Jesse occasionally. I wrote some of Jesse's speeches for him, and I used to travel with him when he'd give them, which was fun.

HICKE: Tell me a little bit about some of your trips.

DOERR: I remember we went down to the Commonwealth Club one day, where he gave a speech. One thing that was interesting about Jesse: he loved country music, which at that time was not well known. Today a lot of people listen to country music, but at that time it was kind of confined. It was stereotyped in California at the

time, if we want to go back into California history, because it came from the Southwest and the South.

Now, the people that migrated into California during the Dust Bowl [era] brought that music with them. Bakersfield is still a center of it. And at the time of the migration I think it's fair to say there was a substantial amount of discrimination. John Steinbeck's The Grapes of Wrath illustrates the kinds of things that they were going through. People just didn't associate with the Dust Bowl refugees for a long time; they were near the bottom of the social strata. And of course then their music would be there, too. So anybody that liked their music was stereotyped too.

Jesse used to play it in the car when we'd go somewhere. But hardly anybody around knew that, because he didn't want to be thought of as. . . . That's where he came from, I believe.

HICKE: Texas?

DOERR: Texas. [Newton, Texas] Somewhere in Texas. He migrated out to California. When he ran, his base was USC [University of Southern California], his assembly district.

[End Tape 7, Side A]

[Begin Tape 7, Side B]

HICKE: His base was USC.

DOERR: Yes. He'd been in politics at USC and then got elected to the legislature. He was aggressive and ambitious, but very smart. He had a presence. Jesse was Jesse. Some people have that, and it's hard to describe, but he could command situations, and people listened to him. He loved a good time; he loved to party and going



out at night and eating and drinking and fooling around. He wanted to do a lot of things very activist in terms of programs. I mentioned how he tried to set up the relationship between the university and the legislature. We worked on a health care system during this same period.

HICKE: Yes, I want to hear about that.

DOERR: He liked to bring all the assembly staff together, so he would have meetings with us--there weren't that many of us--to brainstorm and get different points of view on a major problem instead of having somebody look at it from one point of view. That was always interesting: to go to those meetings and listen to him talk about how he wanted to solve some of these problems and wanted to get some ideas by having people just talk and look at a problem from their perspective.

HICKE: So he was really open to other people's ideas?

DOERR: Oh, yes, a lot. Really a lot. He was very interesting. There won't be another one like him, I don't think, as far as I can see, over here. They just don't have the same values and leadership quality.

He loved the tax reform program, because he saw how it would improve the tax structure. He saw the economics, he saw the tax policy aspects of changing emphasis. He saw the political appeal of the property tax changes.

Now, this is what's kind of interesting, because when we did this study, we really hadn't known that there was a big problem. When we got into it, we discovered more. But when we started it, the property tax study, we just thought we'd start studying. We didn't know that it was going to be a good political issue. We just

started to get into it and found it regressive and this and that. But we never knew what the politics of it were. We thought it was a burden, we thought it was all the things we found, but in terms of out on the street and the gut-level politics, it hadn't been tested. We weren't sure what the result of that would be. But he saw it immediately.

HICKE: So he translated that into a political program?

DOERR: Yes, he saw it immediately. That this would be really dynamite. That property tax was a statewide issue. And then it became one, we made it one, then Reagan made it one when he ran for office. But nobody could deliver the goods, so eventually. . . .

You see, Watson was involved in here, too. He had two initiatives.

HICKE: But they came later. Sixty-eight and . . .

DOERR: Sixty-eight<sup>1</sup> and '72,<sup>2</sup> I believe, which was early in the process, in terms of '78. But those were defeated because Reagan used his Teflon protection to say, "I've got things under control, so trust me." But you can kind of see the pattern, starting with the tax study, because property tax relief hadn't been a major issue. Jesse making it a big political issue, Reagan adopted it, putting some of his own views into the mix.

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1. Proposition 9, "Limitations on Property Tax Rate," was defeated on November 5, 1968.

2. Proposition 14 was defeated in November 1972.



We did some things with Reagan. We started the homeowners' exemption.<sup>1</sup> That was structured so it was designed to fail.

HICKE: How so?

DOERR: It leveraged you against a tax, if you understand what I mean. Leveraging. It was a flat amount, so once you exempted the flat amount, people got used to it. Then change in assessed value--a 10 percent change in assessed value might produce a 13 percent increase in tax burden. So it leveraged the tax higher than the assessment changes, because you had the base exempt.

Anyway, that's getting ahead of the game. Then L.A. County Assessor Phil Watson jumped in with his initiatives. Reagan goes out, Jerry Brown comes in, who's not really interested in property tax relief. The legislature now is very interested in it, but the governor's finance department doesn't want to do anything. And Howard Jarvis steps in. So that's how that issue evolved. The voters changed the tax structure again in '78,<sup>2</sup> beginning the fifth era.

I don't know what else I should say about the study. I think I've kind of exhausted the subject. There's a lot of material here; we could go on for days and years.

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1. Proposition 1a, "Homeowners' Property Tax Exemption," was passed by the voters on November 5, 1968. It is SCA 1, 1968 First Ex. Sess., Cal. Stat., r. ch. 9.

2. Proposition 13, "Property Tax Limitation Initiative," was passed in June, 1978. It is California: Constitution, Article XIII A.

HICKE: If anything comes up about it later on, we can see. You wanted to refer to it as background for the tax assessors' difficulties. So I don't know if we're there yet, or if there is something else first.

DOERR: Yes, that's the next major thing that happened.

HICKE: OK, that's what I have as being next.

DOERR: That's big. It broke in the fall of '65, when it was reported in the papers. We began to get some inklings into it in late '64. Phil Watson kept saying, "There's funny business going on." I guess he, through his grapevine, heard a few things, so he tried to tip us off. You know, so-and-so and so-and-so, "You need to check so-and-so."

HICKE: Was that followed through?

DOERR: Yes, it was followed through. The Rev and Tax Committee, under law, has the authority to check income tax returns. It's almost never done, but we requested a check of assessors. And then we could have a hearing and ask some questions. So we were beginning to get into it. There was so much going on, we were spread thin, because this was the tail end of the tax study. Our reports had been written; we were trying to get this program together, draft the bill, and all this.

So this information is just kind of an aside--we're interested in this, we're seeing a problem. We know that we've already recommended, just for good government purposes, a whole lot of reforms of the assessment system. Now we're beginning to see some things that are really questionable, basically through what Phil Watson is telling us. I remember the second assessors' conference was at the old Woodlake Inn [now the Radisson] in Sacramento; that was when he started really unloading on what he thought was



going on. That was the fall of '64. I guess he picked it up through the grapevine.

HICKE: What were the reforms that you recommended in the tax study?

DOERR: One of the main ones was a public standardized assessment ratio. Before that, there was nothing. That was where we had the biggest battle, too. Nobody knew what the assessment ratio was, you see. There was never an announced ratio; it just said "full cash value." That implies 100 percent. So if you got assessed less than that, you thought, well I'm doing OK. But nobody knew what the assessors working assessment ratio was. That was one of the underpinnings of the scandal.

We wanted to reform the assessment appeals system so that people could use in their appeals the prevailing assessment level. We put in assessor training, Board of Equalization investigative authority to watch the assessors; they had to go into counties and check on them. We had that in there. That's a battle to this day. The Board of Equalization sends its appraisers in to evaluate the assessors, give them their report cards.

HICKE: It sounds like you already were aware of a lot of. . .

DOERR: A lot of that we thought should be done just on the basis of good government.

HICKE: Oh, I see. Just theoretically, if nothing . . .

DOERR: Yes, theoretically. You shouldn't have a system where nobody knows what's going on. The Board of Equalization was assessing utilities at a different level than assessors were assessing at a local level.

This is a summary of what we did, called Problems of Property Tax Administration in California. This summarizes the reforms. Thirteen major reforms. Standard ratio. We directed the assessor to use zoning restrictions in determining value, so you just couldn't say, "Well, your house is going to be better off as a gas station." We put some reforms in on how the tax exemptions were to be monitored. In effect, we thought the assessors were giving too much away in the welfare exemption, so we said that had to be approved by the assessor, and then it also had to be approved by the state after the assessor does it, so the state oversaw it. We put that in law. We provided standards for appraisers, and the assessors' office had to have certificates in training, et cetera. We set up conflicts of interest for assessors. We set up a system of tax appeals. A big reform of tax appeals.

HICKE: Procedures?

DOERR: Procedures. You had to tell the taxpayer in writing of the decision, you know, findings. You could use the ratios in your case.

Then we set up the assessment appeals board system so the taxpayers had an independent body to go to; they weren't appealing it to the county supervisors, who were more interested in revenue than in the assessment issue.

Then we required open records in the assessors' office. As I mentioned, we required the board to go in and study assessment ratios of counties and put out reports that are public reports--they're called Assessment Practices Surveys now--to make the information public. They had required the assessors to send notice to property owners when they increased assessed values. That wasn't even done



at that time. They just went and submitted the roll and it was up to you to find out your assessments had increased.

Then we required the tax bill information to include the assessment information, which it didn't have before that. We eliminated the city assessors altogether; we just wiped them out. We required the assessor to make periodic reviews of property in evaluating, instead of just sitting and guessing. They had to go out and look at the properties.

And we required that the assessor turn over the fines to the county instead of being able to keep them.

HICKE: The fines?

DOERR: Yes, that they collected. There was a whole series of things that reformed the entire system of assessment that weren't there before. It was an autocracy. The assessors were supreme--nobody knew what they were doing. There was no way of knowing, there was nothing published. You didn't know what ratio the assessors were assessing at. You didn't know if you got a tax increase until your tax bill came.

HICKE: The assessors are appointed by the controller, right?

DOERR: No. They were elected.

HICKE: Elected, OK.

DOERR: So we thought all these things needed to be done. These changes, of course, were made in response to the assessors' scandal, but we had them in A.B. 2270. We worked in a few things that were a little bit different, but the basic program was the same. The announcement of the assessment ratio was the key. That was the fight. It was a fight to the death.

We had the governor on our side now. Because he was running for reelection, he's liking our program. And the senate, again, is on the other side. Oh, the senate didn't want to do this. [Senator] Virgil O'Sullivan and others. Of course we got the bill passed. This was the Knox-Petris--Petris-Knox--however you want to call it--Bill. A.B. 80 of 1966.<sup>1</sup> One of these boxes is full of all the clippings and pictures of this.

I'm probably getting a little ahead. Maybe I'll describe the scandal a little bit before we go into the bill.

HICKE: OK.

DOERR: The scandal involved several assessors, primarily in San Francisco, Alameda, San Diego counties. What they were doing: it was an interesting system. They would overassess taxpayers and then they would let these what we called political tax consultants know. The tax consultant would go to the taxpayer and say, "I can get your assessment reduced if you give me a percentage of the savings." They would get the assessment reduced, and the percentage of this money the tax consultant got went to the assessor.

HICKE: That's what [Assessor of the City and County of San Francisco] Russell Wolden . . .

DOERR: Russ Wolden of San Francisco was involved in that. He was sentenced to jail. He went to jail. But see, this stemmed from the fact that there were no standards. If I'm assessed at 38 percent, I don't know if that is what others are assessed at.

HICKE: And no way to know.

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1. A.B. 80, 1966 Reg. Sess., Cal. Stat. ch. 147.



DOERR: What am I supposed to be assessed at? Now, the assessor knows that that's overassessment, because he knows that their average in the county was 25 percent or whatever it was; I don't remember what it was at the time, but it was some lesser percentage. Then this tax consultant goes out and tells you, "Hey, I can get your assessment reduced." And sure enough, the assessment is reduced.

Well, of course, the assessor says, "I'm not giving him any special break. I see that he was overassessed." And he reduces the assessment. Because he's still assessed where he should be, even after he's brought down. So it wasn't the fact that they were underassessing taxpayers. They were overassessing them because there were no standards, and then having the system work to buy down the assessment to where it should have been in the first place.

HICKE: Who were these political consultants? Didn't they get into trouble too?

DOERR: Yes, they did. I guess the reason the scandal broke. . . . It's all in my files, and I know a little bit. I haven't looked at that material in a long time so I forget the name of the guy. I think it was a guy named [ ] Phillips, because he had something to do with the screwdriver fortune. But I believe he was having a falling-out with his partner having to do with the fact that the partner was fooling around with his wife. So one Sunday he backed in the truck into the office and took the files and put them on the truck and took them down to the district attorney. There it was, all this corruption just laid out in the files.

Of course we're just elated, because we lost the assessment reforms that were a part of A.B. 2270. We said, "Hey, look at what

we were trying to correct." We'd had the inkling from Phil Watson that this was going on, but there was nothing we could go public with and make a charge that this was going on.

So a subcommittee of the committee was appointed to hold hearings on this. [Assemblyman] Leo Ryan was the head of our subcommittee, I remember. He became quite well known. He was a congressman. He was a great guy, just a personable guy. I became well acquainted with him because we staffed the subcommittee, of course, for him. We went around and held the hearings and dusted off our recommendations of the prior year into new recommendations to deal with the problem. We called in the folks from the attorney general's office to explain how the scandal developed and who was getting paid off, and how they did this and that and the other thing. This got headlines for months in the paper.

HICKE: I know; your files are pretty thick.

DOERR: Yes, I've saved all the clippings and I've got all the correspondence and all the working papers that went into the assessment reform bill. So you had Russ Wolden sitting on the front page of the [San Francisco] Chronicle in a mug shot with his number underneath.

HICKE: Prison number?

DOERR: Yes, with the picture number, and much other material. One of the assessors committed suicide after he was exposed in this scandal. In fact, this was the fall of '65, I remember, because this year the assessors' convention was in Yosemite [National Park], and Russ Wolden was there. And of course, he was saying, "I'm innocent." Because there'd just been all these charges coming out now. So



there was a big fight between Watson and the Wolden forces in the assessors' association. Wolden apparently just didn't invent this system; Wolden apparently had been practicing it for a long time. He would help his friends get elected. So he had helped a lot of the county assessors get elected with money that he raised.

HICKE: He had strong backing then?

DOERR: Yes. So he had significant influence with the assessors' association, and Watson was challenging him. That's why he was wanting us to look at his allegations, because Watson wanted to take over. Wolden had his friends in various offices all around, because he'd helped them get elected with money. There was a big fight there, because Wolden was fighting the Watson forces.

I remember going to these meetings where they were trying to decide what they were going to do in terms of what the assessors' position would be, and Watson was pushing for reforms, and the other assessors were opposing the reforms, so of course they didn't. . . Wolden still had his troops, so the assessors didn't come out for reform. But Watson got a lot of publicity. Of course that all helped eventually get a bill through.

I guess we should move to the bill.

HICKE: Were there civil cases or criminal cases brought?

DOERR: Criminal cases.

HICKE: Before the bill was proposed?

DOERR: Yes. They wouldn't have passed a bill, ever, without this, because some of the senators were opposed to what we were trying to do. So we got our bill; now it's A.B. 80, it's been introduced. We had a

long series of negotiations with the Board of Equalization to get them on board. We hammered them pretty hard at the time.

HICKE: In your tax study?

DOERR: No, at this time. They're in charge of the property tax; why did they let this happen? So we were pointing a lot of fingers at them, and of course they were feeling really defensive. The argument was made, "Look, you had the authority to do this and you didn't do it, and you had the authority to do that, you didn't do it."

HICKE: So negligence then?

DOERR: Yes, we accused them of negligence, in effect. They were not happy. They got a new executive director . . .

[Interruption]

We were talking about the Board of Equalization.

HICKE: Yes, you were accusing them of negligence.

DOERR: So we put up our first proposal. Of course, they had problems. We sat down with them and tried to work them out.

HICKE: Who was on the board then? Do you recall?

DOERR: At that time it was Paul Leake; George Reilly, who had been there forever and stayed forever after; [Richard] Dick Nevins, who had come in '59 and was kind of a reformist. He was the reformist person on the board. John Lynch, who was a nice man and was helpful in terms of getting some reform. And the controller, who was Alan Cranston, curiously enough. So Alan Cranston's not new to scandal.

We eventually worked out our problems with the board. We at least got that accomplished. But interestingly enough, this was



when we had the break with Phil Watson, who pictured himself as being a reformer. A lot of reforms went too far for him.

HICKE: Oh, you literally broke with him?

DOERR: Yes. I mean, that's when we essentially broke with him. He was just not happy. And then that led soon after to the real firm break as he promoted his first initiative.

HICKE: He would have preferred that it was done more privately, or . . .

DOERR: He liked the assessment ratio; that was his big reform. That they have an announced assessment ratio. None of the other assessors liked that, so he was on our side on that. And we put all these controls on assessors in terms of having the state Board of Equalization monitor the system. There was now somebody looking over their [assessors'] shoulders. They didn't like that. That was going too far for them; we'd gone beyond the pale.

So we had to fight the assessors on this bill, pretty much all the way through. We had no problems in the assembly. There was almost unanimity that these reforms were needed. The senate was a different story, again. They didn't want to deal with property tax issues. We went to Senate Rev and Tax. . . . I used to know this chronology by heart, but it's a little fuzzy right now. But Virgil Sullivan, I believe, was the chair at the time, and he wouldn't support any of this. And he was supported by the senate leadership, curiously enough.

HICKE: Was it the same old saw? They didn't want to have anything to do with county property because that's a county problem?

DOERR: Yes, that's a local problem. The state shouldn't get involved in property tax. Now, I don't know what the real hidden agenda was.

HICKE: That was the rationalization?

DOERR: Yes. But of course with the scandal, they just didn't like our bill. They were trying to amend out the standard ratio. That was what the big fight was over. Two things happened that helped us. I'm not sure of the sequence now of events, but they're all in the boxes [of files]. And I don't know whether these things happened before or after, exactly what sequence. But one thing: they appointed a subcommittee.

HICKE: The senate?

DOERR: Yes. Ostensibly to kill the bill. Senator [James A.] Cobey was the chair. Jim Cobey; he's now a judge. He was on our side, and . . .

[End Tape 7, Side B]

[Begin Tape 8, Side A]

HICKE: He was on your side, but . . .

DOERR: . . . the other two members weren't, and I've forgotten their names. But for some reason or other, we got one of them to switch, so we got the bill back out of the subcommittee. Of course, they hadn't figured that we were going to be able to do that, and I'm not sure how that came about. But then we got it back to the full committee, and there were two things that helped us, as I recall.

One is we got [Senator Eugene] McAteer of San Francisco. I was working with Fred Martin, who then was with the San Francisco Chamber of Commerce. He's now in charge of government relations for the Bank of America. He orchestrated from San Francisco just unbelievable pressure from McAteer, including



getting some of the big San Francisco business Democrats to personally intervene. So we got McAteer to switch.

So we had the votes for the bill lined up. Senator Cobey was still there, and there was enough even with the chair's opposition. I think we had one vote to spare to get the bill out. Then there was an amendment offered to take out the standard ratio from the bill, which we didn't have the votes on; we didn't see it coming. They said they would pass the bill; they didn't guarantee us they would not amend it. So we thought that the bill was going out. If the amendment had succeeded, there goes the standard ratio.

HICKE: That's the major part?

DOERR: That was the major part. But then [Senator] Clark Bradley of Santa Clara County, who was another case study in personalities in the senate--he was very conservative . . .

HICKE: No change, period.

DOERR: But he was also Mr. Integrity to a degree. So when the vote came on the amendment to take out the standard ratio, even though he opposed the bill, he said, "That's right, that's what should be there," so he voted with us. So the standard ratio stayed in, and then the bill went out, even though Senator Bradley opposed the bill. And he stood up in the senate and opposed it, because he argued the state had no business controlling local government. He was talking about the new controls in the bill.

The bill got out of the committee after this horrendous fight and pressure, and we took it to the senate floor and got it through. Of course, the senate leaders were furious with us because we beat them.

HICKE: Who was that?

DOERR: O'Sullivan. The Democratic leadership who were running the senate. Somehow they thought the assembly pushed the senate around.

HICKE: A little power struggle here?

DOERR: There was a lot of anti-assembly feeling in the senate at the time. Anything that came from the assembly was bad, something Jesse was. . . . Jesse was trying to throw his weight around, whatever.

HICKE: That was the senate view?

DOERR: Yes, at the time.

So we got the assessment reform bill through, and of course the governor was supporting us. That's how we were able to at least get a few of the votes like Jim Cobey.

HICKE: This is A.B. 80 of '66?

DOERR: A.B. 80.

HICKE: So the governor supported you?

DOERR: Yes. Because he felt he had to solve the scandal, going into the election. He liked the bill, and we worked with his people in helping get it through; they were lobbying. The lobbying on it was kind of funny, because the assessors were lobbying ferociously against it, and so counties were lobbying against it because the assessors were against it. There weren't any institutional good government groups around.

HICKE: So who was lobbying for it?

DOERR: The governor, and us, and . . .

HICKE: No special-interest groups, though?



DOERR: No, that's the thing. The special-interest groups weren't sure they liked it. They didn't like the existing system, but they didn't want to antagonize assessors. They didn't want to stick their necks out, because they knew the assessors could retaliate, and they're still afraid of assessors.

HICKE: How about the media?

DOERR: The media was very helpful, because the media and the San Francisco Chamber of Commerce--one lobbying group we had working for us--and the governor lined up against the assessors and the counties.

HICKE: Sounds like you've had the media on your side quite frequently.

DOERR: Yes, most of the time, I think. Interestingly enough.

HICKE: Yes.

DOERR: This really was a big accomplishment.

HICKE: What was the aftermath?

DOERR: Oh, that was fun. Because I remember Paul Leake, who was one of the Board of Equalization members, always had a retreat for assessors in September, in Lake County--Hobergs, I remember it was. There are little cabins, a rustic place up in the trees. So all the assessors were there, and of course I went. They reacted as if they had been massacred. They were moaning and groaning, and saying, "How did this awful thing happen?" Just to listen to them talk was just wonderful.

HICKE: [Laughter] Satisfying.

DOERR: Yes, very satisfying. A lot of them weren't even familiar with all the details, you see. Here's the person from the state Board of Equalization up there to explain how this new system's going to

work, because this was the purpose of the meetings. They'd say something, and everybody groaned. And the next point, groan again. "How awful!" Then people would stand up: "This isn't going to work, and we've got to do something about it."

HICKE: Did they know your part?

DOERR: Oh, yes, I was there. They knew that we'd been the parties to it.

HICKE: You weren't wearing armor or anything? [Laughter] Looking over your shoulder quite a bit?

DOERR: Probably should have. But we just were there to listen.

HICKE: Yes. Observing?

DOERR: Yes. We wanted to follow up to make sure that things got implemented. Herb Freeman, who was the new executive director of the Board of Equalization, wanted to make it something that he could be proud of in terms of his record as administrator. He threw himself into full implementation, and really did a good job, I think. He didn't drag his heels or anything; he made sure that everything was carried out, and he consulted us a lot. We had a lot of meetings on follow-up, to explain what was intended and how things should work and what the board was going to do when they were going to publish this regulation or going to send this instruction--all the administrative stuff that flows when you have a big change, when you change the system that drastically.

HICKE: And is that still in place--all the oversight and all of that?

DOERR: Yes. Still in place. That broke the political back of the assessors so they never were a major factor in Sacramento ever again. They come up once in a while on a bill, and people just think, "Oh. . . ." They had been totally powerful for all these years, and all of a



sudden it just broke their back. They have not been a powerful organization since. Nobody hears about them now; they're out doing their job.

To get ahead of the story a little bit, this in a sense broke their back, but Prop. 13 did, too. What we had set up was a lot of reforms to try and prevent this manipulation of assessments--you know, with the standard ratio and this and that in terms of the appeals process. Prop. 13 went further, in a sense, to really curtail their power. Because with the assessment system of Prop. 13, your property's not reassessed unless it has changed ownership or is newly constructed. So the assessor isn't making these annual appraisals. Whatever your base year is, it grows by 2 percent a year. So you don't have to worry about the assessor; he can't threaten you politically with the assessment increase because it's fixed.

You see, that's one of the things I like about Prop. 13. A lot of people say, "This is a terrible system." I say, "Well, it's got its advantages and disadvantages." But none of them went through this assessors' scandal. I say one of the advantages is now you have a system that can't be manipulated by one person: the assessor. The only time he comes in is on a change of ownership, and the Board of Equalization has adopted a regulation that you use sales price. There's the presumption that that's the value. So if you're going to change ownership, the sales price goes on, goes up 2 percent a year; the assessor's not in there manipulating values. That helped break their power, too, but it was pretty much eroded away before Prop. 13 passed.

And most of them have gone. I don't think there's an assessor in office anywhere now that was assessing at that time.

HICKE: You mean all those people are gone?

DOERR: They've all retired or gone to jail, or whatever happened to them. Some of them were around for quite a long time after that. There was a cadre of what we considered the good guys--Young Turk assessors who were trying to work some reforms in the system. [ ] Bert Broemmel from Marin County was one that I recall. He had a lot of integrity. A number of others around the state were trying to reform the system. I think all those people are gone. They're all gone. All the people that I first got to know in this are no longer on the scene, which is interesting. So the new ones that have come in, have come in with A.B. 80 as the norm. This wasn't a change for them; this is what they knew. So they're not as cantankerous anymore. They've accepted the status quo.

HICKE: Their expectations are different?

DOERR: Yes.

HICKE: And what happened with Phil Watson?

DOERR: Phil Watson is an interesting story. He was really driven by political ambition. He wanted to be governor, and he was trying to be this hero in the fight for assessment reform, which passed him by. So he decided, "I'm not giving up; I'm going to pick up your property tax relief program along with that." So he put on the ballot the first Watson initiative in 1968, which was defeated. He put on a variation of it in '72, which was defeated again. And then into the seventies, after that, the county began to investigate him. There were allegations that he'd been engaged in shady deals himself.



HICKE: Oh, yes? I didn't hear that.

DOERR: Yes. So there was a grand jury investigation down there, and charges and countercharges, and he refused to testify. His doctor said he had a bad heart, which I guess maybe was true at the time; nobody believed it. So he quit the position, just walked out. It was '76 or '77--somewhere in there. In the mid-seventies he resigned his position. He's dead now. They appointed Alex Pope in his place. But he left under a cloud.

HICKE: That's interesting.

DOERR: So, yes, it was interesting too.

HICKE: OK, do you want to wrap this up for today?

DOERR: Yes, maybe. I think that brings us through the end of 1966 and the assessment scandal and reforms. Which brings us to Ronald Reagan. I remember much about Mr. Reagan. This will be the '66 election.

HICKE: Yes, we need to talk about that a little bit.

DOERR: Did we talk about the '64 election? I don't think we did.

HICKE: No, we didn't, actually.

DOERR: No. We kind of skipped through that because I was doing my study.

HICKE: That's right.

DOERR: Maybe I ought to kind of mention that.

Senator Petris was named by Lyndon Johnson as northern California campaign manager. So as a result, we went to some meetings with him. There was a lot of political activity related to that 1964 presidential campaign, which was Johnson versus [Senator Barry] Goldwater [Sr.]. Hubert Humphrey was put on the ticket to be vice president. When he came to town, I got to meet him at the

old El Mirador Hotel. We sat down and talked for a while. To this day, I swear, there's such a resemblance between him and Senator Milton Marks.

He was so energetic; it was just amazing how much energy that man had. He was perceptive. This was a campaign that Jesse was not too involved in, interestingly enough. Nick was the one they wanted to do the campaign, although he was only chairman of the Rev and Tax Committee.

HICKE: Why did they pick him?

DOERR: I don't know. That's what is interesting. But he did get picked, and we went around to some meetings with him.

HICKE: What did Hubert Humphrey talk about?

DOERR: I've forgotten what the big issues were. Basically the issue was the opponent.

HICKE: Yes, well, I mean, what did he talk to you about when you were chatting?

DOERR: What I was doing with government and how I got into my position. Because I was still kind of young at the time. I think at that time I was thirty-one. So I just. . . . We talked about how I got into government, working with Nick and what I was doing, and how California legislative staff had evolved. That was a new thing at the time; Jesse was a big reformist to bring these people in from universities to provide information. So Mr. Humphrey was interested in that. That's why it impressed me: he wasn't talking about aid to Israel or some other big, global issue.

HICKE: It wasn't about himself either; he was talking about you.



DOERR: Yes, how this legislative staff system worked in California. Because it had gotten some national publicity at the time. There were some articles about Jesse and what he'd been doing here. They would rate the California legislature high in all these national surveys. So he just wanted to get some inside information about that. Which was kind of fun.

HICKE: So you went along with Petris on the campaign trail?

DOERR: Yes, occasionally, to the extent we weren't doing our study.

HICKE: Did you get involved in the California elections? Wasn't Cranston running for senator then?

DOERR: I'm trying to think of what California offices were up that year. It was the year, I think, that Pierre Salinger ran.

HICKE: Yes. [Senator] Clair Engle had just died, or he was very ill.

DOERR: Yes, Clair Engle had died. In fact, I went to his funeral. We drove up to Red Bluff one day. That was during the summertime, so some of us decided we'd go up there to his funeral.

Jesse had maneuvered Pierre Salinger into the race as a [President John F.] Kennedy candidate, and Cranston, I guess, was the other candidate. And Jesse put out this blitz--the Kennedy connection with Pierre Salinger, with picture postcards out with a picture of Kennedy. Somehow Pierre Salinger beat Cranston in the primary, and then Engle died, and of course then, because he'd [Salinger] won the primary, the governor appointed him to the seat so he'd have a leg up in the general election. But George Murphy beat him. I'll never understand that.

I remember Ronald Reagan going around speaking for Goldwater. That's how he got his political start in that election.

HICKE: You were primarily concerned with the presidential election, though, rather than the state offices?

DOERR: Yes. That may be why Jesse wasn't involved in the presidential election--I think he was spending all his energy working for the Salinger election.

HICKE: What kind of a response was Johnson getting?

DOERR: It was the anti-Goldwater response. I don't think Johnson had any. . . . Nobody really was strongly for him. The Johnson campaign was mobilizing people because his opponent was out of the mainstream and everybody was afraid of him. In fact, that was the year that. . . . I remember the Republican convention in '64 was held in San Francisco. Remember? There was the [Governor Nelson] Rockefeller-Goldwater primary in California. And Rockefeller's wife had a baby the weekend before the election.

HICKE: "Happy"?

DOERR: Yes. And that raised the issue of his divorce. It's funny how those issues now would not even be considered important. But in those days, that somehow caused Goldwater to win slightly. Rockefeller had led in the polls, I recall, the weekend before the election. They had taken a statewide poll about the Republican primary. So they went into the San Francisco, the Republican convention. Of course, that's the one that really moved Rockefeller off the platform, with all these right-wingers.

This is the same time that the disturbances started at the University of California, because I remember this.

HICKE: You're right. That's about the time of the Free Speech Movement.



DOERR: Yes. And as I understand how this got started, it was directly related to the Republican convention. Somehow students who were anti-Goldwater had gotten in and were doing things. I remember the feedback I was getting from Nick, because he was representing part of Alameda County.

The university got pressure from the Goldwater folks to put the thumbs down on these students, because they didn't like them embarrassing Goldwater and giving him a bad time. One thing led to another, and that led to confrontations. Then some radicals took over, and then it just built up into this other thing. As I recall the conversations that I heard at the time, that's how that thing got started. As I recall, that's one of the factors, anyway. There may have been a lot of other things that we weren't looking at. So that was the '64 election.

HICKE: OK.

DOERR: That kind of brings us to the election of Reagan.

[End Tape 8, Side A]

[Tape 8, Side B not recorded]

[Session 4, April 27, 1990]

[Begin Tape 9, Side A]

HICKE: Last time we covered up until 1966 and the beginning of the Reagan era with the campaign.

DOERR: Yes. Of course, at the end of '66 you had the election campaign between Pat Brown and Ronald Reagan. The Brown people thought that they were going to win easily, because who would vote for a movie star with no experience for governor? So they didn't take him seriously until towards the end, when the polling showed they were going to lose. And they did lose, even though by today's standard the issue was almost a non-issue, which was that accrual accounting device we talked about before. Reagan hammered Pat Brown hard on that, saying it was fiscally irresponsible and he was leaving the state in a big debt.

HICKE: Of course, during this period he didn't have the support of Unruh either, isn't that . . .

DOERR: Who?

HICKE: Pat Brown.

DOERR: Unruh was pretty disillusioned with him by this time. In the campaign, Reagan kind of picked up Jesse's theme that we need to have a major state property tax relief program. That was one of Reagan's campaign themes, which of course was what Jesse had



been pushing as part of the residual from our tax study. So you can see why Jesse didn't do much in the campaign. Anyway, I didn't want to dwell on the campaign too much because I didn't really have a lot to do with it. Either one.

HICKE: It's interesting that the accounting issue was picked up.

DOERR: Yes. By today's standards, that's a non-issue. I mean, that's been done a number of times.

HICKE: Although California went off the accrual accounting, didn't they?

DOERR: They did, yes, because Reagan made it such a big issue.

So I thought maybe we'd talk a little bit about Reagan--this may be the most interesting part--and then start with his first year. One of the big things in the first year was this tax program. It was probably the biggest single thing in this first year--one of the biggest single increases in taxes, ever.

HICKE: Let me just interrupt and ask you, when you first heard Reagan was going to run, what were your thoughts?

DOERR: I thought it was kind of silly. I didn't think he would win. I thought George Christopher would win the primary. Christopher had been a popular mayor of San Francisco. He was a known commodity, and Reagan was just a movie star. A fading one at that. He had no government experience at all. So initially nobody thought he would do well, and then he in a sense came out of nowhere. People wanted a nonpolitician, and he was engaging, personable, said all the right things. So I thought I might talk a little bit about Reagan before we go on, because I had a chance to study him closely for eight years; it was just part of the cultural anthropology stuff.

HICKE: Good.

DOERR: I would form opinions about him, and I have a lot of opinions.

HICKE: That's what we're here for.

DOERR: Everything he did when he was president was in a sense a mirror of what he'd done here. You could almost predict his presidential actions, if you knew him well enough.

Reagan won the governorship, and the Democrats retained control of the legislature in 1967. But the man who had been chair of the Rev and Tax Committee, Senator Petris, had run for the senate and been elected to the senate. So there was a vacancy as chair of Rev and Tax, and we were wondering who was going to be the next chair and what was going to happen to us. Jesse called me and told me that he hadn't decided who he was going to appoint as chair, but he was going to take care of me no matter what.

HICKE: In other words, your job was assured?

DOERR: Yes. So then, almost simultaneously, I got a call from the speaker's office, and I met with the new chair. The speaker's office gave me a call and said they'd made a job for me at the [Assembly] Office of Research.

HICKE: The assembly?

DOERR: Yes. They did that because they'd appointed a Republican as chairman of the Rev and Tax Committee, whose name was [Assemblyman John] Jack Veneman. At the same time, I was meeting with Jack Veneman. Jack asked me to stay on as consultant for the Rev and Tax Committee. So here Jesse was going to put me in the Office of Research, so I'd be there.

HICKE: So a job was assured. That's what he meant.



DOERR: Yes. I had two jobs now: one working more with Jesse, one staying with the committee and working with Republicans. So it was kind of an agonizing decision to make. But I decided to go with Mr. Veneman, stay with the committee.

HICKE: Why did you make that choice?

DOERR: I don't know. One, I thought that I'd been with the committee and I liked committee work; I thought there might be more action there. From what I knew of Mr. Veneman, I liked him and I felt pretty philosophically compatible with him. And I thought--and as it turned out--that if I was with a Republican, then I'd have a better input into the administration so it would be more interesting.

I don't think Jesse was really very pleased that I did that, because in a sense, then, I was on the other side. When I worked for Jack, you know, I was working for the Republicans. But I did it.

I think Veneman is probably the single greatest legislator I've ever known in the whole history of the legislature. He was just an outstanding, outstanding man.

HICKE: Can you elaborate on that?

DOERR: Total integrity, very smart, knew how to work the legislative process, was absolutely not bound by any special interests, was well liked by everybody. He would have been the best governor, if he could have been elected governor. He ran for lieutenant governor later and lost in the primary. He was one of the old kind of Republicans that California used to have, which was, you know, the Earl Warren kind--the moderate, problem-solving kind. He was just outstanding. I think if you talked to people around the Capitol and you ask them, "List your top five," he would be in everybody's top

five, and probably close to one on almost everybody's list. Jesse may be one, but he'd be two.

HICKE: He was effective also?

DOERR: Oh, yes, just totally effective on everything. We'll have a long discussion of him as we go through these years. He was also my entrée to Washington. He was appointed by Nixon to be undersecretary of the Department of Health, Education, and Welfare. He got me to go back there on contract to do some work for the department, which led to my introduction to Washington, and I have some observations about that. It also happened to lead me into the Committee to Re-elect the President in spring of 1972, at which time those same people were planning certain illegal activities.

And then when Reagan ran against [President Gerald] Ford, Veneman was working for [Vice President Nelson] Rockefeller, so I was basically the source of some of the material that the Ford campaign used in the primaries when they had the Ford-Reagan contests. Mr. Veneman would call me often as a resource person to provide him information.

I don't know that Reagan knows that. I worked with him on a number of occasions when he was the governor, and then I worked for Democrats who were working against him. I worked for the Republicans for four years, with Veneman and then Assemblyman Bill Bagley as chairman. Then the legislature went back to Democratic control. Bob Moretti became speaker, and Moretti and I were very close. There was a Democratic chairman of the committee, and I stayed on there. So then for the last four years



we were on opposite sides of Reagan. So I saw him from both sides, both working with him and working on the opposite side.

HICKE: Do you describe yourself as nonpartisan, or is this the cultural anthropological viewpoint?

DOERR: Yes, it's kind of cultural anthropological. You go back and try and see what's going on and evaluate. I'm very comfortable with those Republicans. I think if the state was run by the Bagleys and the Venemans and the Monagans of the world, we'd probably have the best government you could get, bar none. So I guess that's probably where I would end up.

HICKE: So partisan politics is not as important to you as general outlook? I'm trying to get a grasp on . . .

DOERR: Yes, outlook, integrity.

HICKE: Personality, and character?

DOERR: Personality, character, et cetera. It just depends on what the person does and how he acts, what he stands for.

HICKE: And that's much more important in your view than his political outlook or the party?

DOERR: Yes. That's kind of the old-time Californian attitude. I grew up in California when it was essentially a nonpartisan state. The Hiram Johnson era of weak parties, where you vote for the person, filtered all the way through [Governor] Earl Warren and [Governor] Goodwin Knight. And Pat Brown, for that matter. After Moretti became speaker and I started working with Moretti and a Democratic chairman, we had negotiations with Reagan. I sat across the table. It was a bigger table than this, but probably not more than from here to the bookcase.

HICKE: That's about five or six feet.

DOERR: Yes. I sat directly across from him in these negotiations we were having for sixteen days. It was an amazing experience, and I gained a lot of insight into him. Some of it I'd had before and some of it just evolved over the period of time.

HICKE: Can you describe his behavior during those sessions?

DOERR: Yes, we'll get to that.

So, OK, let's go back. This is now the general view of Reagan before we start with the tax program. From a certain viewpoint, he was a liberal governor.

If you look at this tax program, this was a very liberal program. Of course the legislature had a certain amount of input into it. He signed one of the most far-reaching abortion rights bill in any state.

I heard him tell us this. His hero was [President] Franklin Roosevelt. He always thought Roosevelt was the greatest president, et cetera, et cetera, et cetera. That was his political hero.

He was very politically ambitious. As soon as he got to be governor, of course, he was running for president. In fact, he ran for president in 1968, as I recall, against Nixon. And Rockefeller, I think, was still running at that time, too. So he was extremely ambitious. If you look at his appointments in California, you found he appointed good people--and this was kind of the hallmark; I mean, this is good; this is one thing I've given him a lot of credit for. He really appointed very competent, as a rule, moderate people to most of the positions.



Once in a while he got a clunker. He left a lot of Democrats-- I think the man who's in charge of the State Department of Water Resources, [William] Bill Gianelli, for example--he left a lot of Democrats in office, in positions. Then he appointed a lot-- [Secretary for Resources Norman B.] Ike Livermore, [Department of Parks and Recreation Director] William Penn Mott; they are some really strong conservationists. I don't think we've had such strong conservationists since that time in charge of the state resources program. You had the Department of Finance run by [Caspar] Cap Weinberger, who was considered to be in the liberal wing of the Republican party. His first appointment to the Supreme Court, Chief Justice Donald Wright, was an exceedingly liberal chief justice.

So you had a man who was known as a conservative running a liberal administration. We used to talk about this at the staff level all the time. We were just amazed.

HICKE: Did the media pick up on this?

DOERR: No. I don't think the media really ever picked up on it. Although I think there were some people--I think [Oakland Tribune reporter] Ed Salzman to a degree may have noticed this major inconsistency.

His [Reagan's] work habits here were the same. Now everybody's finding out what his work habits were like in Washington. He was a nine-to-five person and didn't pay much attention to detail. He was very, very, loyal to staff. Once somebody was appointed, then whatever they wanted was it. And he would defend the staff no matter what happened. Very loyal to the people he appointed.

There was the famous, I guess it's the Standard Operating Procedure, where he insisted on anything anybody brought to his attention had to be in a one-page memo, summarized, because he didn't want to spend time getting into the details. You'd put out briefly what the issue was, a brief summary, and your recommendation, and that was that.

HICKE: That does sort of illustrate everything you've said. The fact that he's likely to take the staff's word.

DOERR: Yes, and he didn't want to spend a lot of time. In effect, he was just the opposite of Jerry Brown, who went overboard the other way.

HICKE: Sort of got into everything?

DOERR: He got into everything and didn't trust anybody and had huge staff problems, appointed not well-qualified people to positions who didn't know what they were doing, just to make a political statement. But he often would say the right things. Brown would say the right things and do questionable things. Reagan would say questionable things and essentially do the opposite. The government ran reasonably well when he was governor, because he appointed good people to most positions.

Mr. Reagan had secured a huge tax increase. Of course, Jerry Brown never recommended any tax increases. Reagan's administration was filled with tax increases. That's another thing: Reagan seemed to be obsessed with taxes. Just obsessed. For almost every year that Reagan was governor, we had a big tax program. He just loved the issue. When he got back to Washington, almost every single year back there, they had a big tax



program. The big Tax Reform Act of '86,<sup>1</sup> that was a very radical program, too. They repealed the capital gains tax, a preference. Who would have thought? So we had three tax increases in the years he was governor here. The 1967 one was, of course, the biggest, and we'll talk about it pretty soon.

HICKE: You're pointing to the 1967 . . .

DOERR: Yes, the 1967 bill.<sup>2</sup>

So in a lot of ways, the government was run in a different way than people thought. But then on hot issues, he came out as a no-nonsense governor; that's where everybody got their image of him. He wanted to put down the students at Berkeley who were rioting, et cetera. In these situations, he came across as a conservative. I think if somebody goes through and looks at the big-ticket items, they'll find, as I say, abortion rights, tax increases, really progressive tax increases, big budgets, appointments of people who were problem-solving and "wanted to make government work" kinds of people. You find a different picture. I always thought that was a media problem.

HICKE: Sounds like historians are going to have a field day when this becomes better known. And this is where you're helping out, I think, by giving some insight.

DOERR: It's something that they can look into.

But then, to go on with this general story, the first time I really got to see Reagan close up was at a dinner that became

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1. Tax Reform Act of 1986, 100 Stat. 2085 (1986).

2. S.B. 556, 1967 Reg. Sess., Cal. Stat., ch. 963 (1967).

famous--the so-called Firehouse dinner in early 1967. Assemblyman [John] Jack Knox set this up. He thought of himself--and he was--as a gourmet; he knew the right foods and wines, so he liked to set up dinners. And of course, he was the co-author on our assessment reform bill,<sup>1</sup> Petris-Knox, Knox-Petris. So I'd been working pretty close with Jack in 1966.

I got invited to this dinner at the Firehouse, down in the basement, in the big room. This was the first dinner between Reagan and his key staff people and legislative leaders. Key assembly leaders--Jesse was there, Knox. Key senators. A few lobbyists, a few staff people. [State Controller Houston] Hugh Fluornoy was there. In a sense, everybody was kind of wondering what Reagan was like on a personal basis, because we hadn't been acquainted. This was early March; he'd only been governor a couple of months.

HICKE: What was the purpose of the dinner?

DOERR: Just to get acquainted with Reagan. The legislative leaders, and a few of the staff got to sit in.

Well, in any event, the thing that I remembered was that Reagan told some off-color stories. Basically, that's what happened that evening. It was a great dinner. But it was basically these stories that were being told. A legislator or a lobbyist would tell a story, and he would have to match it, you know, story, story, story, story.

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1. See above.



This is why it became the famous dinner; it wasn't because of the off-color stuff; I don't think that ever came out. Hugh Fluornoy had just been elected controller as part of the Reagan sweep. He'd been an assemblyman and he was again part of the moderate Republican group. He was part of the Veneman, Bagley, Monagan team. The Young Turks, they called themselves. Hugh was a great person. As the story goes--this is just secondhand, but Bagley told the story a dozen times--they went down and filed Hugh for controller. He wasn't going to run for controller. It was just kind of a . . .

[End Tape 9, Side A]

[Begin Tape 9, Side B]

DOERR: If Bagley's doing one of these histories, he probably is going to tell this story too, and it will be more authentic, but in case he forgets, you have it secondhand from Bagley, who was one of the chairs of the committee. He told it to me a dozen times or more in so many settings. And Veneman told it to me, too, because Veneman, Bagley, and Fluornoy were often together. They went down, took out his papers, and filed him for controller. He was going to just not run for reelection and retire. [Laughter]

HICKE: As a practical joke?

DOERR: Yes, kind of as a joke, and then he won. He became controller. He was a very good controller.

HICKE: [Laughter] He didn't learn his lesson from before.

DOERR: Towards the end of the dinner, Hugh made some critical remarks about the governor, and he proceeded to tell Reagan off in no

uncertain terms. Of course, that filtered out. I don't know how big the story was played in the papers; I forget, but at least I think it got into print. Everybody knew about it. So that was why this dinner became a famous dinner, because Fluornoy told Reagan off, which was just astonishing.

HICKE: What was Reagan's reaction?

DOERR: Reagan was nonplussed. He just tried to ignore it. He didn't know what to do. He wasn't sure how to handle it; here were all these legislators meeting socially for the first time, and Jesse was there. Anyway. So that's a little vignette.

I'd been watching Reagan since that time. If I just followed him, I felt that I could almost predict what he was going to do in a given situation over time, after working with him after those constant meetings and seeing how he operates at different levels. He's a great storyteller.

HICKE: So he operated predictably, actually, is what you're saying, even though he didn't . . .

DOERR: You could understand the Iran-Contra scandal. That makes total sense. In this case he appointed some bozos. And then he let them do their thing. If you didn't know Mr. Reagan, you might listen to him talk and get the wrong understanding of what he means. Then he's just astonished that something happens, because that's not what he wanted. This problem of saying things generally but not specifically.

HICKE: So that finally caught up with him in that kind of sense?

DOERR: Yes. If you watched over time the way he operated, you could see how that could happen. Because people would hear him say



something, but if you knew him, you knew that he would say something but actually not be specific in terms of advocacy as a policy. His real policy, it's kind of a "Don't read my lips" policy.  
[Laughter]

HICKE: "Read my mind," I think.

DOERR: "Judge me by my actions"--and you'll find that, as a general rule, he had pretty decent programs, with some exceptions; I mean, nobody's perfect.

HICKE: You started to say he was a good storyteller.

DOERR: Yes. That was the other thing: he'd tell these stories. He'd just regale us with stories. This was, as I mentioned, in those sixteen days when we came in to negotiate the size of the next tax program. It wasn't this one, it was 1971 when this happened. We were still struggling trying to get a property tax relief program put together, and the state had another deficit, so we were looking for money. The Democrats wanted this and he wanted that, and actually, when you look at it, they weren't very far apart. He was willing to concede on a lot of things.

It blew up in '71, so we didn't get an agreement, but we came back in '72 and got the agreement, and passed it. It's known as S.B. 90,<sup>1</sup> which was the last of his big tax bills. After the 1971 compromise blew up, then we put in through what we called the mini-tax bill, in 1971,<sup>2</sup> which was only a \$500 million tax increase.

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1. S.B. 90, 1972 Reg. Sess., Cal. Stat. ch. 1406 [Also called The Property Tax Relief Act of 1972].

2. A.B. 1, 1971 First Ex. Sess., Cal. Stat. ch. 1.

That's why we called it the mini-tax bill. It includes such little things as reducing capital gains. That's why I wasn't surprised when he jettisoned capital gains at the federal level. We put through a screwy capital gains proposal in California where we reduced the exclusion. There was a three-tier system so you didn't automatically go from 100 percent to 50 percent; there was a 65 percent for a two- to five-year holding period. While he's talking about the need for a capital gains preference, he was willing to compromise and see the exclusion reduced.

Anyway, at these meetings, half the time would be spent on stories. I wish I could have taped them or remembered them all. I remember some of them vividly. I remember the story about the sportscaster time at WHO in Des Moines [Iowa] that he was telling us. Some of this you'd have to take with a grain of salt, because it doesn't seem possible. He did a lot of sports announcing. When they were away at games, he'd do them by re-creation. You know, he'd just get the information from the wire, and he knew the basic fact and he had to embellish. So-and-so got a hit. Then he'd say, "Well, he's looking around; he steps out of the batter's box," he does this, he does that. Of course, he was just making that up. He only knew that the batter got a hit.

But then he went on to tell us that one day, for some reason, the wire service went out, and he continued to make up what was going on. He said it came out just the way he said it. Now, that's something that was. . . . I thought, oh, that couldn't be true, but anyway, he's utterly convincing that that's what happened. He told a lot of stories about the sportscasting life.



Then he would tell the stories about the years when he was president of the Screen Actors' Guild. He looked at me and he said, "You know, where you're sitting"--pointing at me--"Y. Frank Freeman used to sit," who was, I guess, I don't know, I think he was head of Paramount [Pictures], I could be wrong. One of the executives of the film industry. "So we'd sit across the table just like this and we'd talk out these problems and negotiate these agreements with the Screen Actors' Guild." He'd go into a lot of detail, which I've forgotten. If something could jog my memory I could probably remember some more of it. But I remember from those meetings that half the time was spent on stories.

HICKE: And these stories really didn't apply to anything that was going on?

DOERR: No. They just came out of the blue. Just liked to tell stories.

HICKE: He was bored with what was going on, probably.

DOERR: I don't know. That's why people liked meeting with him. He was entertaining, he was interesting. You tell a story, and you know, it's great. Very personable. At that level you had to really like him. Here's this regular guy. I mean, I liked him on that level a lot. It always just bothered me tremendously that everybody got the wrong impression of what his policies were.

Then once in a while--and I was always wondering about this--when we'd get back to talking about this, and we'd negotiate a point, we'd have a difference of opinion on something, and then he'd slam down his fist, and I was always thinking, "Wow, he's acting." I always got the feeling that it wasn't. . . . Their side was trying to win a point in the negotiations, and we'd get this acting job of mock

outrage. I'd think, "If he's not acting, he must know that we think he is, so it's not helping him."

HICKE: It wasn't very effective?

DOERR: No, because we thought he was acting. I think maybe that was because he was an actor, but if somebody else maybe would do the same thing we would have thought differently.

HICKE: It's not an unknown technique anyway, and probably he was adept at it.

DOERR: Yes. It was very good. That's why we thought he was giving us a little performance here. He told us the Gipper stories. Lots of different things. It was a great time. We'll get into that as we move through this period.

HICKE: The substance of it?

DOERR: The substance of it. I was trying to relate what I can remember. This was still a long time ago; it's twenty years ago that all these things I was involved in happened. I may be contradicting myself in some way, because I guess I'm saying that when he ran the government here, he ran a pretty good state government. He appointed generally good people; he generally had reasonable petitions on issues, and he was pro-active. He was a much more liberal governor than anybody ever realized.

So anyway, we can start getting into the substance now. Because this was really a big deal and had a lot of interesting aspects to it.

HICKE: You're talking about the tax bill.

DOERR: Now we're going to talk about the 1967 tax bill.



HICKE: That was S.B. 556.<sup>1</sup>

DOERR: Yes. It turned out to be S.B. 556. Because of accrual accounting, Pat Brown left the state with, in effect, a deficit, because he used one-time money to balance the budget, and then to carry over those programs there was no money in the next year. So that's what people mean by a big deficit. It wasn't that the books were red; I mean, he didn't leave any red ink. But by accrual accounting, he moved money from this year to the subsequent year. So you had a balanced budget in '66 but left a huge gap for '67. So everybody pretty much figured there had to be a tax increase, including the Reagan administration.

We started off, interestingly enough, in different camps. Jack Veneman--who I mentioned was the chair--and Jesse really got along pretty well, because they were kind of in the middle. What there should maybe be is a third political party--people in the middle. They were closer in philosophy than Jesse was to a lot of the Democrats, or than Veneman was to a lot of the Republicans on the extremes of the party. They might be in the center of the political spectrum, both of them.

So Veneman introduced, I think it was [A.B.] 484;<sup>2</sup> I could be wrong. That number sticks in my mind. He introduced this bill which was pretty similar to our tax bill of '65, that came out of our big tax study. It exempted business inventory, it had big property tax relief components, revised the income tax, and all these different

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1. See above.

2. A.B. 484, 1967 Reg. Sess. (1967).

things we talked about before. We didn't need the assessment reforms, because those had been passed the year before. And it had a withholding. That was the assembly's bill.

HICKE: Did you devise and draft the bill?

DOERR: Yes. Veneman knew that I was associated with the other bill, and he liked it. He said, "I like that bill, basically." He said there were a couple of things that we'd want to change a little bit, and I've even forgotten what those are. But the structure was very similar. And Jesse, of course, then endorsed it. He said, "This is what we've been working for," et cetera, et cetera. So the assembly had its vehicle, which we moved along.

Reagan came up with his program, which he introduced in the senate as S.B. 556.<sup>1</sup>

HICKE: It was carried by [Senator George] Deukmejian.

DOERR: Carried, interestingly enough, by the current governor, who was then a freshman senator. He had just been elected to the senate. He had been a member of our assembly tax committee during the tax study, so he was familiar with tax issues. Now, what I'm looking for [Searching files] is what it looked like when it was introduced, because as it was introduced, it was clearly kind of ridiculous, and it had things that were just unacceptable in it.

[Interruption]

DOERR: What he introduced in the senate was a billion-dollar tax increase, including a percent and a half bank and corp increase, 4 percent per pack cigarette tax increase, distilled spirits tax, insurance taxes, tax

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1. See above.



on gas and electricity. In effect, you applied the sales tax to nonresidential sales of gas and electricity. He removed the sales tax exemption from containers, increased the inheritance tax, increased the insurance tax. The cigarette tax went from three to ten cents. And a big income tax increase.

HICKE: Did people attempt to define those as progressive or regressive taxation?

DOERR: Yes. There were a lot of studies done at the time. We also had a tobacco tax--a cigar and tobacco tax, as I see, as I look at this.

HICKE: An increase in that tax?

DOERR: Yes. Now, of course, the one thing that wasn't there, one of the major things that was in our bill, was withholding. This was a huge political issue for the next four years, I guess, or so. Veneman was all for withholding, and the governor was just as dead set against it, except that he did change his mind later on, so he wasn't that dead set against it.

HICKE: He said he was dead set against it?

DOERR: Yes. At the time, he didn't want withholding.

HICKE: And what were his reasons? Ostensible reasons.

DOERR: That it would make it too easy to raise taxes.

HICKE: You mean to raise them again after this had been enacted, or too easy to raise the money?

DOERR: Too easy for legislators to increase taxes. See, people have this philosophy, "Taxes should hurt" concept, which seemed to fly in the face of his own bill, which was raising taxes by that amount. But anyway, that was the philosophy: taxes should hurt. Withholding makes it easier to raise the income tax, which I'd have to observe.

After the income tax got to its present levels under Reagan, it was reduced several times: once by Reagan, and after that by the indexing provisions that were passed by the legislature and then by the Jarvis initiative, and then reduced again on the recent conformity bill, down to 9.3. [Note: it was raised back to 11 percent in 1991.]

But anyway, the argument was that if you have withholding, the sky's the limit; you can just keep raising the income tax.

So one of the big issues between the assembly and the governor was withholding. In any event, that was not in his program, and he had a billion-dollar program. The senate held a series of hearings on this bill, and I guess they passed it in about the middle of July. We really didn't have much to do with it. So it came over to the assembly.

When it got to the assembly, we did a lot of things which were just remarkable, in a sense. I'm not sure exactly of the order we did these things in, but we held what I believe was one of the first and perhaps is still one of the few televised legislative hearings in the history of the legislature [before 1991]. We had a major committee hearing on the proposal that was telecast on KVIE, KQED, KCET, and KFBS. So it was televised on Public Broadcasting [Corporation] live in Sacramento and the Bay Area, and Los Angeles and San Francisco.

HICKE: How did that come about?

DOERR: I arranged that. At the time, I had a friend who was a general manager of KVIE here. I talked to him, and we worked out the details, and they were willing to do it. Everybody thought it would



be a great idea to expose this program to the people. So we did it, and it was a smashing success. That was one of the things.

We did it again when Bagley was chairman. I don't remember since that time ever doing very much. There may have been one Committee of the Whole televised. . . . I don't know. Now they're talking about doing it, setting up a C-SPAN kind of thing. But anyway, we started that with this bill.

Then, interestingly enough. . . . The rules at that time were different than they are now. Now you have to do things in public hearings. At that time we didn't have any such rules. So we took Reagan's tax bill into an executive session of the committee for several nights.

HICKE: That's secret?

DOERR: Yes. The committee met and discussed it and decided what we wanted to do and how we wanted to change it. The staff, of course, brought in information and different suggestions, and Veneman was just masterful in programming things. So we shaved down the cost of it. We thought he was asking for too much money, so we cut back the size, down to about \$950 million.

HICKE: That is the size that was in the senate . . .

DOERR: . . . proposal, yes. Basically by eliminating the tax on utility services, which we didn't think was a very good idea. It was still a huge package. We took out the insurance tax increase. We took out the container tax. That was kind of a stupid thing to do.

HICKE: Was that due to lobbying by people?

DOERR: The insurance tax came out because the insurance lobbyists were very persuasive. Just the staff thought the utility tax was not a good idea.

HICKE: Why?

DOERR: Because that tends to be regressive. We always thought that the sales tax should not tax basic essentials, like food. Well, utility services falls into that category, so we thought, "That's not an appropriate part of the sales tax base."

The containers--we thought that was an issue of double taxation. Because when you buy a product, the price you pay for the product, if it's a taxable product, includes the cost of the container. That's being passed through.

HICKE: This would have been a tax on the manufacturer buying his containers from the wholesalers?

DOERR: Yes, or the retailer buying them. Yes.

HICKE: So the Coke bottler would pay a tax, and then you'd pay a tax again when you bought the bottle?

DOERR: Yes, when you bought the Coke. That tax included the full cost of whatever you're buying, including the cost of the container. So we said, "Hey, wait a minute. This looks like we're taxing the same thing twice." So we essentially convinced them of that. The reason there was the container exemption in the first place that the legislature put in the law a long time ago was the fact that you were taxing them as part of the total price. All they did was looked at the dollars and said, "Hey, there's an exemption, there's a lot of dollars in it, let's repeal it," without giving it much thought.



We also put in--and this was the key to the whole thing--  
a  
large property tax relief component. The senate, when they passed the bill, had no property tax relief. And the assembly was still standing firm for a property tax relief component. So what we said was, "OK, we need this money in the first year to take care of this deficit. That's kind of a one-time hole here. In the second year, this raises more money than you need. So for '68-'69, we'll take a part of that money to use."

We set aside money for inventory and personal property tax relief. We set aside money for general tax relief. In the same bill, we started--and this was the first state property tax relief program--a senior citizens' circuit-breaker, property tax relief program. In other words, if you were a low-income senior citizen, you would send your property tax bill to the state and they'd send you a refund. That was in the bill; we amended that in. Then we set aside the money to start the rest of the property tax relief in the following year, which is in a sense beginning the process of the state property tax relief effort that we had advocated as a result of the tax study. We amended that into the governor's tax bill.

I just might quickly run through it: it raised the sales tax from 3 to 4 percent . . .

HICKE: Now you're talking about S.B. 556?

DOERR: Yes, 556; it was amended and passed. The bill pretty much structured the income tax the way it looks like now. It did three things. It raised the tax rates--at that time they went up to 10 percent--it reduced the size of the tax brackets, and it substituted tax

credits for exemptions. So instead of at that time a \$600 exemption, taxpayers had a \$6 credit or whatever it was worth. You get credits in California instead of deductions, which you get at the federal level. That made the tax very progressive, almost outrageously so, because all those things act together. There's a lot of interaction. That raised a lot more money than the 1 percent increase in sales tax.

Then S.B. 556 raised the bank and corp tax from 5.5 to 7 percent, increased the inheritance tax, which was interesting because people later came on and repealed it, but Reagan was willing to increase it. The bill raised the cigarette tax from three to ten cents, and started a local sharing, giving three cents of the proceeds to local government. So the legislature started a revenue-sharing program for local government.

HICKE: And that came out of that cigarette tax, and that was the first of that?

DOERR: Yes. And then the liquor tax was raised from a buck and a half to two dollars. Then the legislature put in some other things that were thought of as reforms. In fact, some of these provisions, to this day, are very important. But nobody knows how they came about.

[End Tape 9, Side B]

[Begin Tape 10, Side A]

DOERR: The committee was having these constant battles with the Department of Finance. Jesse never liked the Department of Finance, from the time that they tried to scuttle the '65 tax bill.

HICKE: This was headed by Gordon Smith?



DOERR: At that time it was headed by Gordon Paul Smith, who was not highly regarded by key legislators. He didn't last very long.

But in any event, the committee didn't like their estimating. So they placed in S.B. 556 a requirement that the budget had to provide a month-by-month estimate of revenues and expenditures, which of course had never been seen before. When you see the headlines in yesterday's paper, that is now how we track the revenue, so we know the state's up so much or it's down \$500 million.

HICKE: It was in this morning's paper, as a matter of fact.

DOERR: Yes. That's how we know that. It was started at that time. Into this bill was added the requirement that they had to make their yearly estimates, they had to make them month by month, so you could actually have a tool to track revenues, so you knew where you were at any given point in the year. That was stuck in there.

HICKE: Was that your idea?

DOERR: Yes. The other thing that was added was a provision requiring the controller to audit the Department of Finance, which they did for several years, and then the Department of Finance got it repealed.

HICKE: What was your reasoning behind that?

DOERR: Because they were giving the legislature such bad advice.

HICKE: Oh, OK.

DOERR: We just wanted to find out why. Was there some systemic reason why we kept getting bad numbers?

HICKE: Did you ever find out why?

DOERR: To some degree. After that they made some recommendations to the controllers as a result of these audits, in terms of estimating,

that made the system more accurate. I've forgotten what they were. That's why everybody agreed to repeal the requirement, because they said, "Hey, we've done the audits, we identified some things," and everybody seemed to be a little more satisfied.

HICKE: Sort of solved the problem?

DOERR: Not really.<sup>1</sup> In any event, so amendments to S.B. 556 are being developed behind closed doors. Senator Deukmejian wasn't at the closed meetings, either. He was the author of the bill. I guess that today that would be unheard of. In those days it wasn't really good form. The senate did that to the assembly two years before, when they scuttled our tax bill without letting us know. At least they knew we were having these, what you might call markup meetings. So Deukmejian was fit to be tied. He was going to scuttle the bill in the assembly. He didn't like it at all. But Reagan liked it, curiously enough, because it had the property tax provisions in it, which was one of his campaign promises.

The idea of a comprehensive tax bill was born a part of the 1965 tax study. I think I mentioned that before. Everything was incorporated in a big package. Well, this was done in S.B. 556 too. Then when you package this, instead of having it be solely tax increases, there's some money for tax relief. So it's a mixed bag. So when legislators stand for reelection and are accused of voting for tax increase, they can respond: "Wait a minute, that bill also

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1. [Mr. Doerr adds during his review of the draft transcript:] "In the late 1980s and early 1990s revenue estimates have been terrible. See Brad Williams of COST data presented at this year's assessors' convention--article attached."



had property tax relief in it." So the package approach takes the cutting political edge off of voting for a straight, flat, naked tax increase.

HICKE: That was a pretty far-reaching idea.

DOERR: Yes. Of course, that appealed to Reagan, too. And since the assembly had always been for property tax relief, this was great.

So there was a big meeting then with Reagan and Jesse and Veneman. I sat in and talked about the bill. The question was will the administration take this?

HICKE: This is the meeting that you talked about before?

DOERR: No, this is a different one.

As I say, Reagan was very enthusiastic: "This looks really good." The committee gave up on withholding, so the bill didn't have withholding. That's what he cared about. He was told, "OK, we're giving up withholding. We bought into a lot of what you're asking for, but we're putting in this property tax relief component." We thought that's great, the bill has what we wanted. We reduced the size of the tax package. Governor Reagan said, "Yes, we can live with that. OK, let's go for it." Jesse says, "One thing, governor, some of my Democrats don't like this bill because it's got a sales tax increase in it. I'll tell you what I'll do. You deliver every Republican vote on the assembly floor for this bill, and there'll be enough Democratic votes to pass it."

HICKE: Interesting.

DOERR: So that was the deal. And Reagan agreed. He said, "Yes. I'm the governor, I'm the leader of the party; we'll make sure that all the Republicans vote for this bill."

HICKE: That explains some of those newspaper articles I was reading about the end of the story, but go ahead.

DOERR: In the assembly as it was at that time, there were two Republican factions: the moderate ones, who were in control at that time-- Veneman and Monagan and Bagley and all those people; and then there were the conservative types who just didn't want to touch the bill with a ten-foot pole. You know, they'd campaigned against "No new taxes," and this, that, and the other thing, and all of a sudden the governor's committed them to vote for a gigantic tax increase. So that was one problem.

The second problem, of course, was the senate. Deukmejian was mad. The governor had to sit down and say, "OK, it's my bill; you're the author, you accept it." So then he agrees, "Yes, I accept this." The leaders of the senate, of course, were dead set against it, just absolutely dead set against it, especially George Miller's Democratic leadership group, because of what the assembly had done. The assembly stuck in the property tax relief provisions. It was abhorrent to them.

HICKE: Let me interrupt: Do we know how Deukmejian got this bill in the first place?

DOERR: I don't know how that happened. I've always wondered about that. I wondered why he picked a freshman Republican senator. He could have picked a minority leader or somebody with a little more stature. The speculation was: Nobody thought a tax increase was a very popular idea to start with, so it was, "Let's give it to the lowest man on the totem pole." Because it's not anything anybody wanted



to be identified with. That's all I'd ever heard. Probably there's some credibility to that. It's certainly possible.

So then we bring the bill out to the assembly floor.

HICKE: As you go along, tell me what your part is in this, too.

DOERR: My part was. . . . During the mark-up sessions, we provided all the information and suggestions how to change the bill and make it so all the revisions were based on ideas that we'd discussed with the chair. So we pretty much put in the ideas how the bill should be refashioned.

And then, as it comes out, what we do is we put out documents explaining it for the members, and then we go and meet with members. We meet with the administration. At this point Jesse and Veneman were working right together, so there was a meeting in the speaker's office; Jesse and Veneman and I were sitting there going over the bill. I usually, at those meetings, would explain maybe some technical points, but let Jesse or Veneman talk first. They would talk first about the politics, then the major provisions. There were a lot of meetings. I tend to minimize that and give you the quick sketch. To get from here to there takes a lot of work and effort.

HICKE: Well, I'm interested in hearing about the process.

DOERR: So you have one-on-one meetings with members. You have maybe six or seven members invited to talk about the strategy, the political strategy, you know: "So-and-so, you're going to be able to keep So-and-so in line." Then you have the informational sessions where they just go through, "Hey, this is what the bill does," and Jesse would say, "I think this is good politics for us because Ronnie's

going to have to take the heat for the tax increase. We could take credit for the property tax stuff being put in it."

HICKE: Did they ask you to analyze the effects?

DOERR: Oh, yes.

HICKE: So you had some ideas about what this was going to . . .

DOERR: Oh, yes, we knew exactly what it was going to do. We knew the effects of the income tax were going to be severe. We knew that. Particularly for families. The larger the family, interestingly enough, the heavier your percentage hit. How much your taxes are going to go up percentagewise, you know; is it a 10 percent increase? It depended on the size of the family. If you had six kids, you got a maybe a 100 percent tax increase. It's because the bill switched from the exemption to the credit. And as the income went up, particularly, because the credit was only worth so much, and the exemption was that times your marginal tax rate. So middle-class families with a lot of kids got just decimated in terms of tax increase, which was kind of against Reagan's philosophy. But it wasn't, really. It wasn't. But it's what people thought; it was the perception of what his philosophy was.

So we'd have these meetings generally in the speaker's office. Almost all the meetings at that time were held in the speaker's office.

HICKE: Which means that he was personally involved in all this?

DOERR: Oh, yes. Yes. He was just as happy as could be. So now he's happy that I'm working for Veneman, you know. [Laughter] Because he could see how I'd helped put this together, and we're



working as a team, so that worked out fine. He was just happy as can be that he thinks he's going to beat the senate on this bill.

So anyway, S.B. 556 is sent to the floor, and [Assemblyman] John Briggs just doesn't like it. I mean, he's not going to vote for a tax increase.

HICKE: This is in the assembly.

DOERR: Yes. He's an assemblyman from Orange County. A very conservative Republican. To get his vote, Reagan has to take him to the woodshed. Reagan calls him down, works him over, says he's the leader of the party--at least we get this back from Veneman, because I didn't go to those meetings with Reagan--and orders him to vote for the bill. Meanwhile, Jesse is holding all the Democratic votes off the bill until every single Republican assemblymember has voted for it. Jesse won't bring it up and tells Democrats to sit tight until Reagan delivers all these Republicans. He sees this as a great partisan benefit to the Democrats. It didn't turn out that way, but at least that was the perception at the time.

So Briggs finally comes in, you know, hesitates, finally holds his nose, and votes yes. So then the bill has to go back to the senate. It's a senate bill. If the assembly amends it, then what happens is you go back to the senate for a concurrence in senate amendments. Of course, what the senate leaders want to do is send it to a conference committee so you work out the differences. That way they have some input. As of now they've had no input; they've just been shut out of the process. But Jesse, of course, doesn't want a conference committee, and neither does the governor. They want to jam it through the senate to the governor's desk. Jesse has

friends in the senate, because this is the first senate after that one-man, one-vote reapportionment.

HICKE: So all those assemblymen that are now in the senate . . .

DOERR: Yes. There are a lot of assemblymen who've just been elected to the senate who are still loyal to Jesse. And then there are a number of Republicans who, although I guess they're not happy, are going to go with the governor. So we have this big, pitched battle, and the senate people are denouncing it and the assembly is supporting it. [Executive Secretary Harold] Hal Winkler, with whom I became great friends--he was just a wonderful man; he passed away last year--was the key senate staff advisor to Miller.

We'd have these wonderful battles. He'd bring out his charts and I'd bring out my charts, and we'd have the battle of the charts. He'd show how bad it was and my chart would show it's good. Senator George Miller was just going crazy.

As I understand it, we needed one vote to get the bill through. We came up one vote short. We got all the Republicans but [Senator] John Schmitz, who was a member of the Birch Society; he wasn't going to vote for any tax increase. So it was reported that the governor offered Al Alquist two judgeships, and that got us the votes. Miller spoke on the senate floor and just issued a tirade: "Little dictator! Nero!"--an outlandish tirade against Jesse for this, and also at the same time there was something I wasn't really involved in, but as I recall, there was a dispute in an educational reform bill over physical education between the two--the requirement for physical education in the schools, and they were on opposite sides.



So with the two things together, I mean, he just hit the button. You've never heard one legislator castigating another in quite that fashion, at least in my memory. That showed the really hard feelings. Just absolutely unbelievably hard feelings. So that's the story of this bill. There's a lot of material here.

HICKE: There was something in the newspaper, too, about how Reagan got on the phone to Senator Joseph Kennick in . . .

DOERR: . . . Long Beach, to bring him up to vote, I think. And then I think we might have got a courtesy vote for him.

HICKE: And what the newspaper said was that [President pro tem] Hugh Burns then said, "Well, instead of waiting for him, I'll change mine."

DOERR: Yes. You see, Kennick was a former assemblyman who was close to Jesse.

HICKE: So he was going to vote for it?

DOERR: He was going to vote for it because of Jesse's influence.

HICKE: And Burns had already voted no, I think.

DOERR: Yes, Burns is part of the old guard in the senate, and was along with Senator Miller, a part of the senate leadership. He was pro tem, but he was good enough to cast that courtesy vote.

HICKE: Do you want to take a couple of minutes now? Look through, see if there's anything we've left out?

DOERR: Let's see.

HICKE: I read that Unruh and Moretti sort of orchestrated the removal of the sales tax on the repairs and the tax increase on insurance.

DOERR: Yes.

HICKE: That's what you mentioned before.

DOERR: Yes. The Democrats gave up on withholding.

HICKE: And [Senator] Stephen Teale, I guess, was with Miller.

DOERR: Oh, yes. Teale and Miller ran the senate.

HICKE: You said. . . . I just turned the tape on: Deukmejian's quote?

DOERR: Yes. "It's been a great experience. It's one that I'll long remember but never want to do again." [Laughter] How true. Maybe that's why he's been so adamant against any tax increases.

HICKE: He was quiet for a while, too, I think.

DOERR: Yes. The politics on that were just. . . .

Here's a story that perhaps bears out what I was saying. "Families With Children Hardest Hit by the State Income Tax Hike." Maybe they're even using statistics here that I prepared. "A couple with a son and daughter and income of \$13,000 will owe twice as much this April, and a couple with six children will see their taxes nearly triple, with the same income." So S.B. 556 did have that effect. I remember, too, because obviously the income tax changes were the most severe. And of course people would see that. California didn't have withholding at the time. So they'd feel it when they did their tax returns.

HICKE: Severely.

DOERR: Yes.

Now, in 1968, you'd see they would pay the income tax increase on the returns filed in April. As I remember, this may be one of the few times what I'm about to tell you ever happened. In 1968 the Oakland A's [Athletics, baseball team] moved to Oakland from Kansas City, so Reagan was asked to throw out the first ball, and they just almost booed him out of the stadium. That's how



unpopular the income tax increase was when people went to figure it out. They figured they'd really been had by it.

HICKE: What was your reasoning in switching to the tax credit?

DOERR: It was thought to be more progressive. It was much more progressive.

HICKE: In almost every way except for that one instance?

DOERR: Yes. You see, if you have a deduction for your dependent, then you get \$600 times your marginal tax rate. So if you're a higher-income taxpayer, you're at a 10 percent rate. That dependent's worth sixty dollars to you. But if you're a low-income taxpayer at the two-dollar rate, that dependent is only worth 2 percent. Six hundred times two--twelve dollars. So the argument is, why should a child be worth more to a higher-income taxpayer than a lower-income taxpayer? Why is that kid worth more? Somebody says, "No, they should be worth the same."

OK, give them a credit. So the credit for dependents was born. Now, what was done for revenue reasons was that the credit was set low. If it was set high, you wouldn't have had the same outcry. Because with more dependents, you've got a bigger credit. But essentially it was set at the lowest level. So if you were low income, you got in effect the same values you had before, and if you had a higher income with kids, you lost a lot of value out of the credit. It was set at the lowest common denominator.

HICKE: Let me ask you just a couple of follow-up questions. What was Reagan's relationship with Unruh as this went along? They were essentially on the same side, but . . .

DOERR: As I recall, it was pretty good. They were getting along OK that first year. Reasonably well. This was the big issue of the session, the tax bill, and they were working together to pass it. So I don't recall any huge problems. There may have been some, but that may have been in areas I wasn't closely following.

HICKE: Maybe this will appear as we go along, but you said it didn't turn out to be quite as much of a benefit to Democrats as it was thought.

DOERR: They lost their majority in the legislature.

HICKE: Over this bill?

DOERR: I don't know if the tax increase was the reason or not, but their majority was lost in the next election.

HICKE: Oh, I see. Yes. OK.

DOERR: In 1967, Democrats had the majority in the assembly and the senate. In the 1968 elections they lost that majority. The Republicans took it over. The only time they've had it since 1959 was that two-year period (1968-1969). So after the passage of this bill, they lost their majority. So clearly you can't say it had the intended political effects of giving them a bigger majority. It may not be the reason they lost it, but it clearly didn't do them any good, so that that perceived strategy, for whatever it was worth, was not successful.

HICKE: OK, I'm glad you explained that. I thought maybe you meant financial benefit to Democrats at large.

DOERR: Oh, no.

HICKE: You were talking about the political benefits to the party?

DOERR: Yes, they thought that this bill would be unpopular. They had forced all the Republicans to vote for it. The people would vote



against Republicans, and they would get more Democratic legislators. As it turned out, for whatever reason, they lost control of the legislature in the next election. I don't know why. I may have some ideas, but I'm not exactly sure why they lost control; I've kind of forgotten that election.

Nixon was running against Humphrey. As I recall it, it may have been a senate race; I don't remember. But there were no big state issues. Just national issues. The Vietnam war. It could have been a vote against the Vietnam war. In California they voted against Democrats because they were associated with--Lyndon Johnson and Hubert Humphrey--they were associated with war.

So that may be why the Republicans gained control. They lost it two years later. Actually, they really never had working control. Monagan was elected speaker. Then Veneman, you see, was appointed to undersecretary of HEW [Health, Education and Welfare Agency], so he left. Then they dropped back to forty votes. The Democrats had only thirty-nine, but you needed a kind of a coalition to run things, for a while, anyway, as I recall. Again, Monagan was a middle-of-the-road person who was interested in good relations with the Democrats, so on the tax field there was a bipartisan approach. We'll get into that.

As I mentioned, Reagan had a tax program every year. And the assembly trashed his next tax program.

HICKE: Before we get into that, I just have to know--did you get a vacation after all this took place?

DOERR: In those days I didn't take many vacations.

HICKE: So you just hopped right into the next tax bill?

DOERR: Yes, we had just tons of things to do. We were still. . . . I hadn't given up the assessors' issue, interestingly enough.

HICKE: What was happening there?

DOERR: We went out and found assessment problems in Los Angeles with "Watson's Wasteland," as we called it. The committee had a big property tax hearing in 1967, in the fall, where we brought in all these people who were just being gouged by the assessor. We put together in '68 another assessment reform bill<sup>1</sup> to go beyond what we'd done before. I remember the assessors saying, "Gee, I thought we had it in 1966, but this is worse," and moaning and groaning.

So it took, in sense, two steps to create the present property tax system. I'll have to do some review to figure out exactly what we did, but I remember going through that. Veneman was interested in it. We had the big hearings. "Watson's Wasteland" was a part of it.

It again took some time, but the problem was with the ad valorem property tax structure and its concept they called the "highest and best use" concept. Which I personally don't like.

HICKE: Do you want to explain that?

DOERR: That means that the value of your property is its value at whatever the most beneficial, economic use is for it. That doesn't necessarily mean that's the best use for that property on a societal benefit. So what was happening in Watson's Wasteland was. . . . I happen to have a file on this, because I always save things. I have a photograph which resembles "American Gothic" . . .

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1. A.B. 1164, 1968 Reg. Sess., Cal. Stat., ch. 426 (1968).



[End Tape 10, Side A]

[Begin Tape 10, Side B]

HICKE: "American Gothic"--that painting?

DOERR: Yes. I have a photo of these two old people standing outside of this crummy-looking shack, with a tax bill on the back showing a huge amount of property tax. This is just an illustration of the problem. Here were these poor people in a shack with a huge assessed valuation. So you ask the assessor, "Well, why? This is outrageous." He says, "I'm just following the law. The law says that you can put market value on that, and the market value of that property is: it's worth a lot more as a site for an apartment house or a gas station or you name it. So we're going to assess your house as if it was an apartment house site, or a gas station site, or a high-rise, or some other thing." So you had all these people in their homes being forced--taxed--out of their homes. Which was why we called it Watson's Wasteland. We eventually put through a constitutional amendment<sup>1</sup> to stop that, so the present California constitution prohibits assessors from doing that.

HICKE: Do you know which amendment that was?

DOERR: It came in the early seventies. It took us a couple of tries to get it through. Homes must be valued on the basis of their current use, not their highest and best use. In other words, you value a house as a house, as a residential dwelling.

HICKE: That must be really crucial for quite a lot of people.

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1. Article XIII, Section 9, adopted Nov. 5, 1974.

DOERR: And people would even say, "Well, my house is not zoned for that use." Sometimes the property was zoned for another use. A lot of times it wasn't even zoned for the use on which it was assessed. It was zoned strictly for residential, and the assessor was saying, "We can't follow the zoning because the zoning changes." Which of course it does. So the guy's house is assessed for something else, and he gets a huge tax bill.

Anyway, the first hearing into that problem was in '67, you see, because in '65 and '66 we'd been dealing with a different problem, which was the scandals and corruption and trying to make the system work with checks and balances and all the things we did. But we hadn't gotten into this problem, which as we got more into property tax, we found out to be a real, live problem.

HICKE: That's really important, it seems to me.

DOERR: So anyway, getting back to the point, there was plenty to do on taxes besides just working on the governor's program. There are probably other things that happened in '67, but I'm not sure I remember what they are.

HICKE: I have a note here that in June there was a small budget surplus, in June of '67, and then there was the elimination of accrual accounting.

DOERR: Yes, that came a little later. We went off of accrual accounting back to what we called modified accrual. We didn't go all the way back to cash at least.

HICKE: Maybe that's June by the next year, that there was a budget surplus. Could that be right? After the tax bill went through?



DOERR: Yes. As I recall, when we get into '68, Reagan came in with a proposal for a tax reduction, and '68 was an interesting year because two things happened. We had the first Watson initiative, plus we had to implement the property tax relief provisions that we'd put in the governor's 1967 bill. In S.B. 556, the money was set aside in 1968 for property tax relief. However, in order to spend it, legislation was required in 1968 to do it. So that brought the property tax relief fight back to life all over again, between Miller and Unruh and the senate and the assembly. It's again Reagan and the assembly versus the senate.

HICKE: That was an unusual alignment, wasn't it?

DOERR: Yes. The politics of taxes at that time was different than it is now. Right now it's just strictly partisan. At that time it wasn't. It was nonpartisan. The Republicans and the assembly Democrats were together with Reagan against the senate Democrats.

HICKE: So how did that fight go? Bringing it all up again.

DOERR: It was awful. It was just a huge mess, which was facilitated by the Watson initiative. The Watson initiative was, in effect, the first Howard-Jarvis initiative. [Interruption]

[End Tape 10, Side B]

[Session 5, May 11, 1990]

[Begin Tape 11, Side A]

HICKE: I think when we left off last time, we had pretty much covered 1967 and we were about ready to start on 1968, and I think we had just alluded to the Watson initiative a bit. But perhaps we could pick up on that.

DOERR: I might just kind of go back to '67 for a second.

HICKE: Fine.

DOERR: I think I mentioned Jack Veneman, but I don't think I mentioned him to any extent. My colleagues had a party for me after I left the legislature. All the old-timers were there, and everybody said, in the way people get to talking, "OK, who was the greatest legislator in the last X number of years?" It's amazing; it was almost unanimously Veneman. He was smart, engaging, effective. He was responsible. He wanted to do things to make things work, to make government work better. And he was well liked by everyone. I mean, imagine Jesse Unruh appointing a Republican to such a sensitive committee. It was the Rev and Tax Committee, but everyone respected Veneman, that he was a straight shooter. If he didn't agree with Reagan, which he didn't on some issues, he would say so, and he'd say so publicly. Bagley was the same way. Bagley was Bagley. So Jack had everybody's respect.



He also had what I consider just a top-notch staff at the time. He had Susan Westerberg Prager. She's now the dean of the UCLA law school. And [Secretary of Environmental Affairs Jananne] Jan Sharpless on the staff, who's now the Secretary of Resources, I think they call it.

So I just wanted to leave a little recollection of Jack and how he worked. He tried to work on a collegial basis by bringing people into meetings and trying to work out problems and differences, which was usually pretty effective.

HICKE: What would you say were his most significant contributions?

DOERR: Well, the tax contributions were significant. And the Medi-Cal reform contributions. He played the key part in the Medi-Cal legislation<sup>1</sup> that was passed, I think in 1966, the year before he took over the chairman of the committee. [Looking through files]

Then we ought to go on to. . . . Well, we finished the session in '66. I think I talked about Watson's Wasteland.

HICKE: Yes, you did.

DOERR: Because we had the hearing in the fall of '67; we're moving into '68. So we had the hearing in the fall of '67 on property taxes in Los Angeles, at which time we uncovered all this Watson's Wasteland material.

HICKE: We've got some photographs here. Let's see. This one reads: "For sale--Welcome to Watson's Wasteland. Buy a home and let L.A. County confiscate your property." Here's a few very small cottages, to put it nicely. The tax is \$1,815 on one, \$1,131 on one; \$1,204

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1. A.B. 5, 1965 Second Ex. Session, Cal. Stat., ch. 4.

on another one. And this is a poster that says, "Join the taxpayers' revolt." And this is "O'Connor for Assessor" campaign committee. Here's another one. A hundred and seventy-five thousand dollar house, the taxes are under \$2,500. Looks like a small mansion. Looks pretty good. Yes, those are good pictures to have.

DOERR: The reason I bring this up again is, the more I think about it, the more I think this is fairly significant. It is my view that this is the start of Prop. 13. It was right here with this Watson's Wasteland campaign. At this time, I met Howard Jarvis for the first time, and he was kind of a . . . was not known by the public, let's put it that way.

HICKE: At this point?

DOERR: At this point.

HICKE: When you were down there, you mean?

DOERR: Yes. The key person involved was Harry Crown, who was a very suave guy living in Van Nuys with whom we worked. He had money and was organizing property tax protests as a pro bono activity to show what was wrong with assessments.

HICKE: Yes, I noticed most of those were from Van Nuys. The pictures.

DOERR: Yes. That's what was called Watson's Wasteland: this area in Van Nuys that the assessor picked on. It was localized to that extent.

HICKE: Was this the only area where this tax. . . . This was certainly not the only area where this great injustice of the. . . .

DOERR: No, this was the area we found.

HICKE: Oh, this was the major area?

DOERR: Yes. So to that extent it wasn't a statewide phenomenon or even in Los Angeles. So the political dynamics just started here.



HICKE: I see. OK.

DOERR: So people got organized. Then as we went through, and I'd see these people later, they became aligned with Howard Jarvis. He got them more organized, although he was not there in the beginning. But later on they became a part of the Jarvis group. And then Jarvis was working with Watson to pass the first Watson initiative.<sup>1</sup> These people were skeptical of that, but they . . .

HICKE: Which people?

DOERR: The Watson's Wasteland people.

HICKE: Harry Crown and . . .

DOERR: Yes. But they decided that that was better than where they were. Jarvis was a part of this effort. It just seemed to me, anyway, to give the impetus to the property tax revolt, as I think about it later on, and it is where Mr. Jarvis got started, here in Watson's Wasteland. You can see how thick this file is, with all kinds of background information that. . . .

HICKE: It's about three inches thick, at least.

DOERR: Material we were working on.

HICKE: And what was your part in this?

DOERR: Well, we went down there to find out about it. This guy called me up and told me about it, so I went down. The staff went down initially to investigate. The committee staff; that was me and Ray Sullivan. Then we saw what the problem was, so we had this committee hearing that I mentioned, with Veneman as chair, in the fall of '67, to expose this and call the assessor on the carpet and ask

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1. Proposition 9 was defeated in November 1968.

him all these questions, and let the citizens come in and testify and complain about how they were being treated.

HICKE: The state assessor is the one you called in to question?

DOERR: The county assessor. Phil Watson.

HICKE: OK.

DOERR: So we knew property taxes were a significant burden, because that was part of the '63-'65 study. But during that time we hadn't seen any real organization such as we saw develop out of Watson's Wasteland, where it was just intense and people really got organized. That organization was the forerunner to Mr. Jarvis' efforts, it seemed to me, anyway. And enlarged into the Jarvis organization, and eventually into an organization that formulated Prop. 13. Prop. 13 came over ten years after this. So you can see how. . . . [Pause]

HICKE: It took a while to develop and evolve.

DOERR: Yes. It took a while to develop, but I think that was the roots of Prop. 13.

HICKE: Why didn't the Watson initiative pass? What were the goals, and why were they . . .

DOERR: So what happened in 1968--we're moving to '68--we had several things happen at once, on different fronts. Watson decided he was going to pick up in effect what we had tried to do at the legislative level and do it by an initiative. The first Watson initiative was very similar to the current Prop. 13, except that it didn't have any assessment controls. It just had a rollback of property taxes to a 1 percent tax rate. So if it had passed, it wouldn't have been very effective. Interestingly enough.



But the state still saw that as a big threat because of the fiscal consequences of rolling property taxes back by such a large amount. Property taxes were running about 2-1/2 percent at that time, as I recall. Between 2 and 2-1/2.

HICKE: The threat was loss of income?

DOERR: Loss of revenue to the schools and et cetera, so the state would be saddled with the need to raise revenue to deal with it. What was also happening was if you remember in the 1967 Reagan tax bill, monies were set aside to provide property tax relief in '68. In other words, part of the money that was raised in '67 was in a sense to cover a one-time deficit that was carried over from '66 because of accrual accounting. So once that was taken care of, that money was freed up, so the bill said next year we're going to use that money for property tax relief.

As you may recall, the senate still never liked property tax relief. So they invented what they called the boilerplate. With every bill the senate passed, they stuck this boilerplate on it to the effect that this was going to count against the requirement that we give property tax relief. All kinds of different things that we didn't really think qualified. Some of them were just maybe a property tax exemption for a specific group, or maybe it was a school aid bill or an aid to counties bill, giving them money for such and such. Various proposals that I guess you could say tenuously related to property tax relief, but not directly providing relief to property taxpayers. At the same time, the assembly was trying to pass a general property tax relief measure.

As the stalemate went on, of course, it gave Watson more opportunity to promote his initiative, because he could say, "Hey! Look, if the legislature last year raised taxes and promised you property tax relief, they're not doing anything." So he went out and got his signatures, and qualified for the November '68 ballot.

Now, that helped break the logjam in the legislature. Then the legislature decided it had to do something. So after big, lengthy negotiations among the governor and various legislators, a plan was devised. I remember Hal Winkler was the one I negotiated the details with, who worked for [Senator] George Miller. A compromise was found that we all thought, well, this will be a good compromise. What we did was we provided that 15 percent of business inventories would be exempt from tax. In addition, the compromise included providing homeowner's exemption.<sup>1</sup>

HICKE: Seven hundred fifty dollars? I've got this note here: \$750 of assessed value. Those were things that were passed in '68.

DOERR: Yes, \$750 homeowner exemption. Although that seems low. Maybe that's what it was at the time. We exempted household personal property from tax. One other thing, particularly in terms of the Watson initiative, the legislation made the homeowner's exemption retroactive. So they send a check out before the election to all the homeowners. [Laughter] For their property tax relief payment.

HICKE: This came from the state of California?

DOERR: Yes. It was a check in the mail. That tended to undermine the Watson initiative, and of course, Reagan was dead set against the

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1. S.B. 8, 1968 First Ex. Session, Cal. Stat., ch. 1 (1968).



initiative. So he, as the Great Communicator, went out and told everybody that this would cause a disaster to the state, and the responsible thing to do was to have the homeowner's exemption and the check.

The compromise package also exempted household personal property. That was an interesting fight, too. League of [California] Cities really. . . . I remember we went head-to-head with [Richard] Bud Carpenter on that. That was an interesting sidebar. I believe we had a Committee of the Whole in the assembly. It was formed to hear this package, which included repeal of this personal property tax and in effect let local governments make up the revenue themselves. The state was not going to reimburse for the loss of revenue. So the bill said they could adjust their tax rates. There was no control on tax rates at the time. They didn't like that at all. They fought this idea tooth and nail on that, because they didn't want the legislature to repeal that.

The personal property tax on household goods was very unpopular. The assessors used to go around and assess personal property, such as your television set and your couches and furniture. But it was a haphazard, hit-and-miss thing; they just usually set it real low and I guess some counties did it more religiously than others. It was a lot of cost for a little revenue. Of course, you'd go out and get all the renters as well as the homeowners. All the people that rented apartments would have to send in a little check for. . . . They'd maybe have \$250 worth of assessed value and they'd send in a check for 2 percent of \$250--\$5 or something. It

was an irritant, it was regressive, and the legislature thought this was a good time to get rid of it.

I remember Bud Carpenter coming out on the assembly floor to argue against it. So I had Veneman ask him a question. At the same time, the cities were asking for an exemption. It was perfect timing. The League of Cities was asking for an exemption from property tax for corporations which were formed that owned property and leased the property to a city. Because that was when the lease-purchase program was just getting started, where the city would lease property from a nonprofit corporation for twenty years, and then it would revert to the city. So they didn't have to go to bond issues. It was creative financing, the first real, major thrust of creative financing. But since that property wasn't owned by the city--it was owned by this corporation--it wasn't exempt from tax.

He came out pleading. They pushed this bill for the exemption of that. So we raised that whole issue. Here the cities were not worried about reducing the property tax base when they have a vested interest in the result. They're opposed to doing it for the homeowners and renters. So he just got massacred. I remember he was just furious.

There's one other episode I want to check here.

[Interruption]

HICKE: OK, we're on.

DOERR: I think this happened at the end of the '67 session. In fact, I'm pretty sure it did. But it could have been the end of the '68 session, too. But it was when Veneman was chairman.



Jesse had been given this big school and finance bill.<sup>1</sup> That was one of the big issues of the session, which of course, was in the Rev and Tax Committee jurisdiction. The more I think about it, the more I think it probably was the end of the '67 session. We passed the tax bill. Of course, I got really deeply involved in the tax bill, and I'd also been involved in property tax issues. This was one of the things at the time that I discovered early on--I think I probably mentioned this: nobody at the state level was familiar with the property tax. The BOE [Board of Equalization] had oversight, but that didn't get plugged in anywhere. So the Department of Finance didn't know much about the property tax. Neither did anyone else. When the school bill came along, and based on the work I'd done on the budget and on the property tax, I saw immediately that they'd made some glaring misestimates. This was the Department of Education. So I went to Veneman and I said, "Hey, this is all wrong. The property tax components here are wrong; they don't mesh with what we did in the tax bill, and the estimates of what's going to happen are wrong."

HICKE: So they're based on miscalculations?

DOERR: Yes. This was the last night of the session, and the bill was back in the assembly. Ron Cox was there from the Department of Education, and everybody thought he was a big guru on educational finance matters. So I told Veneman about it, and he got concerned.

So at the last night of the session. . . . Or it could have been the night before. But anyway, it was right at the end; it was late, it

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1. S.B. 855, 1967 Reg. Sess., Cal. Stat., ch. 1536 (also called School Budget Act of 1967).

was in the evening hours. Veneman stands up to oppose Jesse's big school finance bill, which was a big bill of the session. Veneman said, "Based on information I have from my staff, this bill is way out of balance," et cetera, et cetera, et cetera, and went on to suggest why. Then Jesse just yells out, "God damn you, Dave Doerr!" just all over the assembly.

HICKE: [Laughter] Were you sitting there? Or standing there?

DOERR: Yes, I was sitting on the side, in the back.

HICKE: Oh, dear.

DOERR: So they moved into a Committee of the Whole, so that witnesses could come down the floor, so that they would hear the differing points. So I went on the floor to sit with Veneman, and then Ron Cox went to sit with Jesse so we could debate it right out there on the floor. I made my points, and I made the best effort I could to point out what was wrong with the bill. Which was kind of uncomfortable since it was Jesse's bill; I was trying to kill his big school finance bill by saying it was not balanced. It could spend way more than they thought.

So they had the big debate, and of course Jesse had the votes to get it passed, because there were more Democratic members there than Republicans. And then about six months later, it turned out that the bill was way out of balance.

HICKE: As you had said.

DOERR: As I had said.

HICKE: What it did, probably, was spend more than it had estimated it needed?



DOERR: Right. So the article I was just looking for was an article I clipped out of the paper, which pointed out what I had said earlier, and pointed out this episode. In fact, Sherry Jeffe remembers this to this day, because she was there that night, too, and she always needles me about what happened that night: how Jesse was on my case and she thought I was going to be fired. [Laughter]

HICKE: Who wrote the article?

DOERR: A reporter from a newspaper.

HICKE: Somebody was pretty well on the ball to write that.

DOERR: There was a big announcement that came out. That's why I think it happened in '67, because Veneman, I think, went in and said, "Hey, you know, my staff had pointed this out," and he was taking credit for exposing the problem when the bill passed.

HICKE: Were there any recriminations from Jesse?

DOERR: No. He realized that I was right, I think. And he got the bill. If I'd killed this bill there might have been some recriminations, but his bill passed, so that was fine. He probably realized I was right, and then when I was right, of course, that added to my stature around the Capitol. "Hey, this guy had the guts to take Jesse on in this bill, and then he turned out to be right." So anyway, Jesse was never mad at me after that.

Another little episode--this is kind of interesting--I don't know if I've talked about the assessors' conferences or not.

HICKE: The assessors' conferences?

DOERR: Yes. The Assessors' Association held a conference every fall. It was their annual conference.

HICKE: You talked about some, but I don't remember which ones.

DOERR: Anyway, I'd started going to them in '63. So I've gone in '63, '64. The '65 one I think I mentioned was in Yosemite when Russ Wolden was there.

HICKE: That's the one I recall.

DOERR: Sixty-six, where was the '66 conference? Sixty-six, I believe, was down south. It might have been San Diego. Sixty-seven, I think, was in Fresno. Anyway, by '68 it came to San Jose. I'd been going to these conferences, and it was my view that these conferences were a little overblown in terms of excesses of food and drink. It was like a Roman orgy. They'd have these huge, lavish spreads and a great many hospitality suites. I thought it was kind of corrupt.

Watson had been gradually ingratiating himself with the assessors; so he'd been becoming more and more of a force within the association, particularly after Wolden was convicted, and the others. So the assessors were looking to Watson as kind of their leader. The legislature was fighting Watson, because he was now proposing this proposition that they didn't think was in the public interest.

So time came for the 1968 assessors' conference, and this was going to be in Palo Alto. My brother-in-law was a reporter with the San Jose Mercury at the time.

HICKE: What's his name?

DOERR: Robert Lindsay. In fact, he's writing Reagan's memoirs right now. I think I mentioned that. At the time, he was with the Mercury. So I tipped him off to this, and I said, "Come up here, and I'll show you around. Nobody will know who you are, and then we'll do a big exposé." [Hands over clipping]



HICKE: It says, "Lobbyists Wine and Dine Beloved Assessors," and the big headline is, "The Red Carpet Treatment."

DOERR: So we exposed the assessors' bacchanalian ways at their conferences. And, oh, they were angry. First they didn't know what happened, and I, of course, wasn't going to volunteer any information.

HICKE: Let me just interrupt to read this: "Of the 219 persons at the conference, only ninety-nine were assessors and the other 121 were lobbyists or private 'tax consultants' representing industry."

[End Tape 11, Side A]

[Begin Tape 11, Side B]

DOERR: I thought it would be fun to expose this. Of course, Watson was just furious. After a day and a half, he finally concluded that I was responsible.

HICKE: He found you out? [Laughter]

DOERR: They said, "Somehow Doerr's connected to this."

HICKE: Oh, dear.

DOERR: I said, "What do you mean? The press came; I didn't write the story."

HICKE: The article isn't even signed, I don't think, is it?

DOERR: No, it's not signed. It's just an article in the Mercury. So he was kind of unforgiving.

But as an upshot, I continued to go to these conferences, but they never had any more lavish spreads. That was the end.

HICKE: Is that right? That finished that?

DOERR: Yes, they were so spooked by the bad publicity that they decided, "Well, we had to have a normal conference." So if you go to one

nowadays, it's kind of nice. It's a meeting of the assessors; they have a dinner for which attendees are charged, and it's added to your conference registration fee. You don't see the hospitality suites and stuff like that anymore at all.

HICKE: That's really interesting. Let's see, this is '68.

DOERR: Yes, this is the '68 assessors' convention.

There's one other thing I just want to check. Let me. . . .

[Interruption]

It's the National Tax Association proceedings for 1968 in San Francisco. I wrote a speech for Veneman, so it's kind of refreshing my recollection of what happened.

HICKE: He gave it at this convention?

DOERR: Yes, he gave it. I wrote this. It tells a little bit about. . . . It starts with how we put together the tax bill in '67. One of the things I hadn't mentioned, I think I alluded to it, but maybe. . . . The whole Medi-Cal program.

HICKE: No, we haven't talked about that.

DOERR: It was in '66, I believe. Jesse asked the staff to come sit down and put together a medical care program for California, because the federal government had enacted legislation, getting the states into a program. So we spent a lot of time, and of course Governor Brown had his own, which was to become the Medi-Cal program. We put together a different program. As I recall it, it was called Cal-Med, and I think we were going to run it through the banks, because we thought they could be fiscally responsible but also provide service, because there was a bank located in every community. I did a lot of the fiscal work for that task force.



So that brings us back to '68, this Medi-Cal issue in the '67-'68 budget. I advised Veneman--and this is related to the school thing--that I thought the estimates for Medi-Cal in the budget were too high, based on work I'd done for Jesse in trying to cost out the various aspects of the Medi-Cal program.

HICKE: Let me get back up just a little bit. This was the 1967-'68 budget, and you studied the Medi-Cal part of it?

DOERR: Yes.

HICKE: And you thought that the expenses were too high?

DOERR: The estimates of what it was going to cost the state.

HICKE: So you didn't think it was going to cost that much?

DOERR: Yes. So I told Veneman that, and of course we made a big issue of that, but again, we didn't get anywhere. So let me just read this. It's just a couple of paragraphs. Then I'll tell you what happened.

HICKE: OK, good.

DOERR: The 1967-'68 budget is adopted, provided \$305 million in state funds for Medi-Cal. "Approximately one and a half months later, we were told the state's Medi-Cal cost for the fiscal year was going to be \$395 million and cutbacks in the program were to be needed. The legislature reacted with a great deal of skepticism and did not authorize cutbacks," probably because we said they were inflating the cost and it wasn't going to cost that much. "As the legislature undertook a study to determine what actual cost figures might be, the administration in February reevaluated their early estimates and discovered the program would only cost \$275 million.

"The books on the fiscal year have closed, and you may be surprised to learn what the Medi-Cal program actually cost the state

for the year: it cost us \$210 million, or \$95 million less than the budget had cost."

In the aftermath, this caused major problems for the finance director. He was Gordon Paul Smith. Nobody liked him very much. In fact, Assemblyman Bagley put out a phony resolution naming a men's restroom after him. It's called the Gordon Paul Smith Memorial Men's Room. [Laughter] He thought he was one of these management consultant-type people, and I don't know why Reagan brought him in there. But anyway, he had to go before the press and admit that we were right and he was wrong. The press just nailed him: "Are you admitting the legislature's right and your estimates were wrong?" "Yes, I'm admitting that. They were right and we were wrong." And that was the end of Gordon Paul Smith. He got tossed out on his ear, and the governor brought in Cap Weinberger. So that was an interesting episode. Because we made this big issue about the cost of the Medi-Cal program, and we were right; we got the finance director tossed out on his ear.

HICKE: I want to ask a question before we get too far off this. When you were negotiating the '68 tax package, what you were doing was saying, "We'll do this and this and this," instead of the Watson initiative?

DOERR: Yes. This was an alternative to the Watson initiative.

HICKE: And the legislature then did pass that alternative?

DOERR: Yes. And we reached agreement with George Miller, and we put it out on the floor. This [document] has the story of how we tried in '68 to pass a property tax relief bill and the battles we had with the senate.



THE PROBLEMS AND PITFALLS IN ENACTING A  
BILLION DOLLAR TAX PROGRAM IN CALIFORNIA:  
THE STATE ASSEMBLY'S APPROACH

STATE ASSEMBLYMAN JOHN G. VENEMAN

Let me tell it like it is! From the viewpoint of the California State Assembly, the road to hell is paved with the one billion dollar tax program passed in 1967. By this, I mean that the good intentions in the program, added by the Assembly to make it palatable, have been subverted. The State Senate has fought a guerrilla action this year to prevent implementation of these good intentions.

It is appropriate to use the flash-back technique, often used in the movies of the early forties, to explain fully the why's and wherefore's of the Assembly's action on the bill and to explain how we were given the fiscal flim-flam.

SB 556, the tax increase bill, had a four-month run in the Senate, with mixed reviews. The act went through re-write six times during this period in an attempt to develop some box office appeal.

On July 12, 1967, when it passed our Upper House, it purported to increase taxes by \$1,011,000,000 for fiscal 1967-68. When it reached the Assembly, about the only thing it excited were the olfactory organs of some of the members.

True to our Judeo-Christian principles, a major life-saving effort was organized!

The first problem was obesity. Many of us were convinced that the bill extracted more money from California taxpayers than was absolutely necessary. The recent surplus announced by our State Controller, Houston Flournoy, shows how right we were!

Unfortunately, cutting the bill down to size was not an easy task. We had to fight the State Department of Finance every inch of the way. We finally accumulated so much unimpeachable data that the Department had to retreat and accept reductions in revenue and features providing property tax relief and funds for school support.

The first feature that was removed was the proposed sales tax on services, which levied a five percent tax on shoe shines, car washes, repairs of artificial arms and legs, and other varied and sundry services relating to tangible personal property. This action saved California taxpayers \$40 million. We then removed the proposed tax increase on gross premiums of insurance companies, leaving \$21 million more in the taxpayers' pockets!

These changes were just the beginning! The Assembly has long advocated a reduction in property tax burdens. In fact, early in 1967



I had introduced legislation, namely AB 484, embodying major reforms in the property tax and reductions in the property tax burden. As you may have heard, a little bit of sugar helps the medicine go down. To produce an attractive tax package, we not only had to reduce the size of the tax increases, but to provide some property tax relief.

A three-pronged pincer movement in this direction was launched.

1. We established a program of state reimbursements for a portion of the property taxes paid by low-income people over 65. A reimbursement of 95% of the property taxes paid on the first \$5,000 assessed value by persons with a household income of \$1,000 or less would be available to qualified applicants. The percentage of the tax to be refunded was gradually reduced to 1% reimbursement where the total household income is \$3,350.

In framing this program we were advised by the Department of Finance that we were giving approximately \$22 million in property tax relief to this group of taxpayers.

2. One-fourteenth of the Bank and Corporation tax was set aside to be used to reimburse local government for the revenue loss due to a partial exemption of business inventory. Most of you are well aware of the many deficiencies of the inventory tax. The Advisory Council on Intergovernmental Relations has recently suggested to the states that they try to cut this cancer out of their tax structure.

3. \$155 million was set aside to provide general property tax relief in fiscal 1968-69. In order to protect this money so that it could not be used for state expenditure purposes, we added a contingent provision which reduced the sales tax by one-half of one percent if the money was not spent on property tax relief.

Several other important fiscal policy reforms were also incorporated into Senate Bill 556. For the past decade, California has funded virtually all of the state's capital construction out of bonds. Paying the principal and interest on these bonds has added to the spiraling cost of state government to the extent that the annual interest payment on past bonds exceed our annual capital construction budget.

To re-establish some fiscal sanity in the State, we added a section providing \$90 million of the new revenue raised by the tax bill had to be used for capital outlay purposes. By taking this action we attempted to take a middle position between total bonds and total pay-as-you-go financing. A. Alan Post, California's Legislative Analyst, has estimated our capital outlay needs are \$180 million a year.

Finally, much to the chagrin of the officials in the Department of Finance, we included a rider requiring an audit of the Department of Finance each year by the Controller. I might add that this was one of the most well received features of the entire bill in the Assembly, as a rather wide credibility gap as to the Department of Finance's figures has grown up over the years. Many members are



very gun shy when it comes to any fiscal data released by the Department of Finance.

To digress for a moment, a good example of this problem is the cost estimates of the State's Medi-Cal Program made by the Administration during the past fiscal year. Medi-Cal is California's supplement to the federal Medi-Care Act, as required by Title 19 of that Act.

The 1967-68 Budget, as adopted, provided \$305 million in State funds for Medi-Cal. Approximately one and one-half months later, we were told that the State's Medi-Cal cost for the fiscal year was going to be \$395 million and cut-backs in the program would be needed.

The Legislature reacted with a great deal of skepticism and did not authorize the cut-backs. After the Legislature undertook a study to determine what the actual cost figures might be, the Administration, in February, re-evaluated their early estimates and discovered the program would only cost the State \$275 million.

Well, the books on the fiscal year have just closed and you may be surprised to learn what the Medi-Cal Program actually cost the State for the year—it cost us approximately \$210 million or \$95 million less than the budgeted cost.

This serves to illustrate the Legislature's reluctance to accept financial data released by the Department of Finance at their face value!

The first audit made pursuant to this legislation has now been delivered to the Legislature. One of the more interesting facts contained therein is that, in recent times, the Department of Finance has underestimated revenues each year, except in those years when gubernatorial elections were held! Very interesting!

Finally, in order to give our hard-pressed schools a financial shot in the arm and to lessen the reliance on the property tax for financing education, we added another safeguard to the bill which voided the sales tax increase if the school aid bill was not signed into law. This made it possible to develop a \$145 million school aid program.

As you can see, we gave Senate Bill 556 a real face-lifting! It was even attractive enough to garner a two-thirds vote in the Assembly; a notable achievement for any tax bill!

It is customary, when one House of the Legislature makes substantial changes in a bill passed by the other House, for the originating House to reject the new amendments and work out a compromise in a Conference Committee. Senate Bill 556 is unique in this respect, too! The proponents of Senate Bill 556 were satisfied with the changes made by the Assembly and asked the Senate to concur.

This precipitated a very bitter fight on the Senate Floor with the Senate leadership, particularly State Senator George Miller, Jr., Chairman of the Senate Finance Committee. Senator Miller, a dedicated foe of property tax relief, had made predictions that this type of pro-



gram could not pass the Senate. Well, it did pass the Senate, to the embarrassment of the opposition! The leadership had been beaten on the Senate Floor for the first time in the memory of most Capitol observers.

I may have you a bit confused by now. I began by telling you how the road to hell is paved with this tax bill, but then proceeded to describe in detail how the Assembly amended the bill into a respectable package.

This, then, is the third part of the story — the story of how the good work of 1967 has been undone in 1968 and how the property taxpayers of California have been betrayed.

Many of the most desirable features of the bill from the Assembly standpoint, and I believe from the taxpayers' standpoint, have been undone. One of the major thrusts of Senate Bill 556 was to promise property tax relief. Let us compare the promises with the performance.

We established a senior citizens' property tax reimbursement program. The Department of Finance promised us at the time it would provide \$22 million in property tax relief. Now we are told by the same Department of Finance that, in actual fact, this program is only going to provide \$11 million in property tax relief — only one-half of the advertised amount.

We promised \$155 million in general, across-the-board property tax relief. This was to be implemented by legislation passed by the 1968 Legislature. The Assembly passed and sent to the Senate four alternative programs providing \$155 million in property tax relief and the Senate of this State has killed all four!

The first measure sent to the Senate, Assembly Bill 149, provided a \$155 million block grant to the counties of California to be used solely for property tax relief. We managed to get a majority vote of the entire Senate for this plan, but, as the measure requires a two-thirds vote, this was a moral victory only.

Undaunted by this setback, we sent a second property tax relief bill, Assembly Bill 1590, to the Senate. In this measure, the property tax relief was provided by placing limits on the county costs of welfare. Approximately \$155 million of county costs were shifted to the State. The Senate mistook the bill for a ping-pong ball. It went from the Senate Welfare Committee to the Senate Finance Committee, back to the Senate Welfare Committee, back again to the Senate Finance Committee, and then to the Senate Revenue and Taxation Committee — which was the end of the volley!

We never say die! A third effort at property tax relief was attempted by amending a Senate school finance bill, Senate Bill 95, to provide \$155 million of relief by lowering school districts' tax rates. On the question of concurrence, the Senate voted down the idea.



Half the battle is picking up the pieces and starting over again! We picked up the pieces of all the major tax relief bills pending before the Legislature and incorporated them into an omnibus property tax relief package. Approved by a Senate-Assembly Conference Committee, as amendments to Assembly Bill 1962, this package included \$155 million for counties for property tax relief using the welfare equalization formula. It was immediately adopted by a two-thirds vote in the Assembly. However, with the Governor's staff actively working against this bill in the corridors outside the Senate Chambers, we mustered only fourteen Senate votes out of forty for this compromise.

After the demise of the final of the four proposals, the Senate picked up its marbles and went home so it could avoid the embarrassing question of property tax relief. It had its leader, as acting Governor, adjourn the Legislature in an unprecedented act.

We promised a reduction in the inventory taxes equal to the revenue produced by one-fourteenth of the Bank and Corporation Tax. Two attempts were made this year to implement this provision. On one occasion it was defeated on the Floor of the Senate when it was incorporated in the tax relief package, Assembly Bill 1962. An inventory tax relief bill was also being worked out in a conference committee when the Senate leader abruptly adjourned the Legislature, thus killing that bill too!

In addition, the Conference Committee on the State Budget took \$20 million of the \$90 million we set aside for capital outlay purposes and put this in the budget to finance the current expenditure program of the state.

Finally, we have discovered that the tax program took far more of the taxpayers' money than had been represented it would by the proponents. Last year the Assembly was afraid that the program was too big, and, as I have indicated, we cut it back by almost \$60 million. Some of the Committee members wanted to cut it back even further but were restrained by the pleadings of the Department of Finance. As it turns out, the Committee members were right.

This session we attempted to return this tax money to the people through the school districts by providing additional aid to schools so the burden on the property taxpayer would not be as great. This was also incorporated into Assembly Bill 1962, which was voted down on the Senate Floor shortly after midnight on the day before the abrupt adjournment.

Let me not leave you with the impression that no property tax relief was passed by the California Legislature this year. Under the provisions of Senate Bill 393, authored by Senator Ralph Dills and signed into law by Governor Reagan on August 1, 1968, old movies and those in production were determined to have no value for prop-



erty tax purposes. Whether this represents a critical review of these films by the Legislature, or is merely a tax relief measure, I'll leave to your judgment.

The next act of this great drama will begin on September 9, 1968. I hope it will not be just another summer re-run!



HICKE: That speech does?

DOERR: Yes. Mr. Veneman's speech at the NTA says, "After the assembly put four different proposals for across-the-board property tax relief over in the senate, after the demise of the final of four proposals, the senate picked up its marbles and went home so it could avoid the embarrassing question of property tax relief. It had its leader, as acting governor, adjourn the legislature, an unprecedented act." Because the governor was out of state, and the lieutenant governor was out of state; the president of the senate becomes the governor. So he could adjourn the legislature as governor. This was great theater. I mean, all these things. And this was part of the battle over the property tax relief.

HICKE: Is there any chance we could get a copy of that?

DOERR: Yes.<sup>1</sup>

This speech was written when there was not yet any agreement on the issue, you see. So what it says at the end, is, "The next act of this great drama will begin on September 9. I hope it will not just be another summer rerun."

So after we'd fought all session to get the property tax relief, and we had the Watson initiative looming, they went ahead and adjourned the session so that they wouldn't have to pass a property tax relief bill. And then the governor called a special session back, saying, "Hey, we've got a property tax relief." That was what began on September 9. So that's when we passed the homeowners' exemption, with the programs that I alluded to earlier.

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1. See following pages.

HICKE: Just in order to cite that speech, I was wondering who published it and so on. The title of the speech is "The Problems and Pitfalls in Enacting a Billion-Dollar Tax Program in California: the State Assembly's Approach."

DOERR: I wrote that speech for Veneman. He gave it in San Francisco.

HICKE: I'd like to get a copy of that, maybe, and attach it, or something.

DOERR: Yes. This is an extra copy, too, if you want to have that. I made a lot of those. I still have a lot left. [Laughter] It just tickled me so much.

HICKE: Oh, yes, I'd love to have that. I'm just going to write down this reference. This is the Proceedings of the 61st Annual Conference on Taxation, the National Tax Association, edited by Stanley J. Bowers, Columbus, Ohio, 1969.

DOERR: So anyway, we were sort of off on a tangent here. Talking about Medi-Cal.

HICKE: Are you going to talk more about Caspar Weinberger?

DOERR: Yes. He comes into the issue next year. Which is fascinating. Each one of these years was a fascinating year. I might just jump ahead a little bit, because we were talking about Medi-Cal, and I'd been helpful to Veneman, and we'd exposed this erroneous estimate. Because of the work I'd done with Jesse, I knew the subject matter.

So anyway, Nixon is elected in '68 as president. He beats [Senator] Hubert Humphrey and becomes president. One of his good friends is [Robert] Bob Finch, who's the lieutenant governor of California. Very close to Finch. So Finch is named the secretary of the Department of Health, Education, and Welfare. And one of



Finch's closest friends is Jack Veneman. So Veneman is appointed undersecretary of the department.

So Veneman wants me to come back and work in Washington, which I had mixed feelings about. I mean, really serious mixed feelings. In a sense, I thought, "Wow, this would be really fun going back to Washington. There would be a lot to do," and this and that. But being a native Californian, I couldn't really bring myself to leave California. I was having fun here; I mean, it wasn't like I wasn't. . . . I thought I was making a contribution. Each year was just a great time.

HICKE: Yes. Something new and different all the time.

DOERR: At that time, the cost of living--it probably still is--was much more in Washington than in Sacramento. Sacramento was really, at that time, very cheap. Still is relatively cheap; it's gone up. And Washington was pretty high. So . . .

HICKE: Let me ask you one other thing. When you're thinking about a job like that, do you have to consider that it's short term, or it's only going to last as long as, say, Veneman is there, or. . . .?

DOERR: Yes, you have to think about that, too.

HICKE: Somebody else is going to bring in his own staff.

DOERR: His own people. While the assembly had no guarantee it would last beyond the chairmanship, I'd managed to stay a long time there through various changes in power. And I knew enough people; I thought I had people's confidence if there were changes.

HICKE: I think it's pretty clear you had support of people on both sides of the . . .

DOERR: That was a factor, but it wasn't that much. I think it was more that I didn't really want to leave California, uproot my family and move, and sell my house and buy a house in Washington, et cetera. But what we did do is, Veneman said, "OK, let me put you on a consultant contract and you can just come back occasionally and help out." Which I thought would be OK. So that's what we did. What I ended up doing. . . . First of all, in order to get that done, I had to pass what they called the--just kind of moving ahead a little bit, but not too much--I think they called it the Berlin Wall. The litmus test by the Berlin Wall, which was H. R. Haldeman and John Ehrlichman.

Veneman said that these guys were screening everyone, not only appointments but even these short-term consultant contracts to make sure that people were politically acceptable. Veneman went to bat, and I got approved by the Nixon administration to [Laughter] help them out.

HICKE: Since we're on that, should we continue on with what you did in Washington?

DOERR: Yes, we might, because it's kind of an interesting little story. And then we'll come back to the end of '68. I wasn't back there very much, but I learned a lot; I talked to a lot of people. I went to the Capitol and talked to people. More interestingly, I talked to people in the department. It was the Department of Health, Education, and Welfare. I remember the first time I went back, we were sitting in Finch's office watching the television when the people came back from the moon. That was kind of exciting--to be among kind of high government officials when that happened.



But I had a lot of impressions that were kind of unfavorable of Washington after working in the bureaucracy there, just as a consultant. The people I started working with weren't particularly well informed. I thought people in California were just higher quality in terms of ability. They were a little bit slow; they didn't quite understand things as quickly. There was just way too much bureaucracy for my taste. There were just too many people doing the same kinds of things.

HICKE: Duplication?

DOERR: Yes, it was just kind of frustrating. But anyway, what I did, basically, was--the department wanted to put together a program to study and analyze the whole health care system. So I essentially helped develop the outline. In fact, I did it with one other man who was a consultant, whom I'd known in California. He was named Tom Joe. He worked with the welfare committee. We put together this outline study, and they appointed a blue-ribbon task force of people who then would participate in the study, et cetera, et cetera. It was a worthwhile experience. Nothing much came out of it, but it was an opportunity to see Washington. It was a one-time assignment to get this health care study going. I set up the mechanics for doing it, but I didn't actually stay around to do it.

HICKE: Why is it that the United States seems to be so far behind in health care?

DOERR: The politics of health care are extraordinarily difficult.

HICKE: But other countries have managed it.

DOERR: There's a lot of diversity in our country, and we also have political institutions that are set up because there's a distrust of government.

That's the basic history of our country. So you have to really have a consensus to get something major done. And there's never been that kind of consensus developed. That was the problem with this study as well as other things.

HICKE: Yes, when you said it never went anywhere, I just thought that's kind of the story of . . .

DOERR: The story. You know, it's been that way since when.

Anyway, I got an opportunity to at least form some impressions of Washington.

HICKE: They weren't very good, though. [Laughter]

DOERR: No. So then I didn't go back for a while. Then I was called back again. This was really several years later, but we might as well skip ahead.

HICKE: Yes, let's do. And Veneman was still there?

DOERR: Yes, Veneman was still there. This was 1972. The Nixon administration was thinking of doing a major school finance equalization program. The president was hot to do it. Veneman said, "Dave, you've got to come back here and tell these people what's what. Nobody knows anything back here." He said, "These people are uninformed about property taxes." So I went back and I found out that was the case.

HICKE: He must have been very frustrated.

DOERR: Yes. Well, he had a good. . . . Jack always had a good time, no matter what he was doing. He didn't. . . . I wouldn't say he never got frustrated, but he just rolled with the punches, and laughed, and . . .

HICKE: . . . didn't get discouraged?



DOERR: No. And what, of course, we found there was a problem that I'd seen in California, only it was just ten times worse: that nobody understood the property tax. I mean, none of these federal agencies had any reason to look at the property tax. So here they were planning a federal equalization program based on property tax effort in the states, and I had to go back and tell them it absolutely wouldn't work. Because the assessment practices in those states were so bad and so disparate that you couldn't put a fair program together. There was no way the federal government could provide an equalization program like California does for our schools.

HICKE: Because there was no equalization of taxing, basically?

DOERR: Yes, right. Which is true to this day. And they hadn't even realized that. So I managed to get that shot down. We just cleaned it right off the table. It took some education, but it didn't take a lot, and suddenly people said, "Oh, my God, we can't do this." This became self evident that the thing wouldn't work.

HICKE: But nobody had seen it.

DOERR: Nobody had seen it. When it got out into the press that the president was considering this big program, et cetera, et cetera, then it had to be all withdrawn.

HICKE: Whom did you have to educate?

DOERR: The people in the Department of Education, which was part of Health, Education and Welfare--HEW. So they were all under the same umbrella. Jack was in charge and we convinced them.

But when I was also there, they were gearing up for the 1972 election at the same time.

HICKE: Oh. Yes.

DOERR: So they wanted me to go over and meet with the election people.

HICKE: What election people?

DOERR: These were people in the building at 1900 Pennsylvania Avenue. It was called the Committee to Re-elect the President. [CREEP]

HICKE: Republicans.

DOERR: Yes. That group of people became unbelievably famous, the reason for which was being formulated right at that time. And I was there talking to these people.

HICKE: That was the committee that you went over to talk to?

DOERR: Yes. At the very time I was there and talking to the same people, they were planning these certain activities.

HICKE: That's amazing. Obviously you're referring to the Watergate break-in.

DOERR: Yes. Exactly. Of course, I didn't know what was going on there. I was telling them about the issues in California and what I thought about this, that, and the other thing, particularly in tax issues. Veneman had set the briefings up, saying that he wanted someone from California who knew California issues but also knew tax issues and this and that to go over and brief the staff over there. So I said, "Sure, I'll go over and talk to them." So I met all these people, and . . .

HICKE: Who all was there? Do you recall any names?

DOERR: Yes. [Jeb] McGruder and [ ] McChord. I didn't ever meet Gordon Liddy. Who else was there? I mean, those are the two names that stick out in my mind. But there are a number of the others that at the time were all coming through, and later I said, "Hey, I talked to that guy." [Laughter]



HICKE: After this all . . .

DOERR: After it all broke, but a couple of years later. So I had an unusual interest in the whole episode. I just chuckle to myself, "Well. I'm always at these places . . ." [Pause]

HICKE: In the right spot.

DOERR: Yes. I mean, here I just happened to end up talking to these people in this building at the very same time they're doing this--plotting all these activities. So that was kind of an interesting part. And I was getting paid for it.

HICKE: [Laughter] You sound as if you're amazed that you were getting paid for it.

DOERR: Yes, when you think about the history of the whole thing. So that was the extent of my Washington consulting. I went back to Washington on a lot on other occasions, but not as an employee of the federal government. I went back as somebody from California. When Bagley became chairman, we took our committee back to Washington and had committee hearings. It's the only time I think it's ever been done. I went back another time with Jesse's staff to interview for consultants for California legislature. So a number of different times I've gone back on state business, but . . .

HICKE: What was the point of the Bagley committee hearings held in Washington?

DOERR: I remember this was on tax policy issues. One was the revenue sharing that the Nixon administration was really hot to get started. Then we had other issues relating to the tax code that we were trying to get straightened out. I think one was how they treated the legislature per diem, under federal tax law. There were other tax

issues. Plus the big thing was revenue sharing. I remember Murray Wiedenbaum, who's been in and out of all these administrations--we had a big meeting with him. I remember we met with [Senator] George Murphy and [Representative James] Jim Corman of the House, who was a key member of Ways and Means at that time. He was from the San Fernando Valley. George Murphy was the senator. I don't think we met Cranston that time, but I've known Cranston. Not well, but the time he was controller. My uncle was his county campaign manager for his first election.

HICKE: Really?

DOERR: So he kind of remembered me from that aspect of it, too, because that was his home county: Santa Clara County. I spent other times in Washington other than the time I worked for Nixon. On my résumé, I say, "I used to work for Richard Nixon." That always blows them away. Actually I really didn't; it was Veneman. But theoretically, he was in charge.

HICKE: Indirectly.

DOERR: He was the man who was in charge.

HICKE: You mentioned some of the things that you went back there for. One of them, I take it, was you were trying to sort of adjust the California laws--you were talking about per diem and that kind of thing--to the federal laws, to try to make them conform?

DOERR: That was one issue, conforming to federal law, but no, we wanted Congress to make sure that they didn't tax legislative per diems. That was one of the issues. And that was not a public issue but one of the issues that members were concerned about. They thought that they should be treated like any other employee who



has to travel; they don't tax your expenses while you're traveling. They're saying we have to travel from our home to Sacramento, so then it's per diem to pay for that. Now, the federal government was taking a different view that this was more like an additional stipend, because it's broader than just the travel, and you get it whether you're in Sacramento or not--even if you're home on weekends and holidays. There was a lot of discussion about it. I've forgotten how we solved it, but it was satisfactory to the members.

HICKE: That's what I was wondering: how it all came out.

DOERR: Yes. Of course, that was a good time to be back there.

And there was one other issue. I forgot all about this issue. A festering issue. But I'll make the interesting point first, because my old friend [Assemblyman Charles E.] Charlie Chapel had made this point a couple of years earlier. He was a very unusual member. He was a genius. He was from Los Angeles, but he was unorthodox. He was on our committee. We were once having a hearing on the impact of federal recommendations on taxation of multi-state commerce. The Willis Committee in the House of Representatives . . .

[End Tape 11, Side B]

[Begin Tape 12, Side A]

HICKE: The Willis Committee . . .

DOERR: . . . issued this report--I have it in the next room--recommending that Congress set up a national standard for how states should tax corporations operating in interstate commerce, i.e. the unitary issue that we've heard so much about for so many years. So we wanted

to find out what that was all about. Of course, the state didn't like it at the time, because it was going to restrict the way California could tax corporations. So we decided to have an assembly committee hearing on that in San Francisco, and I brought Willis's staff out and got acquainted with them. Name was Jerome Zeifman.

So we made the presentation, and we had the presentation from the Franchise Tax Board and the Department of Finance--just a normal committee hearing. Then Charlie Chapel blurts out, "I know how we take care of this problem. We just tell these congressional people if they try and screw around with the state, we'll just reapportion them out of their districts." He says, "We have ultimate control over these guys." Everybody laughs like crazy. But at the time I went back with Bagley in the committee, which I believe was 1970, when we were talking to the Congress about the per diem issue and other tax issues, that was the reapportionment year. So suddenly it was kind of left on the table that they needed to take care of some of our problems because we're going to be doing reapportionment. It wasn't lost. So that's, I think, one of the reasons why we had a favorable reception there. Every ten years, the state has some influence over the Congress.

HICKE: So he said this in kind of a loud and joking manner and everybody laughed, but . . .

DOERR: Yes, Charlie Chapel did. That was maybe a couple of years earlier. "We'll just take care of this guy Willis; we'll just have the Louisiana legislature reapportion him out of his district. I'll go down," he says, "I'll make a few phone calls." Everybody laughed.

HICKE: But it sounds like a pebble that had a few ripples after a while.



DOERR: So three years later when we go back to Washington, this kind of subtle, you know, hints were dropped that this was what we were going to be doing. You couldn't find more cooperation. They were just anxious to please the California legislative delegation. So that always stuck in my mind. It was kind of an interesting political fact of life that state legislators do have some clout in Washington, occasionally.

HICKE: But with the new initiative now, maybe you're not going to have that anymore.<sup>1</sup>

DOERR: They wouldn't have that, no. I think the new initiative will probably preclude that kind of influence.

Back to this Willis proposal, that was one of the other things we were still talking about. Because Willis introduced this bill--I think he introduced it in '67 in Congress--and it got out of committee, but it didn't pass the full Congress. I don't even think it passed the house. But Willis was respected; his subcommittee was respected. This was a subcommittee, the Committee on the Judiciary in the House of Representatives. So everybody took this as a threat.

This is going to lead into another story, too. Because they came up with a proposal for what we call a two-factor formula. The taxes would be allocated among the states based on their property and payroll in each state. So you'd say, how much of your total payroll is in California? Fifteen percent? OK. Tax 15 percent of the income. Well, most of the states had adopted the three-factor

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1. Proposition 130 (November 1990).

formula. So this was unacceptable, because it really penalized the destination states. Companies that were selling into states were kind of exploiting the markets. There are all these theories about a corporation is not going to make profits if it does not have sales. So part of a corporation's income is truly allocated on the basis of sales. So a three-factor formula is appropriate. Not only that, it tends to protect your in-state industries against your out-of-state industries.

HICKE: The third factor is sales?

DOERR: The third factor is sales.

HICKE: What's the first factor?

DOERR: Property. It's property, payroll, and sales. And you take a percentage of each as a total, and then average, and that's your percentage of tax and income. That's the way it works now. Way oversimplified, but basic.

HICKE: Right.

DOERR: So they're trying to change it to two-factor formula. Nobody liked that, and I still think that was wrong. But what got ignored were a lot of other procedural reforms that we have been debating in California ever since, in terms of what's the unitary group? Can you go overseas? All these issues which we'll get into when we start talking about unitary. This was kind of the first start, in a sense, of the big unitary battle, which went from Washington to California to Washington to Great Britain, all over, which will consume--let's say that was 1967--consume the next thirteen years of heated political debate.



HICKE: OK. So at some point we should take that up and do it from start to end?

DOERR: Probably. What I was going to say, because I'd almost forgotten this, was that this goes back to 1966. And as I said, I think the Willis bill was first revealed to the public in '66. The states were all panicky that Congress was going to come in and tell us how we could tax corporations. So they decided to see if they can't get together and do something.

They had this meeting in New Orleans at the end of 1966. Jesse decided to send me as his personal representative to this meeting. And at this meeting, they developed the framework for what we called the Multi-State Tax Commission, which has been in existence since 1967.

HICKE: You had quite a bit of input into that, I expect.

DOERR: Yes, I had quite a bit of input into it. And I frankly didn't think it was in our interest. I had a lot of input, and then I had a number of points rejected. So I came back and told Jesse, "We don't want to get into this organization." So we didn't. On the basis of my recommendation, we didn't join for six years. We finally joined in 1973, after we got some concessions out of the Franchise Tax Board in terms of how that commission would impact on California law. But that was an interesting experience, going down there, negotiating it.

HICKE: Who else was there?

DOERR: There was one other California person Jesse sent along with me. It was Assemblyman [Charles] Charlie Conrad.

HICKE: But who was there from other states?

DOERR: Tax people and legislators.

HICKE: Sort of similar to the California delegation?

DOERR: Yes. I remember the Louisiana legislator who opened the session. They have different kinds of laws in Louisiana. He says, "If you get into trouble, I can take care of things for you." I thought, "Wow." I guess he could.

HICKE: It's true that Louisiana law is based on the French Code Napoleon, at least some of their laws, I think. That probably wasn't what he was referring to, was it?

DOERR: Well, I think that there's some kind of structure there that's different. I'm not sure I understand it, but it does allow individual legislators a certain amount of power in the judicial system. I'm not sure how it works. It would be interesting to know if I ever had the free time to get into it.

HICKE: That might have something to do with the Code Napoleon.

DOERR: Yes, it could be from the French heritage.

HICKE: Was it a large group? There were two or three from each state, would you say?

DOERR: Yes, there were a lot of people. It was a huge room, you know, and just tons of people there. Basically, the commission has been controversial. A number of major businesses didn't like it; they tried to get it thrown out on the basis that any compact between the states had to have the assent of Congress, which is kind of what the Constitution says. The Supreme Court didn't agree; said they could go ahead with it.

HICKE: Did it go to the Supreme Court?



DOERR: Yes, I believe it did. I think U.S. Steel filed a suit against it, if I'm not mistaken. Just the existence of it has been controversial. It's been semisuccessful, at best. Because it's basically been a Western creation. Very few of the Eastern states ever joined. It's mostly the Western states and the Midwest.

HICKE: Why is that?

DOERR: I don't know.

HICKE: Must have something to do with the fact that the East has the manufacturing and the West has the resources?

DOERR: Yes. Well, the West has historically supported the idea of the three-factor formula, because they've been destination states. California's not a destination state now.

HICKE: Most of the West is.

DOERR: Most of the West is destination states. I think some of the Eastern states have totally different factors. Some of them have the three-factor formula. Others have different formulas. Which is one of the reasons Willis's bill came out. He said, "Wait a minute. The state selling this has a different formula in Pennsylvania, and a different formula in Michigan, and a different formula in Ohio, and a different formula in California. How are we going to be taxed?" It's a burden. That was the thrust of the Willis Committee, why they were trying to get some uniformity. Because they couldn't cope, and people were being taxed more than 100 percent on their income, or less than 50. There was just too much nonuniformity. They said it was a burden on interstate commerce; that was the reason they went forward with the report.

Willis introduced the bill for every year for about five years. Then finally, because it wasn't getting anywhere, the idea kind of fell away. What happened was, in its place--and Congress is still doing this--they began to introduce a different kind of bill which more represented the business community's thinking, which was trying to preclude the worldwide combination problems.

HICKE: For multinational corporations?

DOERR: Yes, the states going overseas, because over time the controversy became greater on that issue. But in 1967, or '66 when we were down in New Orleans, California was not even doing worldwide combination.

HICKE: Yes, it was national.

DOERR: The Franchise Tax Board hadn't even thought that up yet, as far as we'd been able to tell. That came sometime around 1972 or '73, when they first started auditing companies saying that they will file California tax returns, including their overseas affiliates. There was also a big issue at the time, which was taxation of dividends. That had a relationship on how dividends from corporation to corporation would be taxed.

HICKE: Oh, OK. That's what I was wondering. Not individual.

DOERR: No. The old rule was that if I'm Company A and I pay a dividend to Company B, I have to pay a tax on that dividend in the state of commercial domicile. The dividend was 100 percent subject to tax. So if you were domiciled in California, 100 percent of the dividend income was subject to tax. If you were domiciled outside, California didn't tax the dividend at all. Of course, this was a big fight we'll get into later for a number of years. Later, a ruling reversed the



taxation of dividends. If it's business income--the dividend is out of business income--you apportion it. However, for dividends that are from nonbusiness income, they come to the state of commercial domicile. It's just a kind of investment income.

The dividend issue has been a real hot issue. It almost got me in big trouble at the time. I'll never forgive [Executive Officer of Franchise Tax Board] Martin Huff.

HICKE: Martin Huff?

DOERR: We really need to talk about that. That came in 1977, I believe, when we had the big dividend fights during the mid-seventies in the legislature. Just big, really big fights.

HICKE: Do we need to come back to the unitary system then, and follow it through?

DOERR: Yes, we should. I think it will be more understandable if we follow it through. I've kind of given you the early part.

HICKE: You've done the beginning.

DOERR: Like the roots of Prop. 13. Here's the roots of the unitary issue. It was kindled by the Willis Committee report, and then as the Franchise Board gradually expands its auditing and enforcement activities in this area, we see these other problems developing, beginning in the seventies. Then that's an issue that goes right all the way through to today. That's still one of the big issues on the table.

HICKE: I'm just going to close this door.

[Interruption]

Let's see, where are we now? I think we sort of finished up Washington, I guess.

DOERR: Yes. We were kind of in 1968, I think.

HICKE: Yes. We were in '68 and we left that to continue all the Washington era.

DOERR: At the end of the '68 is when this Washington stuff came up. We talked about the Watson initiative.<sup>1</sup> The first one. We did a tremendous amount of work on that. It was defeated, obviously. I don't know if there's much more to say.

HICKE: On the Watson?

DOERR: Yes, the first Watson initiative. As I say, California sent out the property tax relief checks, with Reagan out there on the stump opposing it. That was enough to defeat it.

[Interruption]

HICKE: You said there was a special session called in September.

DOERR: Yes, that was a special session to put together this property tax program. It's amazing how much you can do in such a short period of time, because I think it was in just a matter of a week, if not less, that the bill went through. Because they had to have time to send out the checks before the election.

HICKE: That all happened just in September?

DOERR: So they had to get the legislation passed and get the checks in the mail and have them come get them into the hands of the voters before election day. The state was providing property tax relief. A clear message.

HICKE: Was that a series of bills passed?

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1. Proposition 9, The Watson Initiative, was defeated by the voters on November 5, 1968.



- DOERR: Yes, it was a series of bills. I used to have them around here; I don't know if I have them anymore.
- HICKE: Did Veneman carry the . . .
- DOERR: I think George Miller was the key. Everybody thought that would be the best to help the senate swallow its aversion to property tax relief. Because they finally, after fighting it since '65 through the Unruh-Petris Bill, and then '67 they finally had to give in and provide this relief.
- HICKE: But I guess it clearly was not enough relief.
- DOERR: Not at all. It was not enough right away. Because as we move into '69, that's the big issue again: another tax reform program, as I said earlier. So Reagan has another big tax reform program. Reagan has a tax reform program almost every year.
- HICKE: So are we ready to move into '69, then? I'm looking to see if I have everything.
- DOERR: I may think of things.
- HICKE: That's OK. We can go back and fit them in, if you do.
- DOERR: Sixty-nine is probably where we're at. And this becomes very interesting. Sixty-nine-seventy was a very interesting period for a number of reasons. We have, again, this big, lingering fight on tax reform through this whole period. It just consumes time. And as Veneman goes off to Washington, Bill Bagley becomes the chairman of the committee. Two, the Republicans now have taken over the legislature. In the '68 election along with Nixon, they capture a majority in the legislature. So you have Bob Monagan as speaker. And Jesse bows out, in effect, because he's planning to run for governor in 1970. At some point during this period, he says, "It's

not appropriate for me to be minority leader, because I'm going to run for governor." A fellow named [Assemblyman] John Miller, a black man from Alameda County, becomes the Democratic leader in the assembly.

HICKE: Was he supported by Jesse for minority leader?

DOERR: I don't know. By that time I'm more isolated from the Democrats now, because there was a Republican speaker, and now I've been working two years for a Republican chairman. Now I get a new chairman who's also Republican. Before, I was working for a Republican chairman in a Democratic house, and now I'm working for a Republican chairman in a Republican house with a Republican speaker. Because as committee consultant, you have almost two masters to try and please. You have the committee chairman, and you also have the speaker. So you need to be on good relationships with both. So this was the first time with a Republican speaker.

A number of my friends who had been committee staffers through '68 now are bailing out. They'd been with the Democrats all the way through. So they're all out looking for jobs. Here am I, sailing through. I mean, it's not even a question, because I'd been with the Republicans for two years, with the Republican chair, so I'm just considered part of the Republican team.

HICKE: So did Bagley say anything to you, or was it just assumed that you would continue?

DOERR: Yes. In fact, they engineered. . . . As I was told, one of the reasons they wanted Bagley in there as chair of the Revenue and Taxation Committee was to make sure I would stay on. [Laughter] Monagan wanted to make sure that that was occurring. Bob was a good



friend. I think he was one of the great speakers, even though he was there only a short period of time.

HICKE: Why was Bagley going to assure him . . .

DOERR: Because Bagley was in the Veneman-Monagan-Fluornoy camp. They were all a part of the moderate Republicans that controlled the assembly.

Bagley was just fantastic to work for. He was just always doing something interesting, so to speak. So we had a lot of laughs, a lot of good times when he was chairman. We worked hard. I remember, I think, we worked into the early evening, usually. Then we'd come into his office and he'd open up the Scotch, and we'd all sit down and have our Scotches and tell tales of what's going on, or Bagley would tell his stories of how he was fighting with Reagan on this, or how he was. . . . At one point he put out a press release--I don't know if he was chairman or not--talking about the Gipper Gap in Sacramento. [Laughter]

HICKE: And what was the Gipper Gap?

DOERR: I don't even remember what it was, but he coined this phrase, which made Ronald Reagan mad. Relations were never really cordial. They had to deal with him, but I don't think there were ever really cordial relationships at that time. Bagley was always doing something that was unorthodox. Well, just as an example, we put in a bill. We noticed a great many sales tax exemption bills being proposed. They were always coming before the committee, and we were always trying . . .

Members would introduce bills proposing to exempt this, that, and the other thing from sales tax--always some special-interest sales

tax exemption. We just got fed up with that. So we said, "We're going to introduce our own sales tax exemption bill. We're going to put it on calendar every week, and we're going to add something to it every week to shame the other sales tax exemption bills."

So we introduced the bill to exempt white canes for the blind from sales tax. We put it on calendar, and then we added exemptions to it every week. I'm trying to think of all the different ones we added. We added Bibles, American flags, Mother's Day cards, hot apple pie. [Laughter] I mean, this went on. And everybody would look for it every week--what new amendment we were going to have. And of course it had the desired effect.

HICKE: Did it? It worked?

DOERR: Yes. It worked. It worked like a charm. I almost think they ought to do that now.<sup>1</sup> You'd get all these goofy exemptions. In fact, it's worse now than it ever was then. And you could just show, "Wait a minute. Look at. . . ."

HICKE: That's a wonderful approach to solving problems.

DOERR: Yes. So we just did it by ridicule.

HICKE: You said you had some other Bagley vignettes?

DOERR: Yes. I remember, there was some talk. . . . I forget the context of this, of how it came about, but in effect, our response again was ridicule. It may have been that the governor's office was proposing something we thought was dumb. So we put out a thing suggesting Bagley was going to put in a proposal to exempt windmills. We thought that was so ridiculous and so silly, and it was, at the time.

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1. [Added by Mr. Doerr during his review of the draft transcript:] "In 1992, the legislature passed legislation exempting white canes for the blind from sales tax."



Everybody laughed, you know. We were saying, "Hey, it's a place of shelter. It's cultural because it comes from Holland." All these things; we were trying to make up all these things. We thought, "This will be so silly." And it was. Again, it worked. And not more than maybe eight years later, they were serious, and they passed bills giving tax credits for all these windmills.

HICKE: The Altamont Pass is now covered with windmills. [Laughter]

DOERR: Yes. And I think back, "Wow. Here we did this as a joke, and later on it's serious and they pass these tax benefits for windmills."

HICKE: [Laughter] You can always say you were ahead of your time with that one. Oh, that's great. What's this?

DOERR: A bill.

HICKE: "An act to add Section 17206.1 to the Revenue and Taxation Code." Oh. This is part of your. . . . This isn't an extra copy, is it? Maybe I can make a copy. "Deductions for losses from vending machines? Losses from soda machines: one half credit for half-cup delivery, and three-quarter credit for quarter-cup delivery. Losses from candy machines, gum machines. Losses from pay phones if it's busy and the phone kept the money. [Laughter] The phone did nothing and kept the money. Boxes of Crackerjacks that had no prize in them. Take-out pizzas that were too cold to eat." Oh, this is great. "Packages of bubble gum with no jokes or trading cards. Easy-open packages impossible to open."

[End Tape 12, Side A]

[Begin Tape 12, Side B]

- HICKE: Are these things that you added little by little each week? Or this was one whole thing?
- DOERR: Has it got the Ronald Reagan movies in there?
- HICKE: Yes, it does. Here it is. "The Board shall allow a deduction for the following miscellaneous losses," and C is "Money spent on Ronald Reagan movies." [Laughter] D is "Money spent on birthday presents for mothers-in-law not to exceed five dollars."
- DOERR: This was another attempt at humor.
- HICKE: As I said, that's a wonderful solution.
- DOERR: And you get these people coming in, saying that you would deduct this thing or that thing, or how fair it is to. . . . "Hey, this." So we thought we'd have some fun and think of all these funny losses.
- HICKE: Were these all your ideas?
- DOERR: Well, it was a collaboration of the staff, I think. Partly Bagley's, too. Bagley and us together.
- Here's a copy of our sales tax bill. "A.B. 347 of 1970." I don't know what version this is, but you can look at it.
- HICKE: Oh, this is the official print.
- DOERR: Yes. The press picked it up and they had great fun.
- HICKE: OK, then maybe I'll get a copy of this made, too.
- DOERR: Then at one time. . . . This was a little bit later--it came in 1971--but this will be the flavor of Bagley. The state had a problem in '71, so that the question was: what would happen if the state ran out of money? Governor Reagan wanted the authority to have some kind of notes, and the Democrats were holding firm, saying they couldn't. And because the legislature wouldn't pass Bagley's bill, the Republicans charged that Democrats were forcing the state onto



1. ( )  
 AMENDED IN ASSEMBLY MAY 28, 1970

AMENDED IN ASSEMBLY APRIL 29, 1970

AMENDED IN ASSEMBLY APRIL 3, 1970

AMENDED IN ASSEMBLY MARCH 5, 1970

CALIFORNIA LEGISLATURE—1970 REGULAR SESSION

## ASSEMBLY BILL

No. 347

Introduced by Assemblyman Bagley

January 22, 1970

REFERRED TO COMMITTEE ON REVENUE AND TAXATION

*An act to add Sections 6360, 6360.5, 6361, and 6361.5 to the Revenue and Taxation Code, relating to sales and use tax.*

*The people of the State of California do enact as follows:*

- 1 SECTION 1. Section 6360 is added to the Revenue and Tax-
- 2 ation Code, to read:
- 3 6360. There are exempted from the taxes imposed by this
- 4 part, the gross receipts from the sale of, and the storage, use
- 5 or other consumption in this state, of white canes for the
- 6 blind.
- 7 SEC. 2. Section 6360.5 is added to the Revenue and Taxa-
- 8 tion Code, to read:
- 9 6360.5. There are exempted from the taxes imposed by this
- 10 part, the gross receipts from the sale of, and the storage, use
- 11 or other consumption in this state of, Bibles.
- 12 SEC. 3. Section 6361 is added to the Revenue and Tax-
- 13 ation Code, to read:

### LEGISLATIVE COUNSEL'S DIGEST

AB 347, as amended, Bagley (Rev. & Tax.). Sales and use taxes.  
 Adds Secs. 6360, 6360.5, 6361, and 6361.5, R. & T.C.

Exempts white canes for the blind, Bibles, Mothers' Day cards,  
*apple pies and pieces thereof when sold for on-premise consumption,*  
 and the United States Flag from sales and use taxes.

Vote—Majority; Appropriation—No; Fiscal Committee—Yes.

AB 347

— 2 —

- 1 6361. There are exempted from the taxes imposed by this  
2 part, the gross receipts from the sale of, and the storage, use  
3 or other consumption in this state of, the United States Flag.  
4 SEC. 4. Section 6361.5 is added to the Revenue and Tax-  
5 ation Code, to read:  
6 6361.5. There are exempted from the taxes imposed by this  
7 part, the gross receipts from the sale of, and the storage, use  
8 or other consumption in this state of, Mothers' Day cards *and*  
9 *apple pies, or pieces thereof, sold for on-premise consumption.*



warrants. So Bagley introduced a bill requiring Bob Moretti's and [Assemblyman] Joe Gonsalves's picture to appear on all legal tender issued by the state of California. [Laughter]

HICKE: And here's a picture of "California promises to pay one million dollars." That's wonderful.

DOERR: I remember on the wall in Bagley's office there was a check. This was the time before, but he always thought this was great, so he had it in a frame on the wall in his office. In the '66 battle, when the Republicans were battling with Brown over the need for money to balance the budget, he wrote a check to the governor for something like \$700 million. Signed it and sent it off. Of course the governor didn't cash it. So he has it framed on the wall. It reads, "Payable to Edmund G. Brown." [Laughter]

One of the funny little things. . . . This came in 1971.  
[Interruption]

Governor Reagan said taxes should hurt. So Bagley finds this notice on George Moscone's car, saying that he didn't pay his rent. So he sends in this funny letter. Enjoy that.

HICKE: Thanks. Does it just say more Bagleyisms? That's worth recording. Phrases like the one that you told me about, that would be a Bagleyism?

DOERR: I remember during the Democratic political convention, there was a big thing about Cesar Chavez boycotting lettuce. The speakers would stand up and say, "I have a delegation which is boycotting lettuce. Cast so many votes for such-and-such." So Bagley went out and got a bumper sticker made saying, "Nixon eats lettuce." [Laughter] The list is endless.

I found another letter. This was when Veneman was chairman. They were having a fight with the Board of Equalization on the administration of the use tax, which is interesting in light of what happened this year [1990]. The Board of Equalization tried to impose the use tax on foreign purchases, people bringing back something from overseas, and it got blown up in its face. So they rescinded it. They were trying to say you owed use tax when you brought it back in. Well, the legislature was having a fight with the BOE on this issue in 1968. So I sent them over a letter and a check, in 1968, for three cents, to pay use tax.

HICKE: "On August 24 I purchased taxable personal property in Nevada for the retail price of \$1.85. I believe that the difference between the tax I paid in the state of Nevada and the tax I would have paid to the state of California is three cents."

DOERR: So I figured, well, if they're going to make a big thing about this use tax, I'm going to start paying use tax. They wouldn't cash it.

HICKE: I was just going to ask if you got a reply.

DOERR: They came over incensed. They said, "What is the big idea? You're trying to make us look foolish." They were just absolutely livid that I would do that. I said, "I'm trying to make a point that your position on this is untenable, that you're trying to say that people should pay use tax, and it's such a nominal amount, normally, and it's going to cause you more administrative problems than it's worth. You don't seem to be hearing what we're saying, so I'm making the point."

Of course it would cost more than three cents to process the check and run it back. I was just trying to make a point. They



learned it for a while, and now they've started again. They tried to do it early this year, to start taxing goods purchased overseas.

HICKE: Time for another three-cent check?

DOERR: Yes, time for another three-cent check. When you administer the use tax, you have to have some realization that you're dealing for the most part with de minimus amounts.

HICKE: Has to at least pay for itself.

DOERR: Yes. We have a provision in the property tax law now that says that if your tax is twenty dollars or less, you can just forget about it, because it's going to cost you more to process and collect the tax than it's going to bring in in revenue.

HICKE: I didn't know that. That seems sensible.

DOERR: The same principle should apply to use taxes. In effect, they hadn't been trying to collect these taxes. Now they've raised the issue again. It might be time for another three-cent check.

So, 1968 is over; we're going to 1969. Why don't I just start a little bit?

HICKE: OK.

DOERR: Every year, as I have mentioned, Ronald Reagan had a tax program. In 1969, he introduced probably the most bizarre tax program ever seen in California, as I recall. This leads to an unbelievable series of events that I'll try to go into in some detail. I want to get my binder on it. But this program is so bad. Bagley is chairman, and of course, he's trying to kill this program. Doing everything he can to kill it.

HICKE: Are you going to tell me why it's so bad?

DOERR: Yes.

HICKE: OK.

DOERR: So the Democrats want to get it passed.

HICKE: Because it's so bad?

DOERR: Because it's so bad, it would be a huge embarrassment to the governor if it passes, and they figure they can use it against him for reelection. Of course, Bagley knows the same thing, so he's trying to get it stopped. He's got all the Republicans on the committee against it except two right-wingers, who Cap Weinberger keeps working over. Cap Weinberger is now the director of finance, and Cap is trying to get this thing passed. So he's working these two conservative Republicans to get votes, while Bagley's working the committee against him. We have one of the lobbyists for business as a witness on the governor's bills, and we ask him to filibuster.

So the meeting goes on into the wee morning hours. This is so we will have additional time so we can get the votes to defeat the bills. So when the author brings the bills to a vote, he won't have the votes to pass the bills. [Assemblyman] George Zenovich was the Democratic majority leader at the time; he was laughing like crazy. I remember him standing back, saying, "We've got to get this bill passed. We're with the governor." A series of bills were introduced by [Assemblyman] Craig Biddle on behalf of the governor. Maybe I can just get the. . . .

HICKE: Sure.

DOERR: [Pause while gets papers] OK, there are several bills here. Some of these we thought were OK. I'll just run through them and then I'll tell you the interesting ones.

HICKE: Will you give me the numbers if they're there, too?



DOERR: Yes. A couple were Bagley's, as a matter of fact. Those aren't the ones we were talking about. A.B. 2, Bagley created the Department of Revenue. That still hasn't been done; it's been an issue since way back when.

HICKE: Yes, that's one thing I wanted to ask you about. That was Weinberger's idea, wasn't it?

DOERR: It was Weinberger's idea in the fifties to create a Department of Revenue. All the states have departments of revenue. California has this funny system of the Franchise Tax Board and the Board of Equalization. The next bill was . . .

HICKE: Before we go by that, why is it that they don't do this?

DOERR: Why they don't . . .

HICKE: Why don't they create this department?

DOERR: Lobbying by the Board of Equalization members.

HICKE: OK, that's what I wanted to know.

DOERR: A.B. 193, Bagley.<sup>1</sup> You can see these weren't in the order of the rest of them, so they were. . . . Bagley introduced these, and the governor just said, "Hey, those are good ideas. We're going to bless them and put them in our program." They really weren't technically part of his program. This raised the inventory exemption from 15 percent to 30 percent. Remember, we started it out at 15, and then we want to go to 30.

The Reagan series are Biddle bills. A.B. 2044 increases the homeowner's exemption from \$750 to \$1,000. So it was \$750. A.B. 2045 provides for 23 percent exemption on business inventory.

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1. A.B. 193, 1969 Reg. Sess., Cal. Stat., ch. 1526 (1969).

A.B. 2046<sup>1</sup> eliminates the current sales tax exemption on containers--they're still going after containers, although . . .

HICKE: Soda cans? [Laughter]

DOERR: Yes. And broadens the sales and use tax base to include services. Florida had tried it four years ago. To tax services.

HICKE: New York's trying it now, aren't they?

DOERR: Today's paper said that they were. [Governor Mario] Cuomo is taking it back off the table, it's so unpopular. So they've given up. Florida had to repeal its tax. It's just a terribly bad tax all the way around. Anybody that understands taxes understands why a services tax doesn't make any sense. I guess basically, when you go to the heart of it, it is so fundamentally discriminatory against small business that it doesn't work. Let's say you tax janitorial services. So the little janitorial firm cleans small firms, small businesses, and they have to pay the tax. The big business that has janitors on the payroll doesn't pay the tax.

You just go down the line with the services. Attorney services --if you have a house counsel, you won't pay the tax. If you have to hire a lawyer, you pay the tax. Accounting services--the same thing. It sets up this tremendous discrimination between a large corporation that can have those services on the payroll and the little ones that have to contract and buy it. So nobody thought that was a good proposal at all. And of course we would ridicule it by saying this extends to shoe shines and babysitting services, and if the neighbor kid comes over to cut the lawn, he's going to have to

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1. A.B. 2044, 2045, 2046, 2047, 2048, 2049, 2050, (1969) did not pass. A.C.A. 70, 71, 72, 73 did not pass.



register as a seller with the state and pay sales tax on that, remit it to the state. We started to bring up all the silly examples of how this thing would work.

Then, at that time, remember, in 1967 we changed from exemptions to credits for personal income tax. So you get a credit of so much. Of course, that was terribly unpopular. Very unpopular. Particularly I mentioned the discrimination against large families. So he comes in with A.B. 2047, which changes the fifty-dollar married credit to eighteen dollars for each taxpayer. That didn't go over well. And 2048 permitted counties to adopt a quarterly payment program for property taxes, which was an acceleration of property tax payments. We were trying to provide property tax relief.

HICKE: They were collected annually before?

DOERR: Semi-annually.

Then A.B. 2049 was the bill that nobody liked. This was the centerpiece of the program. The reason why the committee had this lengthy hearing and Republicans were trying to kill the bill was that this bill added an additional 1 percent tax on the income tax. So it was an increase in the income tax, and it provided for a \$3.50 statewide property tax on nonresidential property. If anything makes the business community mad, it's a split-roll property tax. Worse would be a statewide split-roll property tax. So this is the worst thing in terms of business that was ever presented as a serious tax proposal in California. The entire business community is out up in arms just raising hell about this proposal, and that's why I mentioned it.

HICKE: And this is Reagan's program?

DOERR: Yes. But this lobbyist is filibustering this so we can kill it. This is Reagan's program. It's a split-roll, \$3.50 statewide property tax. At that time we had a 25 percent assessment ratio. In today's picture, it would be about maybe around 0.9 percent. It's almost the same size as the current property tax. It would be an add-on tax on business. Shows you the magnitude. And this was proposed by Governor Reagan. That's why I say, when I characterized him earlier, what he does and what he says are sometimes poles apart. Who is this guy? Is he conservative or is he radical? This is one of the most radical tax proposals ever introduced by any governor: A.B. 2049. He had just increased income tax, remember, in '87, massively. So we have another major income tax increase and a split-roll, nonresidential personal property tax statewide. The business community came unglued on that. Just went crazy.

HICKE: But the splitting of the lines on this program is just absolutely amazing.

DOERR: Yes. So the Democrats want to get this put out, and on the ballot. They want to put it on the ballot, and the Republicans are trying to kill it. And Weinberger's pushing it.

HICKE: He's supporting it?

DOERR: He's loyal to the governor. I don't know to what extent it's got any of his ideas in it. It might be some of his ideas too. He might have been for that. I don't know.

HICKE: Do you know who drew it up?

DOERR: Oh, yes. The Department of Finance. And he was director of finance.



HICKE: So it was his staff.

DOERR: Yes, it was the Finance staff. It could have been his idea. Maybe they sold it to the governor. I don't know to what extent. You see, I'll never know if this is the governor who said, "Hey, fellows, I've got an idea. Let's put on a statewide property tax." Or if Weinberger came to the governor and said, "Governor, here's a good property tax proposal--a good tax reform proposal we want you to endorse. Increases the homeowner exemption a little bit." Here we've got this statewide property tax that's a good idea, we've got an income tax increase, and they sell it to the guy. I don't know how that works. But I suspect it's probably the latter. It's Weinberger and staff. Or other staffers. Maybe his personal staff. They may have said, "Hey, here's the tax reform program we've worked out." He may have said, "OK. You guys know what you're doing. Don't bother me with the details."

HICKE: Would Reagan be. . . . You said he was extremely interested in taxes. Would he be likely to say to Weinberger, "Hey, I want something on taxes. Draw me up a plan," without any indication at all of what he wanted?

DOERR: Yes.

Then the next bill is pure Reagan. This was just ridiculed throughout the state. It's A.B. 2050. It was a voluntary withholding plan. [Laughter] And of course everybody just went crazy, laughing at that.

HICKE: You have to wonder if he even read it. [Laughter]

DOERR: Yes. The next bill, A.B. 2051, provided for. . . . This was a land speculation tax. It is surprising that Reagan would be pushing this

idea. This bill provided for the taxation of gains on the sale of unimproved property held less than ten years as ordinary income rather than under capital gains provision. At that time, capital gains was taxed at half the ordinary rates. So he's going to tax sales of unimproved land at regular rates. I mean, a very radical idea. Now we tax all capital gains at regular rate, because remember the feds changed it?

HICKE: Yes.

DOERR: They changed it under Ronald Reagan.

HICKE: Yes. [Laughter]

DOERR: So here he's trying to change the capital gains tax rate while he's governor. He didn't succeed, obviously, but then he goes on to be president and changes it.

HICKE: So he really does have personal involvement, it sounds like.

DOERR: These aren't conservative ideas, which is the point I was trying to make early on. This is the best example, this bill package.

Then 2052 is a property tax postponement program for seniors with under \$7,500 of income.

HICKE: They could postpone it for a time, because they can't pay it or something?

DOERR: Yes, they can just postpone it.

A.C.A. 70 is a tax rate limitation proposal that cities can levy the tax rates they levied in the prior year, plus 10 percent. It looks like a limitation program, but it would have actually escalated property taxes substantially. Because assessments were going up, and it would have given them not a blank check, but just given



them some reason to say, "Hey, Reagan's just authorized us to go 10 percent more. We'll keep taking it."

A.C.A. 71 would have set up an automatic conformity of state tax law to federal. That's what the state has never done.

HICKE: What are biggest points of difference between the state and federal?

DOERR: There's tons of differences.

HICKE: Would there be a major issue, or one or two, that would stand out?

DOERR: Right now we don't tax social security income, and the federal government taxes social security.

HICKE: That's a big difference for some people.

DOERR: Yes. For a lot of people that's very significant. Because we provide lots of different tax credits that the federal government doesn't provide. People with military income get a tax credit. There's a whole series of them that we have. Technically--and we never could quite figure out how it was going to work--you deduct your state income tax from your federal, OK?

HICKE: Yes.

DOERR: You don't deduct your state income tax from your state. But if your state income tax is based on your federal tax, it's almost circular. You would deduct your state income tax from your federal income tax, which becomes a deduction from your federal income tax. And what is your state income tax. . . . We kept thinking how we could make that work. We couldn't.

HICKE: Yes, because you're deducting on the deducted part.

DOERR: Yes. So then you figure out what your state income tax is, deductible from the federal income tax, which changes the nonstate income tax.

HICKE: Yes, I can see you can get your tax down pretty far like that.

DOERR: Anyway, that was proposed. And A.C.A. 72 required a two-thirds vote of the legislature to impose state taxes. And A.C.A. 73 removed provisions in the Constitution that provide for taxation of insurance companies, which the insurance companies just absolutely went crazy about, because they prefer their constitutional protections in the Constitution.

So these were the bills that were introduced. Now, let me show you. I hope I kept a copy of these bills. I did, I did, I did. This one was the voluntary reform, A.B. 2050. [Looks through papers] Here's the. . . Just what I was saying.

HICKE: This is a headline from the San Rafael Independent-Journal, July 9, 1969. "Bagley Plays Middleman to Halt Tax Reform Bill." "Governor Reagan found himself with a strange assembly, with assembly Democrats backing his tax reform, and caught in the middle was Bagley, trying to protect the people from the tax package and protect the governor from his own program, Bagley said." That's great.

DOERR: Now, we'll keep the copy of this bill, because I want to show you. . . Because this added to the bizarre nature of this whole discussion. If I can find the right bill, I want to. . . I'm looking for it here.

Assembly Bill 2050, 1969. What it says is, "It is the intent of this act that voluntary withholding of personal income tax be allowed for all persons who filed a personal income tax return in the preceding year. There will be mandatory withholding of personal income taxes for all persons who did not file a personal



income tax in the preceding year, and that a 3 percent discount be allowed on personal income taxes so withheld. It is the further intent of this act that sums paid under personal income tax withholding be transferred from homeowner's property tax fund," period. That was the bill. And everybody just laughed and laughed. There was no bill here. It was like we were going to enact a press release. He introduced a press release into the legislature and asked the legislature to enact a press release as law. It said what he wanted to do, but it . . .

HICKE: There's no teeth in it.

DOERR: There's nothing there.

HICKE: Nothing? No provisions for implementation or . . .

DOERR: Yes. "It's our intention to enact voluntary withholding, and this is what we're going to do." It was just the most bizarre kind of thing, that these bills are introduced that were press releases. Introduced a press release instead of a bill.

HICKE: Who carried that bill?

DOERR: Biddle. They're all Biddle bills. The whole package was a series of Biddle bills. Craig Biddle. Plus to have mandatory withholding of people who couldn't pay . . .

[End Tape 12, Side B]

[Begin Tape 13, Side A]

DOERR: . . . that said, "We're going to have mandatory withholding on people who didn't file a personal income tax return last year." Well, there could be dozens of reasons why people didn't file a personal

income tax return: primarily because they didn't have enough income to file the returns.

HICKE: That would be a main reason, yes.

DOERR: Yes. So they were going to withhold the people that didn't owe any money, and not withhold on the people who owed. So the whole thing became, as I said, a big joke.

HICKE: It's really bizarre.

DOERR: It was bizarre. Now, what we did was then we decided to go again to television. I remember I mentioned before, we put the tax program on television. We thought this was bad enough to let the statewide audience see how bad it was. We just lined up a series of witnesses. Let's see; this was our agenda. While I'm recalling this, I'm trying to. . . . [Looks through papers]

HICKE: What did [Legislative Analyst A.] Alan Post have to say about it? I notice that he's on there.

DOERR: Well, we just asked him to explain what the bill did, and of course they were pointing out all these problems, too. So Bagley and Weinberger, right at the start of the meeting--and I fortunately have the transcript here--got into a big fight. Because Bagley didn't want Weinberger. . . . You see, we're on television, and he didn't want Weinberger to go first. You know, in effect filibuster.

HICKE: Take up all the time.

DOERR: And have the viewers tune out without finding out what was in the program. And of course Weinberger wants to get up there and do exactly that. Bagley: "Let me ask you, just so we know, because we do have a list of ten or twelve others to talk, how long do you propose to take?" Well, it's always hard for a lawyer to estimate.



Usually he says fifteen minutes, and that means somewhere in the neighborhood of half an hour. "I would certainly try to confine my remarks to anywhere from fifteen to twenty minutes." "The chair, Mr. Weinberger, requests that you confine your remarks to simple arithmetic for this evening, because we have this schedule," et cetera, et cetera. "I don't know what you have in mind," blah, blah, blah. Then there was a couple of questions. "Mr. Chairman, I assume my fifteen minutes hasn't started to run yet."

HICKE: This is Weinberger?

DOERR: Yes. Bagley: "It's running five minutes to date." Then it goes on, and finally Bagley's just. . . . They're just going at it, trying to get Weinberger to shut up, and Weinberger keeps trying to go on. So anyway, that was kind of interesting dynamics. But this hearing goes on and it's a great transcript, because it just demolishes the tax proposals in so many words. So this is going on for most of the session, here.

HICKE: And you have, it looks like, I don't know, almost twenty or twenty-five people lined up here to talk.

DOERR: Yes. All opposed to it.

HICKE: Did you organize the session?

DOERR: Yes, I organized and got all these people to come in and say negative things about the program. Nobody liked it, particularly the business community.

HICKE: What were Reagan and Weinberger doing? I mean, couldn't they hear what was happening? Were they totally oblivious?

DOERR: I don't know. Here's a. . . . So let's move things here.

HICKE: They didn't care what business's reaction was? Or didn't understand why the Democrats were supporting them? I mean, I just can't imagine that they couldn't see what was happening.

DOERR: [Looks through papers] I don't know. I've never understood sometimes why he did things. This bill didn't make sense. There were provisions of the 1986 federal bill that made no sense whatsoever. Sometimes he'd be way over on the right on tax policy, and other times he'd be way over on the left. Things he would say, he would do just the opposite, particularly in the tax field, which I was most familiar with. This was just the outstanding example. All these provisions have been pretty much forgotten by everybody. This package has just disappeared from consciousness, except I still have all the material.

HICKE: Good.

DOERR: The only other thing, it's kind of funny. At that time, Kirk West was the deputy director of finance. Now he's president of the state chamber [of commerce]. Of course, the state chamber is just death on the split roll. We organized this big campaign in 1990 to try and defeat a proposed split roll initiative, which didn't qualify. So I said, "Kirk, do you want me to mention the fact that you were involved in the original Reagan split roll?" "No!" [Laughter] I just loved it.

HICKE: First of all, what was the public's reaction to this television program?

DOERR: I don't know. I think we thought it was favorable. I've kind of forgotten.

HICKE: There wasn't a huge outcry, though?



DOERR: Yes, well, there was a huge outcry.

HICKE: There already was a huge outcry?

DOERR: Yes. From everywhere. I mean, from all interested parties.

HICKE: What about the senate? How were the forces lined up in the senate?

DOERR: The senate: right at that point, they weren't doing anything. As an alternative, the assembly begins developing an assembly proposal. Speaker Bob Monagan gets a group together to develop a compromise. We finally get an agreement with Reagan in '70. I'll go into this more, but first I want to get the books.

We've put together another big tax reform program again, like the '65 program, with Reagan's blessing. Bagley is the author. It's called A.B. 1001.<sup>1</sup> It's a two-thirds vote bill. We take it to the senate, and we get twenty-six votes. And we work on it for weeks and weeks and weeks, and we can't crack the votes. And it finally loses. It's defeated by. . . . In fact, it had twenty-six votes. It needed twenty-seven to pass.

And this episode was just fascinating. Then Reagan. . . . Of course, now we've cleaned up Governor Reagan's program for him, so that the '70 program is in effect the legislative, our program, after we beat him to a pulp on his 1969 proposals. So then in the campaign for governor in 1970, this is our property tax program we had.

HICKE: "Ronald Reagan for tax reform," it says very loudly on the cover.

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1. A.B. 1001 did not pass (1969).

DOERR: That's what I'm saying. This goes on and on year after year after year; there's significant, big tax proposals. Each one is different from the prior one. And of course, this is different than the '69 program, as I said, because it's our program, which we'll get into, I guess. That's the next episode. What time is it?

HICKE: Well, it's time to wrap up. You've been going a long time. But did we finish, now, with this package?

DOERR: Yes.

HICKE: So you know where to start the next time?

DOERR: Yes. We finished with the Biddle package. This was untenable and it couldn't pass, so it obviously didn't pass. It had no visible signs of support. In fact, it was so silly that it was just kind of laughed out of the Capitol.

HICKE: It wasn't even a race?

DOERR: Yes. The Democrats were having fun with it, trying to get it passed, but they knew it wasn't good. It eventually just expired, fell of its own weight, as they say.

HICKE: OK. That's great. We'll start there next time.

[End Tape 13, Side A]

[Tape 13, Side B not recorded]



[Session 6, June 8, 1990]

[Begin Tape 14, Side A]

HICKE: Last time we got into the unitary bill a little bit, and you gave me sort of the roots of it and suggested that perhaps we might follow that on through the next thirteen years, I believe it was.

DOERR: I'll try and go all the way back, see if I can't put it into some kind of historical perspective and bring it all the way up through as timely as I can make it. The unitary issue has been one of the most complex ones we've ever dealt with, and I'd say the least understood by legislators. Most don't have the foggiest notion of what it's all about. They call it the unitary tax, although it's not a unitary tax, it's a way of apportioning income to California.

HICKE: The unitary issue is the correct way to talk about it?

DOERR: Yes. It's a unitary combination. I'll see if I can't explain.

HICKE: Yes, where does the word "unitary" come from?

DOERR: What it means is that there are two different concepts: One is apportionment and one is unitary combination.

HICKE: This is apportionment of a corporation's income tax?

DOERR: This has to do with corporations who are operating within and without California or a corporation that has affiliates that are

operating outside the state. So let's say you have a corporation that has several locations. It's operating in several locations. So how do you determine how much of that corporate income is attributable to California?

The other issue is unitary combination. Let's say you have Corporation Y, and that's operating in California. But it has a subsidiary Corporation Z that's operating in Nevada. Do you just tax Y, or do you combine the two as one corporation and tax a share of the total? That's what they call "unitary." You look towards the total grouping. This was a concept that kind of developed out of administrative practice and court decisions rather than legislative direction, and it came about because the feeling was that you could manipulate your income and move it around, putting your losses into your California corporation and putting your profits into your Nevada corporation. Your Nevada corporation makes the widgets that you sell in California; they could sell those widgets to the California corporation at huge, inflated prices. The California corporation then sells them for the price they paid for them, doesn't make any money. All the money's made in Nevada. But as a practical matter, the combined company made a lot of money. So the system was, for all intents and purposes, designed to prevent manipulation. That's the unitary part.

HICKE: But meanwhile, what is Nevada doing?

DOERR: Probably Nevada's the wrong example. They don't have a tax. Let's say it's Illinois.

HICKE: What is California doing about it if it had Corporation Z, and Corporation Z was owned by Corporation Y in some other state?



DOERR: It would do the same thing. It would combine the two and look at the total.

HICKE: So these states have to have similar laws?

DOERR: Well, that's been one of the major problems that we'll get to as we walk through the issue. There are just tons of problems. This is the last vestige of anarchy in the tax system, at least from the standpoint of taxpayers. I felt the same way when I was with the legislature. We kept trying to change the system for years, ever since I got interested in it. In fact, Willie Brown, I might say, had the same views as I did. We'll get to that.

HICKE: I interrupted you when you were just talking about the two concepts.

DOERR: OK. So one is the unitary idea of combining all the affiliates together. The second is just the straight apportionment. How do you determine how much income should be apportioned to California? Again, let's say. . . . Let's take Procter & Gamble. They have plants in California; they have plants all over. How much do we tax them of their total? It's impossible to figure out how much profit they make in California because they're operating as one business all over the country.

And this thing goes back. One of the early cases was in the early forties, but what evolved was formula apportionment. In other words, we'd look at external factors to determine how much income California was allowed to tax. California developed a so-called three-factor formula. You take the total property of a company, compare it to its California property, get a ratio. Take the total sales of a company compared to the California sales; get a ratio.

Take the total payroll of a company compared to California payroll; get a ratio. When you'd add the three ratios, divide by three, that was the percentage of the total income of the company subject to California tax. So we worked out an early apportionment formula.

On the unitary combination issue, the Franchise Tax Board also started combining companies and their affiliates where in effect there was a lot of transfer of product. We're going to get into this right up to the present day, because this is a very contentious issue. But there have never been any really clear guidelines. You have court decisions down the line of what kind of affiliates can be combined by the state and what kind cannot.

HICKE: So it's on a case-by-case basis?

DOERR: It's almost on a case-by-case basis of what you include in this unitary combined group for apportionment purposes.

HICKE: Are these tax court cases, or did they go to the California Supreme Court?

DOERR: They've gone all the way to the U.S. Supreme Court, because there's an interstate aspect to these things, because we're trying to reach out-of-state income. Can California tax the income of Corporation X, which is solely doing business in Illinois? We say when it's the subsidiary of Y, which is in California, it's unitary business. So that's how these cases get into the federal courts.

This system kind of evolved through administrative practice and court decisions. I think when we were talking, I mentioned that in 1963, the legislature passed the Uniform Division of Income Act, which put into statute the three-factor apportionment formula that showed how that would work. At the same time, because of all



the uncertainties, the subcommittee of the Judiciary Committee of the House of Representatives was working on this issue. Because the states were all different in how they were doing this. So corporations may be taxed double or taxed half. And that still can be the case. There were just no standards at all. So the house committee recommended a two-factor formula--property and payroll, not sales--which was unacceptable to the states.

There were big fights between the states and the Congress over this issue during the mid and late sixties. The state tax administrators spent a lot of time going back to Washington to lobby the Congress. I think I mentioned that one of the things the state tried to do was set up a uniform procedure showing the Congress that the states could put their own house in order. That came out of that New Orleans conference in 1966 which I attended, which led to the formation of the Multi-State Tax Commission. The objective was to try to bring a standardized procedure for apportionment to California. We didn't join that right away because I didn't think it was in our interest. We joined it in 1973.

HICKE: Why wasn't it in the state's interest to join that commission?

DOERR: Because they believed in a one-man, one-vote principle for payment of dues but not for voting.

HICKE: The commission believed this?

DOERR: Yes, that's how they set it up. In other words, California would pay for it but not have much of a voice in what was going on.

HICKE: Would the vote be based on state by state?

DOERR: Yes. But the dues were based on revenue collections.

HICKE: Interesting.

DOERR: I thought California's views were ignored at the conference. So I recommended to Speaker Unruh, who sent me down there as his representative, that California not join the commission just on that basis until they figured out a little bit better way for us to participate.

HICKE: Then did they change it somehow, or did you just decide it was better . . .

DOERR: The Franchise Tax Board, with the assistance of some major taxpayers, made a big push in 1973, which we didn't support. But with the support of major taxpayers they got that through.

HICKE: You're talking about corporations?

DOERR: Yes.

HICKE: Chevron? Were they involved?

DOERR: Yes. How did you know?

HICKE: I talked to [Chevron's general counsel] Frank Roberts, who worked on it from that end.

DOERR: It's funny that you said that, because that becomes a factor as we move through this. One of the factors that they were concerned with was the taxation of intercorporate dividends. The Multi-State Tax Commission said they should be apportioned around the country based on the apportionment formula. I just explained how that works. California statute said that they should be allocated to the place of commercial domicile. So for a company like Chevron, which is domiciled in California, they would all be allocated into California. And they'd rather apportion them out, because they would pay a lower tax. So they were hopeful to get California into this Multi-State Commission to try and get us to go the other way.



At the same time, legislation was introduced in the legislature to do the same thing. So this was one of the first early unitary fights.

There were almost three different stages of unitary fights. I'll try and describe them. The first was this battle over the treatment of dividends: allocation versus apportionment. That was really a battle in the seventies.

HICKE: Now, this is dividends that one corporation pays to another one? Either a subsidiary or a holding company or something?

DOERR: Yes.

HICKE: OK. That was the first one.

DOERR: The second one was the issue of worldwide combination, which is the one that got the most attention. That started about the late seventies through 1986; it's still going on, but it was the big issue for those years. Almost right after that, the question of, "What is a unitary group?" became a major issue. Just huge. There's been almost no press on this, and there are hundreds of millions of dollars involved. That's what's been going on since 1987, right as we sit.

So we have three different major issues. Let's first explain the dividend issue. The dividend issue boiled up in the mid-seventies. I think it started with the adoption of this Multi-State Tax Commission formula which was being pushed by certain business interests. There was a huge split on this issue, obviously.

California domicile corporations wanted it. The out-of-state domicile corporations absolutely did not want it, because there was no California tax on their dividends, and they would have had to pay tax under the MTC formula. So legislation was introduced that

would have provided that we apportion the dividends the way Chevron was interested in seeing it apportioned. The Franchise Tax Board was supporting that; they had formed an alliance with Chevron, as far as we could tell. There was a lot of pressure on the other side. The bill moved through the senate and came to the assembly committee.

HICKE: Who carried the bill, or who introduced it?

DOERR: [Senator John W.] Holmdahl, I believe, was the author.

The Franchise Tax Board estimates, which we had reason to suspect, said the bill would be in effect a revenue wash. There wouldn't be any gains. Obviously some would pay more, some would pay less, but from the state standpoint, they argued that it would be a wash.

I had been working on this issue since the sixties and had certain intuitions. I was not convinced that it was going to be a wash. So we decided to go in and obtain tax return information from the Franchise Tax Board, which I don't even think in this kind of a situation I'm at liberty to talk about, because it's always. . . . There's an absolute confidentiality thing, which I've never, ever broken. But from what I could learn, I was convinced it was not revenue neutral; it would be a loss.

HICKE: A loss?

DOERR: To the state, based on the information that I recovered. So I wrote that in the analysis: the Franchise Tax Board believes it's revenue neutral; we think it's a loss. One of the problems was I couldn't really explain why, because of the confidentiality. It's absolutely necessary to have confidentiality of this information. On the other



hand, it protects the Franchise Tax Board from being called to account. They can get by with all kinds of things and then hide under the cloak of confidentiality.

That was one of the most frustrating periods, because I'd seen the information, I knew what was wrong, and I couldn't talk about it. I couldn't tell the committee, even, because it was very scary. Just a couple of weeks ago, the Rev and Tax Committee thought they wanted to look at some returns. I advised against it. I said, "It's a very uncomfortable thing to do because of this confidentiality requirement."

HICKE: Better not to know?

DOERR: Better not to know.

HICKE: Why did they let you take a look at these?

DOERR: Well, the legislature has the right to ask for them. Statute gives the legislature the authority. In talking it over, we thought we should know. Because we had this feeling based on my work that I'd done before that this wasn't revenue neutral, and I just wanted to see if it was or wasn't. And it came out the way I thought.

So anyway, I'd seen all this information. The bill was killed because of what I put in the analysis. The Franchise Tax Board was very upset with me from that point on, I think, at least until Martin Huff left. I was not appreciated. This is where it really gets a little dicey. I'll see how I can explain it.

Anyway, on the dividend issue, what happened was that they took a case up on the same issue, and the Board of Equalization ruled for apportionment. This is another interesting quirk in California law. The taxpayer won at the Board of Equalization level

for apportionment. The law provides the Franchise Tax Board can't appeal a Board of Equalization decision. So they were stuck with that. I mean, not that they minded, because they were in that bent anyway, but they couldn't appeal. The decision on this issue by the Board of Equalization was controlling on all taxpayers.

Then the other side had to start over again and try to get a case going, which may still be in the courts somewhere: the Texaco case. I got deposed on that much later on my involvement in this whole thing. That was an interesting situation, because we took the position in the deposition. . . . The legislative counsel took the position on my behalf as my attorney that there was a confidential relationship between the legislative staff and the members. There's part of a legislative-doing-business thing that I didn't have to disclose confidential memorandums between myself and the speaker, for example, on these issues.

The last I heard of that was at my deposition. I haven't heard anything about that since. They may still want to pursue it; I don't know. That was just before I left the legislature that this deposition in this case was taken.

HICKE: And these memorandums were based on information that you had gotten out of the tax returns, some of them?

DOERR: Well, yes.

Anyway, then, to follow on the original dividend issue--this really made me mad--was that subsequently, in the next year or two, somebody leaked some information about a taxpayer and a proposed assessment that could have been inferred from the information that I had seen. I heard through the grapevine that Martin Huff was



accusing me of leaking it, which I absolutely would never do. I was very worried about them believing I would do such a thing. I think I know who did, but I wouldn't speculate, because I know others had access to that information. But I don't know for sure.

The information got into the newspapers and was a big flap, I would say. But essentially it showed that I was right in my original assessment of what was going on, which was comforting to me, that my judgment was somewhat vindicated, but on the other hand, that was a bad episode.

[Interruption]

DOERR: So that is kind of the story of the dividend issue. As I say, we had this suit by Texaco to reverse the BOE decision. That's really the last I've heard of this issue. That was in, I guess, 1986.

HICKE: That was in federal court?

DOERR: I don't know what court it was, but they brought a high-powered group of attorneys . . .

[Interruption]

HICKE: We were just on the deposition.

DOERR: Yes.

HICKE: You were just telling me about the deposition in the Texaco case, and there was a bunch of high-powered attorneys . . .

DOERR: Attorneys from L.A. [Michael] Mike Salerno was representing me. As far as we know, this was the first case where legislative privilege have ever been invoked. We were thinking maybe this would be a major test case, because they were just mad; they could hardly see straight. They'd yell and scream at Mike: "There's no basis for your position." He said we were withholding this because we think

there's legislative privilege and they wanted the information. So they said, "Well, we may have to go to court to get this information."

So at least that principle's been established. If it doesn't go to court, we've established it, at least as far as that one deposition was concerned. I suppose the legislative counsel would then say we've used this argument before, that we'll continue that position if anyone else goes across the street and asks for private communications.

These aren't published like committee analyses or other things; these are private memos. I was happy to give them all the committee analyses and all the public information on those bills. They wanted information on Multi-State Tax Commission and the subsequent bills.

HICKE: And when was this? Did you tell me?

DOERR: End of 1986.

HICKE: So maybe four years, and you don't know if anybody's tried that?

DOERR: Yes. I don't know. I haven't talked to the counsel. I don't think so. But anyway, a precedent has been established, even if they haven't gone to court.

Now, the next unitary issue I mentioned was "worldwide combination." Now, as I mentioned, this goes again to the unitary concept. We're really not fighting over the apportionment formula so much, although I get into that. It's the idea of who can be combined with whom. In 1973, as best we can determine, the Franchise Tax Board thought they'd apply this principle of combining an Illinois firm and a California firm together to subsidiaries



operating in other countries. So if there was a subsidiary in an overseas firm operating in California, they'd go overseas and take the parent firm and say, "OK, we're going to look at all your income all over the world."

They first started this, and it didn't really come to the attention of. . . . it didn't boil up until about 1977 into an issue, because it took a few years before taxpayers realized what was happening because of the audit cycles, et cetera. So, as I said, it came to the legislature in 1977. There was a bill introduced to say you couldn't go overseas. We weren't really familiar with what's going on, and it didn't go very far.

The whole thrust from now on will be the efforts to cut back the Franchise Tax Board's ability to combine overseas firms with domestic ones.

HICKE: I just want to make sure I understand who's on what side, here.

DOERR: I don't recall the date, but at the same time, the United Kingdom attempted to negotiate a tax treaty with the United States prohibiting the states of the United States from doing this.

HICKE: Because they wanted to tax them themselves?

DOERR: They didn't want their companies to be taxed by California and to have. . . .

I'll get into all the arguments in a minute. But I'm kind of laying out the time frame first.

So that it started in '73, came to the legislature in '77, '78 time frame, and in the same time frame . . .

[End Tape 14, Side A]

[Begin Tape 14, Side B]

DOERR: . . . there was this tax treaty. The U.S. Senate had a royal fight. [Senator] Frank Church led the opposition.

HICKE: In the U.S. Senate?

DOERR: Yes, in the U.K. tax treaty. The Senate in effect reserved on that particular aspect of it. First Jerry Brown had opposed, and then switched. That's where you got the famous "flaky data" quote describing the Franchise Tax Board. They asked him why he changed positions. The governor said, "I got flaky data from the Franchise Tax Board." [Richard] Silberman, who was director of Finance at the time--I remember talking to him extensively--was very anti-worldwide combination and convinced the governor that it was a bad policy.

Let me get the exact time frame. There's a big, fat book right up there, that's red.

HICKE: Behind this? California's Bank and Corporation Tax, Volume II [Unitary Method of Apportionment].

DOERR: This is November 1979. This was when we really started to get into it. It's kind of a bible. We held a legislative hearing in Los Angeles. Willie Brown was chairman at the time, and he'd been chairman of the committee since 1977. We'd had some conversations earlier about this, because he was not happy.

So we decided to hold this hearing. We produced this staff briefing book to explain what's going on, and had a great hearing. Willie Brown said a number of times afterwards it was the best legislative hearing he's ever been involved with. Because we just laid out the issue. We had witnesses from all over the world, had a



really good debate, and really provided members with an understanding of exactly what was going on and what the problems were.

So the issue is, in a sense, at this point, really joined between the legislature and the Franchise Tax Board. You can see another fight between the legislature and the Franchise Tax Board.

HICKE: And the legislature was reflecting the interest of the taxpayers, is that correct?

DOERR: Yes. They were trying to solve this problem of going overseas, and I can explain what some of the problems were. Maybe this is a good time to do that. There are also court fights on the issue. We've already discussed the fact that California had been combining unitary businesses, such as combining an Illinois and a California corporation, but going overseas presented far greater problems because of the differences in national economies. It's easy to do it in a single country, but between countries there are differences in currency, there are fluctuations, daily fluctuations in currency, and differences in accounting methods.

As I mentioned, one of the factors is property. It's basically historical cost, not current cost, which tends to distort anyway. If you look at the apportionment factors, they're really not ideal, but nobody's thought of anything better. But as you go overseas, they become worse, because here they required historical property factors. The biggest opponents of this have been the British and Japanese, and a lot of their historical records were destroyed in the war, so they don't have historical property factors.

Another problem is payroll. The formula tries to compare payrolls. Well, that's a real problem when you go overseas, because the payrolls are very different. The United States has a body of law, so payrolls from one state to another are not that much different structurally. The problem going overseas is the payroll is exceedingly different in terms of lifestyle, cost of living, et cetera. So payrolls may be real low. Another thing is that in some countries, payrolls are low because there are other cultural factors--lifetime job security, things like that.

HICKE: Or they provide lunch, or something like that?

DOERR: Yes. But let me show you why the payroll factor is absolutely no good. We use this example particularly as you go overseas. In the United States it's tolerable. But let's say, for example, that you have equal payroll in California and a foreign country, OK?

HICKE: Numbers of people?

DOERR: No, this is dollars.

HICKE: Oh, the dollar amount.

DOERR: Dollars that are being paid. OK. So you allocate fifty-fifty. So we take 50 percent of the profits, assuming everything else is on the payroll. So. This is to show the absurdity. I take it to the extreme to show the absurdity. So here we have a factor of a hundred and a hundred. A hundred dollars in California, a hundred dollars in Japan. Let's say that we give this huge pay raise in California. So instead of \$100, we're paying the employees \$1,000. That means that the company is making 90 percent of the profits in California and only 10 percent in Japan. Which is absolutely anti-any economic analysis anybody's ever done. Because with that high a



payroll, you probably aren't going to make any profits. The profits are going to be made with a low payroll. Low payroll is likely to give you more profits than high payroll. But this formula allocates the profits based on this ratio, where all the profits are deemed to be with the high payroll.

HICKE: So the taxes would be based on the higher payroll, when in fact the profits would be much . . .

DOERR: . . . based on the lower payroll.

HICKE: OK, I see that.

DOERR: And that's basically a fatal flaw in this whole formula. As I say, in the United States where you might have a standard collective bargaining agreement that spans all the states, you don't get the variations that you might get overseas. But clearly one of the reasons companies have gone overseas is to make more money because of the low payroll. They can pay these people sweat-shop wages in the Far East, and yet the formula allocates all the profits here because of the higher payroll. I mean, that absolutely makes no sense.

HICKE: Why was payroll adopted as a factor to begin with?

DOERR: I don't know.

HICKE: It's an indicator?

DOERR: An indicator of their presence in your state. And as I say, nobody really quarrelled with it too much within the United States, because it doesn't vary that much. It might vary a little bit between here and the South, and there'd be distortions. There are distortions, but people are willing to live with them. But when you went overseas,

it became so exacerbated that. . . . And you could look at the logic of it, and it made no sense. Just made absolutely no sense.

So anyway, there's a whole number of reasons why worldwide combination doesn't work. One is records. The Franchise Tax Board would demand to see the records of these companies, and in certain companies. . . . Let's say they were the records related to providing defense business for the British government. The British said, "You absolutely aren't going to show California our defense secrets." You just had too many problems, and you just added them all up. It convinced the committee it wasn't giving a fair answer. And it wasn't really fair to try and reach out on a system that is so flimsy and it's creating huge international relations problems with the federal government.

We thought it was bad for California in terms of our economic development. The Japanese were going to boycott California. They were not going to invest in California with this system. This went to the highest levels of government, and still is.

One of the by-products of the issue was that I got to meet a number of important officials from foreign countries. I met the man from England who came over who was head of, in effect, their IRS [Internal Revenue Service]. They call it Inland Revenue. He was from Dover, as I recall, at the time.

HICKE: Do you recall his name?

DOERR: Peter Reese. I had lunch with him at the Firehouse.

I met a similar official from Japan but I don't recall his name. Then you'd meet a lot of the top business people from these countries. They all came over here and just couldn't understand



why California's one of a half-dozen states that are doing this. The other states were small nonentity states like North Dakota and Montana and Alaska.

HICKE: Could you elaborate a little bit on what kind of discussion you might have with somebody like Peter Reese? I mean, he would come and ask you . . .

DOERR: Yes, he would come over, and one, he would explain, again, the problem from their standpoint, which I'd pretty much been familiar with, having gone through this. He would know that we in a sense were allies with them in trying to do something. He would want to know what the chances are that we could accomplish something, what could they do, how could they be helpful, should they come over en masse, should they send letters, should they hire a lobbyist--trying to find out how they could be effective in helping us get this thing taken off the books.

That was one of the great pleasures of this issue, and one of the reasons why I got interested in it. One, it was very complex. You could see as you went into it that the bureaucracy was trying to do things they really shouldn't be doing. And it gave the chance to meet foreign officials. And it still does. We had a meeting a few months ago with people from the British embassy in Washington--the counsel--and some British tax officials. They're not satisfied yet that we've solved it, and we'll get to that.

HICKE: OK. I was going to ask if you'll tell me more about what you're actually doing today, when it comes up. But meanwhile, let me go back to the Franchise Tax Board. I'm getting the sense that it's just

a few people here that are wanting to do this. I mean, who's supporting the Franchise Tax Board?

DOERR: Well, the Franchise Tax Board.

HICKE: And that's it? They were the only ones who were causing this enormous . . .

DOERR: Yes. And there's one reason why we didn't get it solved. The Franchise Tax Board sometimes is almost unbeatable, because they have one huge club that it's almost impossible to beat. This is another part of the story. They can estimate the revenue impact of change, and those are the numbers that are used. "OK, you want to change our methods? It's going to cost you \$500 trillion. Go ahead." And the legislators get very nervous: "Can't do that. We've got to balance the budget. How can we give that much away?" So as long as they're in control of the numbers, they in effect control the battlefield. That was the major stumbling block for all these years. There was a second stumbling block, and that was domestic versus foreign.

HICKE: Domestic who?

DOERR: Domestic corporations versus foreign. Let's take, for example, IBM [International Business Machines Corporation], a domestic corporation. Now, they operate all over the world, OK? So California's combining all their foreign subsidiaries in this formula. And take a company like BAT [British-American Tobacco] Industries in London. They have all these subsidiaries in the United States. That's British-American Tobacco, but they also own Breuner's and this and that and the other thing.

HICKE: One "t"? BAT?



DOERR: Yes. British-American Tobacco. And they have the subsidiaries. At first the solution was to solve the problem just for foreign corporations. The domestics were OK for a while, because they thought that would be good to get the foot in the door and they could use it in court. In other words, early attempts to solve this problem said that the Franchise could not combine subsidiaries in the United States with a parent company overseas, which is what the British were looking for, what the Japanese were looking for. But in 1980, when the legislature tried to pass a bill for foreign corporations, this was the height of the gas crisis. They didn't want to include oil companies. In other words, foreign parents would not be combined with their U.S. subsidiaries operating in California, except for oil companies. They would still be combined.

So the assembly first passed the bill that way. The senate said--and of course there was heavy lobbying--"No. It's got to be all foreign parents." In other words, take out this oil company exclusion.

HICKE: So Shell would be accepted because it was owned by the Dutch company?

DOERR: Yes. So Shell works hard because they don't like unitary combination. So the bill comes back to the assembly for concurrence. The assembly doesn't concur; it turns it down. We got in a big fight now. It's not the principle. Both houses have accepted the principle. It's the fight on oil. Becomes an anti- versus pro-oil fight. So the assembly passes it one way, the senate refuses to pass it. And the bill in the last second of the session, as the session adjourns, fails. So, OK, next year.

HICKE: Cliffhanger.

DOERR: Then we get into 1981 and 1982. Try the same thing. Now the state's got a fiscal crisis. In the early eighties--those were recession years. Now the legislature's taking money back from local government. The Franchise Tax Board is upping the estimates of the revenue loss from unitary reform because they see how close we came to passing the bill. It's going to hurt revenue collections. Nobody wants to do this. Further, there is a court case now. The issue got to the Supreme Court. Container.

HICKE: That was the name of the . . . ?

DOERR: Yes, I can get to the full name.

HICKE: Yes, well, eventually we might want to look up the citation.

DOERR: This is the landmark case. The U.S. Supreme Court--this is 1983, early '83--says in a, I think it was a 5 to 4 vote, it's constitutional for California to go overseas and include worldwide income in apportioning the tax base. A 5 to 4 vote. Curiously enough, the Reagan administration had not taken a position. The solicitor general had not come in with an amicus brief.

So this decision, then, really stirs up the troops. Absolutely. The British government and [Prime Minister] Margaret Thatcher is all over President Reagan. The British parliament passes what they call a retaliatory act. They were going to retaliate against American corporations unless California changes its law. We're going to have a tax war over California's tax policies. So the president establishes what they call a working group of business, U.S. officials, states, to work out the solution to the problem. Charles McClure, who is a professor at Stanford, is a staff person assigned to this group, and



the governor is a member: Governor Deukmejian. They had a number of meetings and came to no conclusion. They agreed to disagree. The states offer one suggestion businesses don't like, businesses opt for another. So they just put out various options.

Yet, the U.S. government is putting all this pressure on California now to do something. Meanwhile, the Franchise Tax Board is being attacked more and more for these estimates, so that the California Manufacturing Association hires Touche Ross [and Company] to try and do estimates. The FTB hires its own experts to try and say their estimates are correct. So we get into the big revenue numbers war.

In 1984, the governor decides to do something and puts forward a proposal that passes the senate, passes the assembly Revenue and Tax Committee, but it's killed on the assembly floor, basically because it didn't take care of the problems of domestics. The domestics now are in saying, "We want equal treatment."

HICKE: Domestics?

DOERR: Domestic companies like IBM.

HICKE: OK.

DOERR: The problem for domestics is if you don't put their foreign subsidiaries outside the water's edge so you can't combine IBM Germany with IBM California, they have a competitive disadvantage with foreign companies. Even if their foreign subsidiaries are not combined, dividends paid back to their U.S. parents will be.

While foreign based firms aren't paying on overseas income, domestically based firms will be taxed on their foreign dividends.

You're still reaching overseas and getting this income earned abroad. So you have this fight.

You also have these revenue estimates. The Franchise Tax Board is saying it's going to cost \$200 million, then \$250 million. At one point they really got worried that we were going to do something, and raised the estimate to \$500 million. This is no joke. These estimates are changing. You almost have to put a chart up on the wall: this is the latest estimate. But the governor's saying we've got to do it. And he's budgeting for it. So after the failure of that bill in '84, in '85 the governor forms a kind of mini-working group--Kirk West is chair--with legislative members and with people from the administration to work out an acceptable package. This takes a long time to work this out.

HICKE: Yes. That's why I'm glad you're doing this, because I think that you probably have the best possible grasp on it.

DOERR: Yes. Because I'm involved, heavily involved, all the way through. One is the consideration of fiscal consequences. Legislators are still nervous about that. So there are no agreements. No agreements for a long time. Then we get into 1986. [Assemblyman John] Vasconcellos is on the side of the domestics. So he's pushing the pro-domestic bill. The governor and the senate--Senator Alquist--still have this, you might call it the foreign parent bill, and were getting nowhere.

Finally everybody decides we've got to have a solution, because Speaker Willie Brown wants a solution. Willie doesn't like this anymore. So Willie's supporting, "Find a solution." Willie is basically with Alquist, but he said, "Vasco has got to be taken care



of." [Assemblyman Thomas] Hannigan, who originally opposed any change because of the revenue consequences, has now come to the conclusion that there are problems and it's unfair. So he's willing to participate.

In the summer of 1986, we hold meetings with John and Tom as the parties of interest (Tom kind of representing the Alquist view, Vasco representing the domestics) and [Assembly staffwoman] Judy Smith and I. I sit down and try to develop a compromise package. With a few changes, we get this proposal agreed upon between Hannigan and Vasconcellos. The governor then agrees on it, Alquist agrees on it. The plan is then adopted by a conference committee in August of '86, and it's passed. It's the water's edge election that we allow any company to elect by contract to have unitary combination with only domestic affiliates (except 80-20 companies). It's kind of like a Williamson Act election. In fact, we patterned it after the Williamson Act.<sup>1</sup> Corporations would elect water's edge treatment for a ten-year period, originally.

HICKE: And by water's edge, that means you can either stop or not at the water's edge?

DOERR: Yes. If you sign a contract with the Franchise Tax Board, they cannot go overseas and incorporate any of your foreign affiliates into the unitary group. For the domestics, we exempted 75 percent in foreign dividends in this act. So that satisfied them that they weren't going to be hit hard by California taxes on their overseas dividends.

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1. A.B. 2117, 1965 Reg. Sess., Cal. Stat., ch. 1443.

Then for the people who are worried about the revenue loss, we put in an election fee. If a company made this election, it paid a small election fee. It didn't offset the revenue loss, but it mitigated it. The revenue loss was still in the \$200 million range, according to estimates. But the interesting thing was, nobody cared.

And the Franchise Tax Board then was finished, because at that point times were good; there were no budget problems, and everybody wanted to resolve the issue. You had heavy pressures from every sector--U.S. government, foreign governments, the governor's office, business across the board. So the revenue loss became inconsequential. When that feeling finally hit, the Franchise Tax Board was done for. Because that was their club that they'd been holding for all these years.

They passed this water's edge election bill.<sup>1</sup> It also contained some other provisions that put possessions outside the water's edge--U.S. possessions. So if you're operating in Puerto Rico, you didn't have to combine those subsidiaries. Set up a program for reporting to the Franchise Tax Board called the domestic disclosure spreadsheet.

HICKE: I want to know, obviously, how you arrived at this. You've been sitting back watching this or involved in all this. How did you arrive at this, what seems to me like a miraculous compromise?

DOERR: Well, we'd been listening to everybody. We wanted to find a solution. I went home and thought about it, and came up with some of these ideas, based on one, the Williamson Act, which we

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1. S.B. 85, 1985 Reg. Sess., Cal. Stat. ch. 660 (1986).



adopted in the sixties, and the ten-year election. I understood the dividend issue. I've been through the other dividend issue. I understood what some of the problems were, and decided that a dividend exclusion was a reasonably fair compromise. Based on all the information I've had over the years on the dividend issue, I could obviously recommend that that would be fair. We just sat down and put the numbers together, and it was the right program at the right time; everybody was ready to compromise at that time. So we trotted out this little plan. Everybody said, "Yes." Now, it didn't solve all the problems . . .

[End Tape 14, Side B]

[Begin Tape 15, Side A]

DOERR: . . . that exist. A clean-up bill came through two years later. This is S.B. 85. Both these bills are S.B. 85.

HICKE: Thank you. Eighty-five?

DOERR: Yes, Alquist. That took care of some of the minor problems. One of the big issues that are left is that the foreign governments still don't like having the election fee at all. They say that this is a wrong system and they shouldn't have to in effect pay tribute to get out of it. It's just wrong to start with. That's a major problem.

The second problem has to do with the domestics. They can get out of the problem, but they can't. These were what we call 80-20 corporations. They're incorporated in the United States, but they do 80 percent or more of their business overseas. So they'll say, "Hey, these are really foreign corporations and should be out."

Now, they aren't out because they're incorporated in the United States.

So if IBM has a company incorporated in France, they're out. But if Coca-Cola has their subsidiary operating in France that is actually incorporated in Atlanta, they're still in. And they do that, I think, basically for protection in terms of copyrights and things like that. They don't want to be under foreign control. They could easily change, you know; say, "OK, instead of incorporating here, we're going to be just incorporated there and get out." They think that that puts them at certain risks they don't want to take. So there's been pressure now, still, to repeal the election fee and to set these 80-20 companies outside the water's edge.

Those are the two continuing little battles. The clean-up bill reduced that tenure election period to five. Companies would rather have it reduced to three. Those aren't big issues, but they're important to business. So there are still some little issues that are percolating, although the major step was to set up this water's edge system.

HICKE: Are the 80-20 companies, is that based on the three factor . . .

DOERR: Yes, everything is based on the three factors, still. Nothing changes with this three factors. Again, who is a part of your unitary group? You have all these affiliates; where do you draw the boundary line? Essentially, the water's edge means you draw it around the United States. Outside of that, you're not in your unitary group.

HICKE: Although that has to include Hawaii.

DOERR: Yes, Hawaii and Alaska. But not the possessions.



HICKE: Yes. And you said there was somebody else there named Judy Smith?

DOERR: Yes, who worked for the Ways and Means Committee. Still does. [After Prop. 140, she is back with the Department of Finance.] She was John Vasconcellos's staffer when we worked these issues out to get the compromise. And everybody had to go back and talk it over with their principals, so all the business groups huddled and said, "This looks like we can live with this." Nobody's real happy with it.

HICKE: Everybody was, or nobody was?

DOERR: Nobody was.

HICKE: Everybody was vaguely happy with it?

DOERR: Everybody said OK, we'd prefer more, but this is acceptable as a compromise.

HICKE: Well, that's what compromise is.

DOERR: The only people who were unhappy were the Franchise Tax Board, because they in effect lost what they thought was the thing they invented but was now taken away. So that's the water's edge chapter.

Now we come down to the third issue. Notwithstanding whether you operate overseas or here, who are you eligible to combine into this unitary group? You have a parent company and all these affiliates. Which of these affiliates can you bring in? Can you bring in all of them, or can't you? Again, there'd been a series of court cases over the years on which affiliates you can bring in. The courts essentially have said that if they're really two separate businesses, you can't put them together.

HICKE: Dealing in separate products and separate services?

DOERR: And separate managements.

HICKE: Yes, OK.

DOERR: This is the real anarchy, and this is what the big fight has been about for three years. For a long time, the state has been pushing for an expansive role. Obviously, by going overseas, it has been trying to combine as many companies as possible, OK? And businesses generally--except for going overseas--are saying, "Yes, that's what we want, too. Let's just take the formula portion of everybody together."

So you had the FTB adopting regulations some time ago, saying, "This is what we think should qualify for unitary combination." And if you have the same product lines where you're functionally integrated--you're selling lumber, you have a forest, you have a wood mill--everything's together, so that would be combined. Or if you have strong centralized management. In other words, if it's run by the management and they run all these pieces, then they can be combined.

Well, in the early to mid-eighties, the Franchise Tax Board decides they're going to change. They are saying their changes are based on some court decisions. That's a subject of huge dispute. They decide, "We're going to change our thrust. We're going to start splitting companies apart," because of the fact that can generate more revenue . . .

HICKE: By taxing the dividends?

DOERR: No. If I have two companies that should be combined, and one is operating at a loss, one is operating at a profit, splitting them apart creates more state revenue.



[Interruption]

If the two companies are combined, obviously the losses of one offset the profits of the other, because the net tax is on the total profit. The Franchise Tax Board wants to split them apart. Then we have this loss that can't offset these profits that are still this high, so the tax is actually higher, because you can't offset your profits with your losses. So that's one of the big problems. There are also some other ways that it works to generate additional revenues. And Goldberg testified at a Franchise Tax Board meeting.

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HICKE: Goldberg?

DOERR: [ ] Jerry Goldberg; he's the executive officer. He testified that the difference between what they're trying to do and what they used to do is over \$100 million a year in revenue. So we're talking big bucks again.

Needless to say, elements of the business community have become absolutely outraged because of several reasons. One is obviously they don't want to pay the additional dollars. Two, they now have no predictability on combination. They have no way of knowing how to file a tax return. If I have ten affiliates, which ones should be included and which ones shouldn't? Am I supposed to just figure out based on whatever produces the most revenue for the state? How am I supposed to file a tax return? They just absolutely disagree thoroughly with the Franchise Tax Board that you shouldn't. . . . You can't. . . .

The Franchise Tax Board is saying that third element that I described--centralized management--can't be used to establish unitary

combination. So if you're unitary because you have centralized management, you're not unitary according to the FTB. You'll still be unitary if you're selling the same products, you're functionally integrated and selling in the same kind of business, or if there are a lot of intercompany sales between your subsidiaries. They'll still grant you that. They won't grant you the centralized management.

So in 1987 they produced a draft regulation to reverse the existing regulation which says centralized management is a presumption of a unitary relationship between the affiliate and the parent. This was put out as a trial balloon, and of course, there have been huge debates among the FTB and business groups about this. Strong opposition. Very strong opposition.

So in 1989, in the fall, the Franchise Tax Board finally comes to the. . . . The staff comes to the board and says, "We'd like to notice this proposal for a hearing to adopt the regulations through the Administrative Procedures Act." The board tells them no. Which is the first time ever that I can remember a board refusing a staff's request to just notice the regulation because of the uproar it's created. Then they come back and they say, "Go answer some questions."

HICKE: The board says?

DOERR: The board told the staff, "Come back and see if you can take care of these problems." [State Treasurer] Gray Davis instructed them to go back to the drawing board. They came back early this year with the same proposal, and the board said no. So then they asked the executive officer to set up these so-called workshops to bring the business community and the FTB staff together to see if they could



work out the issue. Two workshops were held out at the Sacramento airport, and they were just free-for-alls. It was the staff and the business communities hammering each other, yelling and screaming at each other.

HICKE: Did you attend those?

DOERR: Oh, yes. It was great fun. Meanwhile, we've introduced legislation to permit corporations to be combined. This year it's S.B. 1932 (Kopp), which we haven't moved because the Franchise Tax Board's estimated the bill would result in a huge revenue loss, which we don't agree with again. It's back to the old game that we had with worldwide combination. They have the club of the revenue estimate. We pointed out a number of flaws in their estimate. They were infuriated that we would attack their estimates. It's like attacking their . . .

HICKE: . . . apple pie and motherhood.

DOERR: Yes. Based on past experience, that'll be another separate discussion. We'll talk about revenue estimating sometime. I knew their estimates were wrong. But at any event, they haven't pushed that bill because of the budget deficit and the fear of the revenue loss. But after these meetings at the airport, they came back to the Franchise Tax Board once more with an alternative, and the Franchise Tax Board said, "No. We're not doing anything."

Meanwhile, of course, as always in these kinds of disputes, taxpayers are going to court to say, "We think you're wrong." There hasn't been a real good case on point that's reached the appellate

level until this year. That's a company called Mole-Richardson.<sup>1</sup> So this case was just decided about two weeks ago by the Second, I think. The Second [District] Court of Appeal? Down there in L.A. This is a very interesting case. You could look at it two ways from the Franchise Tax Board standpoint. They thought it was a good case because these companies are so diverse that they thought it would be easy to beat it. However, from their standpoint, it would be a bad case if they'd lose it, because these companies are so diverse that that means that their position is absolutely blown away if they lose it.

This is a company that has a film lighting business in Hollywood and a ranch in Colorado. They don't really have anything to do with each other. They're what are called diverse businesses. The only thing they have in common is what you'd call a centralized management. It's a central management, a president, and they have common legal services, common accounting services, common payroll, I think. Checks are written in one place. So they have your centralized management, that's all.

HICKE: Is it publicly owned?

DOERR: I don't know if it's public or private.

So the Court of Appeal says this is unitary business. The regulation says centralized management; the court cases in the past have a list of these criteria which shows that centralized management is a factor. And they wrote a really strong opinion denouncing the Franchise Tax Board staff for coming up with these

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1. Mole Richardson Company v. Franchise Tax Board, 220 Cal. App. 3d 889 (1990).



bogus arguments that they can't substantiate. It couldn't have been worse for the Franchise Tax Board.

HICKE: What's the opinion based on? Doesn't it have to be based on a Franchise Tax Board regulation?

DOERR: It is. Remember the Franchise Tax Board regulation says that centralized management is one of the presumptions of unitary. The staff hasn't been following their own regulation. They've been trying to get it changed.

HICKE: But they had not succeeded in getting it changed at this point. Yes.

DOERR: So this opinion comes down, just absolutely comes foursquare in favor of centralized management. And that's where it stands. I haven't heard whether they'll try and appeal it up to the state supreme court or not.<sup>1</sup>

HICKE: What about something like the California wineries that are owned by, say, liquor companies? The liquor company, Seagram's or whatever, makes whiskey and California makes wine. Are those separate products?

DOERR: I don't know.

HICKE: That's a case-by-case decision?

DOERR: It's almost that. You have to go and look at these case by case. And that's the problem: the taxpayer doesn't know for sure. It sounds like those should be combined. If you're in the liquor business, that's at least closer than film lighting and ranching, for goodness sake. But the Franchise Tax Board may say, "Wine and

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1. [added by Mr. Doerr during editing process] They did--Supreme Court refused review. FTB lost several other cases on the same point--dental insurance, etc.

distilled spirits: that's two different businesses." The taxpayer says, "No, it's alcohol. It's one business." And now even if it is two different businesses, if you have centralized management it would still be unitary, but you have to know whether they run separately or they have centralized management.

HICKE: So what do they do? Go to the Franchise Tax Board and ask for a ruling before they file their taxes?

DOERR: No, they can't. There's no provision. In fact, the Franchise Tax Board has specifically put out, under the taxpayer's bill of rights, which requires them to do rulings, that they won't do rulings on this issue. So the taxpayer goes in and, "This is my best estimate of what should be combined," and then the auditor comes back and says, "No, I think it's this and that," and you have all these fights that go on for years and years and years and years. And these are still disputes pending over tax returns filed twenty years ago.

One of the reasons I challenged FTB estimates was that I thought taxpayers are filing based on what are their own self interests. If you have no good guidelines and you don't know how to file, you're going to take the position that's most advantageous to you.

HICKE: So what you do is do whatever you think will work the best for you, and then you wait for the axe to fall.

DOERR: Yes. And nobody knows where they stand. So there's no predictability or certainty. This is the new unitary issue. What's funny is, we go over to the legislature to say that there's a problem; we've got a unitary problem. "Oh, we already passed it. We've taken care of that."



HICKE: Yes. They don't want to deal with it again.

DOERR: Well, they don't understand the difference between the old unitary issue, which is worldwide combination, which is what affiliates make up the configuration of your unitary group, whether you're worldwide or U.S. or . . .

HICKE: . . . next door.

DOERR: Yes. This isn't a question of going overseas, it's a question of the appropriate unitary group. So that's going to be around for a while, because again, it's big dollars, and a lot of people are very unhappy. [Interruption]

HICKE: What about a change in the Franchise Tax Board? A change of personnel or a change of attitude or . . .

DOERR: We're going to see a change. The board itself is going to change.

HICKE: Yes.

DOERR: The members. As a result of this coming election. [Director of Finance Jesse] Huff's no longer going to be there because we're going to get a new director of finance. Mr. [Board of Equalization Member Conway] Collis is no longer going to be there because he's been retired. I don't think that'll change their view, myself.

HICKE: It's not an individual viewpoint?

DOERR: Well, I think the next Board of Equalization member will probably have the same views as Mr. Collis. Mr. Davis has not adopted the staff's position either. I think probably there are just people waiting on the court case, to see what happens, to see if they're going to

appeal. The supreme court, I think, will turn down the appeal. That's just my prediction.<sup>1</sup>

HICKE: Is this the California courts we're talking about?

DOERR: Yes, right now. So if the California court turns it down, I can't believe that they'd take it to the U.S. Supreme Court. I mean, it just is kind of a bizarre thing for them to do. It's a California issue. Because the California Supreme Court is not. . . . They don't like to take cases, this court. They've been more selective in what they take. So they're likely to let this stand. It's a strong opinion. One of the most respected tax lawyers in California who's representing the company, John Warren--the taxpayers couldn't have picked a better attorney--wrote a very strong brief. So maybe the issue's been resolved. But they're still trying to push legislation just to keep the pressure on. So it's a legislative issue. And that's the continuing struggles of unitary apportionment.

There are still a lot of little issues all rolled into this issue, that keep coming up. Throwback sales, for example.

HICKE: Throwback sales?

DOERR: Yes. Part of the unitary apportionment formula is sales, OK? So if I'm a California company and I'm selling a product to New Jersey, then it counts as a New Jersey sale. Then a company selling to California goes to California sales. The Franchise Tax Board's got a statute passed saying if you sell it into a state that doesn't have a tax, you throw the sale back to California, so California gets to count that sale as a California sale, even though it's a sale to

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1. [added by Mr. Doerr during the editing process] I was right.



another state. It makes no sense. It's just a way of extracting more revenue. So if that's the same as a sale in New Jersey. . . . I mean, they're both out of state, and just because this state doesn't happen to have a tax doesn't necessarily mean the venue for it should count for California.

And there are a lot of issues as you get into this. That's not a big issue; we haven't introduced legislation because we're trying to solve the bigger problems. But it is kind of symptomatic of how this issue has developed without really a lot of people paying a lot of attention. It's clearly not a fair taxing system.

HICKE: Is it their job to sit around thinking up new ways to gain revenue?

DOERR: No. It's not their job to do that, but that's what they're doing. Their job is to collect the tax.

HICKE: So how and why are they doing this, or is that a silly question?

DOERR: I don't know. That's the problem. They've been active. . . . Other states don't do this. Other states didn't have this worldwide apportionment problem. Other states don't have this diverse business problem. Continually, our tax administrators are out there on the edge pushing and pushing. I mean, that's the Franchise Tax Board; that's been the experience.

When I was with the legislature, we did two oversight studies of the Franchise Tax Board, which had never been done before, going into all the things that they were doing. We asked the auditor general to go in and investigate the Franchise Tax Board, and they turned up a lot of questionable practices. So we've been constantly monitoring, at least when I was there, the activities of the Franchise Tax Board. I don't think the legislature does that

anymore. They don't do legislative oversight, because the people they have don't have enough background. They're at such a disadvantage they can't go in there and challenge the bureaucracy because they don't know enough about the operations of the agency. So that is a disturbing trend, because I think you do have to have oversight.

HICKE: Are there any academic studies of the tax administration in California?

DOERR: I don't know. The press has picked it up as it's become a political issue, but it's still not well known--the third issue, the one we've just been talking about. We haven't had anything. There was no press reporting of the Mole-Richardson decision. They don't know what it means. No reporting of the issue as we've brought it up to the legislature, what the stakes are. There's been no press reports of the FTB turning the staff down three times in a row. All these issues. It's just kind of a hidden issue.

HICKE: Why is that?

DOERR: The press doesn't understand it.

HICKE: So it's too complicated for them too?

DOERR: Yes, and they don't know that it's an issue.

HICKE: But the taxpayers know?

DOERR: Yes, the taxpayers know. And people around that we work with know who are on the Franchise Tax Board.

HICKE: That's a fascinating discussion.

DOERR: This could go on for a long time. I really tried to simplify and run through quickly what's happened. We put together a lot of documentation. This was just the start of the studies. We've



produced several more books like this [points to book] that aren't as thick as we went along. We wrote up what happened, and then I wrote a series, a history of this whole thing.

HICKE: Oh, yes? Where is that?

DOERR: We put it out. Cal-Tax put it out. Called "The Struggle for Unitary Reform in California," I think. That kind of summarizes the issues.

HICKE: When was it that you wrote that?

DOERR: I think we put it out in early '89. I wrote it in the fall of '88 and summarized what had happened all the way up through 1988 and what the problems were that still remain. So we have a record of this whole thing. I have a number of binders in boxes. I've got a whole box there, a whole shelf full of binders, just literally on the unitary issue.

HICKE: That's fabulous. I'm so glad you kept all that, because that's going to be really valuable at some point.

[End Tape 15, Side A]

[Begin Tape 15, Side B]

HICKE: Well, is there anything more to say about the unitary issues?

DOERR: I think this is kind of an overview. Because we've talked about the issues, how we relate to the Franchise Tax Board, the power of their revenue-estimating function. I might digress on that just a tad.

HICKE: Yes, you said that would be a subject worth exploring a little bit.

DOERR: The committee--at least the committee staff--had been very disappointed with their estimating functions for a number of years. One, for example, that comes to mind was when we were trying to enact the child care tax credit, and they came in with these huge

revenue loss numbers. We knew they weren't correct. So we went out and. . . . Normally we wouldn't do it, but we went out and created our own estimate independently of theirs. We got all the federal data, et cetera.

Our estimate was a fifth of what they had proposed, and they just had no leg to stand on. And then when you pinned them down, they'd make these outrageous assumptions. A lot of revenue estimating is assumptions: "We assume this, and we assume this and this. And therefore we come up with this figure." When you see the figure, you have to go back and get the assumptions, to see if it makes any sense.

Then you have a meeting with them, and they're absolutely as inflexible as can be. It's the same attitude, like we somehow challenged their honesty. We'll say, "I don't agree with that assumption." "Well, that's my assumption. I'm standing by it." "That doesn't make any sense." "Well, it's my assumption." So you can't pierce that, except to expose it. So anyway, on the child care thing we had a big meeting and blew them away. That was embarrassing for them.

Then when we did the conformity bill, the big conformity bill conforming to the 1986 federal changes, we of course had reached a stage of absolute distrust of their numbers. So we went back to Washington and hired a Washington consulting firm that was the most reputable in town. Tom Vasquez is the head of it. It's called the Policy Economic Group. We signed a contract to produce the revenue estimates of the various components of what were capital



gains, all the different components of the changes in federal law, what they meant for California.

Oh, wow, what an episode. Not only Franchise Tax Board, but the Department of Finance hit the roof. We'd somehow intruded on somebody's turf, and they were just absolutely outraged that we would have done this. They weren't going to cooperate with us; they would continue to use their figures. They advised the governor that our figures were wrong even though they're reasonable. It was just absolute war.

The upshot of it was. . . . I think one of the key differences was that our person estimated lower capital gains realizations because of the change to 100 percent tax than did the administration. So as the conformity bill works its way through, one of the problems is that for the members now, it's become a Christmas tree and they're providing too many goodies. When they reach the conference committee, they've oversubscribed by about a billion dollars. They've got too much tax relief compared to what's coming in, making all these promises. So they have to start cutting back here and there.

One of the things they do is the Department of Finance comes in and says, "We have a higher capital gains number." "Oh, that's great. We'll take your number," rather than the number we'd paid for. Because if it generates more revenue, they can provide more goodies. Except it was wrong. In the next year, we have a big shortfall in revenues because they've overestimated the capital gains. And I said, "Well, we tried to tell you idiots."

I'm over here at Cal-Tax by now. This is during the transition. I started over there during this process and ended up over here. By the time the bill passed and when it got to the conference committee, I was over here. I thought to myself, "Why'd they do that? That's really dumb." And then the next year they have the shortfall. Everybody's wondering, "How could we have this shortfall? Who's responsible?" The answer is clear: they didn't listen to the people they hired to give them good advice.

So we had these battles all the way through. If you go back when we had the first Reagan tax bill, I probably didn't mention this; I think I was mentioning just the broad outlines of the bill. We were really concerned about revenue estimates at that time. So we did two things when we put that bill together. One, we required the controller to audit the Department of Finance in the revenue-estimating function, which they did for five years. Finance finally got it rescinded. They didn't like that at all, but we'd stuck that in that bill.

The second thing we did, which has lasted to this very day and it's been very important, we required, in that Reagan tax bill, that from ever after, the state budget would have to include a month-by-month estimate of the projected revenues. So you could see, you could kind of keep track as the year went along, how you were doing, whether you were going to be up or down. Before that it was just a lump sum for the year. So now when you read these estimates in the paper--revenues are falling short by \$50 million--that's because we stuck that in that 1967 tax bill. And now people have an opportunity to track it. In other words, manage. You



know, if it's going down too much, then you can try and do something about it, instead of finding it out after the fact. We stuck that in the tax bill, and it's been a useful tool. Again, because of the dissatisfaction with the revenue estimating.

It's been a problem over the years. I remember we talked about this early on. After the first Reagan tax bill, when we had the property tax relief program--the homeowners' exemption and the renters' credit--the Department of Finance came in with this big number on renters' credit, how much it's going to cost, they couldn't afford it, et cetera, et cetera. I sat down and I said. . . . I had done some work on it, too. I said, "I think you're absolutely wrong. This is an outrageous number." He looked at me and. . . . "How can you come out with a lower number? This is what's been set." "You haven't taken into account the fact that not every renter's going to claim it." I finally convinced him to lower the estimate based on a 90 percent claiming, that there would just be a few who never get the word. For whatever reason, that's the way life works. And it actually came out lower than that. I was still high. I forget what it was, but it was somewhat lower.

But that's just a little story; it's symptomatic. It's a problem we had, that the people who were doing that would just put on their blinders. They don't give you correct estimates.

One thing they don't put in is the behavioral effects. They rarely put that in. It's like you're operating in an absolute vacuum, some kind of jar with all the air pumped out of it. That's why they got in trouble with the capital gains. They assume, "Well, we make these changes in the tax structure, then everything else stays the

same." But when you make a change in the tax structure, people change their behavior. When you raise the capital gains to 100 percent, you have less realizations, because people aren't going to sell that might otherwise sell. There'll be a certain amount of that. And they didn't plug that into the capital gains numbers.

HICKE: That's a really interesting insight.

DOERR: They say, "We don't know what's going to happen so we can't put that into our numbers. We can't take account of the economic or behavioral effects." Conversely, you have that same attitude even more prevalent when you propose to lower taxes. That's going to produce X million dollars loss of revenue. We say, "But wait a minute. With that, this, this, and this is going to happen that will produce some additional revenue to offset that." "Well, you don't know if that's going to happen or not, do you?" But you know it's going to happen. It's happened in the past. Wait a minute. "But we can't make that judgment. We're just going to show you what happens if you do this without anything else happening." As if everything is static when you make a change in the tax structure. And it's not ever static.

That's one of the big problems we never solved. Never, ever solved. And I don't know how to force them to do that. That was one of the things I was going to do before I left. They wanted a study of revenue estimating, which would have been a . . . Curiously enough, they needed it badly at that time, because that was just before we'd gone into these gyrations. The state had the huge surplus and this huge deficit. A surplus again, and then another huge deficit. We've just been on a yo-yo since I left. And



they really, at that time they should have done that study. I left and they didn't do it. A lot of other states don't operate the way we do, in terms of their estimating process, and I was suggesting we sit down and figure out how to do this so that they get a better system. Maybe I'll suggest that again; I've got to testify Monday. I haven't decided whether to or not. It's a personal thing; it's not a Cal-Tax issue.

HICKE: But it sounds as if you're saying they take into account the mathematical effects but not the economic and cultural, or whatever.

DOERR: Yes, exactly.

HICKE: They have no way to plug that in numerically, so they . . .

DOERR: . . . so they don't. They ignore it. That was one of the things that helped us on the unitary estimate, by the way. I forgot to mention. We had these hard numbers from the Franchise Tax Board that they were always beating us over the head with. This was one of the very important things that did happen. I forgot to mention this; I should have. Because that had always been somewhat controlling.

HICKE: What?

DOERR: The Franchise Tax Board's revenue loss number. The members were afraid to do anything. Not only were they doing it wrong, which we found out, but it was being done without the consideration of any economic effects.

So the business community asked [Professor Lawrence] Larry Kimball at the U.C.L.A. School of Business--he runs this economic model there, very well respected with the legislature--"What are the economic effects of doing this?" So he runs it through his model, and we get back some results showing the economic effects of this

are going to offset some of this revenue loss. There will be some Japanese companies coming in as they are coming in now. Maybe you can say that's good or bad from a cultural point of view; maybe they shouldn't be buying up property. But at least having that effect economically, you're getting more investment in California, which he showed in his model, so it tended to refute the Franchise Tax Board figures.

When that came to the members, that made them a lot more comfortable going ahead, even in the face of the Franchise Tax Board revenue loss figures. Because they had this economic model study of Larry Kimball showing the economic effects. That's one of the reasons why that whole thing came together, too. Very important reason. I forgot to mention that.

HICKE: Good, I'm glad you thought of that. But couldn't that be used in revenue estimating, too?

DOERR: Of course. But they don't. That's one of the problems. One of the problems is just knowing they can use it for their own political purposes, for want of a better term. They want to be able to say, "These bills we don't like cost a lot of money." They don't want to open up the process. They want to close the process. During the testimony on the Kopp bill, S.B. 1932, we were challenging their revenue estimate.

Because we had a meeting with them. We sat down earlier and told them the problems we had. Then you know what they told the committee? It was just absolutely mind-boggling. "We were operating on the congressional system. People from Congress, they don't have to tell anybody anything about the revenue



estimates." Implying that that was an even better system.

[Laughter]

I kept sitting there thinking, "This guy is blowing it." Because he's telling these legislators, because we're attacking his estimate, that they'd been good by sharing that information with us, but this was congressional so they don't have to share, and that's a better way to go. That's the attitude they have. You see, that's a symptom of the problem. I think the problem with the federal government is self evident. The estimates are absolutely wrong.

HICKE: It was a very good example to set up.

DOERR: Yes. That's what we got. And that's true, as I understand it; that is a really closed process at the federal level, in terms of the revenue estimate. And they don't want it opened up; the estimators, of course, absolutely do not want it opened up.

HICKE: Is that territorial, as you implied a little earlier?

DOERR: Yes, I think it's territorial. And it gives more power to the committee chair and the estimators to decide what's the policy. "You can't do this because it has too big a revenue loss. You can do this, this is OK."

Another thing they've done is, they'll decide something they're pushing that doesn't have a revenue loss, because that loss was accounted for in some other bill; it passed some other year. They already estimated that loss, so this bill doesn't have a revenue effect. Even though if you didn't pass this bill, they would have more money than they do. From honesty's standpoint, well, then this bill creates a revenue loss. If it doesn't pass, you have X; and if it passes you have Y. They argue, "No, that's not right because. . . .

See, we already thought we were going to lose the money over here and therefore this bill doesn't have an effect." That is wrong. That is just manipulating things to get their own bills passed.

HICKE: Do you see any solution or any hope?

DOERR: Well, I don't see any. . . . There should be hope. The legislators should be tired of getting continually whipsawed, but I predict that nothing will happen. What is the solution? Somebody has to start, figure out how to make this better, set up a process for doing that, and that was what I was going to do.

HICKE: Somebody has to take up the sword.

DOERR: Yes. The agencies must be confronted, and that gets back to the point I made earlier. Most new legislative staff over there are not willing to fight the agencies, because that threatens their own existence. Legislators will ask them about a new bill that's been introduced. "What does it do? Tell me what it does." New staffers don't have the foggiest notion what it does. How do they find out? They've got to go ask the tax agency. "What does this cost?" They don't know. They've got to go ask. So if they start to fight with the tax agencies, they cut off their source of information. They're not going to get the cooperation. Then they can't stand on their own two feet.

That is an absolute fundamental problem that we have now: you don't have the expertise to allow legislative staff to function the way Jesse Unruh intended it to function. Jesse's view was that it's not only to be a bulwark against lobbyists but a bulwark against the bureaucracy. If staff doesn't know what they're doing, they've got to protect their asses by going and finding out. And this is what they



do. So they're wholly dependent on the bureaucracy and they're not going to rock the boat. The staff isn't going to rock the boat. That's the way I see it.

HICKE: That's because nobody but the Franchise Tax Board can do any estimate, can understand the estimating?

DOERR: No.

HICKE: Or do the estimating?

DOERR: Not now. As I pointed out, when I was over there, we did estimating. We'd independently do it.

[Interruption]

HICKE: One of the problems, then, is that the present staff is not willing to do their own legwork?

DOERR: What's happened is that the expertise has been lost substantially. I think this is symptomatic, because I've been able to observe it over the last five years. This happens gradually, as people bail out and other people come in or are being hired for political reasons. They go out and work precincts now. These are the kind of people they're looking for.

HICKE: Staff, you're talking about?

DOERR: Yes. Staff. As a result, they're not able to do this other kind of function, which is providing legislature with independent information, which they should be doing. They still make some judgments independently: "This is good," or "This is bad," you know, in terms of a policy issue, but in terms of numbers, you don't see, and I have not seen since I left, anybody challenging any numbers on anything.

HICKE: Is somebody filling this vacuum, like, for instance, legislative representatives? California Taxpayers [Association] for instance? Didn't they request that numbers be checked?

DOERR: The agencies are the ones now that are filling the vacuum.

HICKE: Yes, but somebody opposing their estimates.

DOERR: The private sector could challenge numbers. We have obviously a point of view, because we're a proponent or an opponent of a particular bill. We are looked upon as not an "impartial observer" on this. So what we say tends to be discounted, even though it might be true, because of that. But as I say, the other side is equally suspect and they don't have the independent person there to say, "You're right," or "You're right." Or "Both of you are wrong; it's this answer."

HICKE: That's an interesting development, isn't it?

DOERR: Yes, it is. Decisions get more and more made because of the numbers. This is something that's below the surface, but highly important. Everything now is driven by numbers over there. Now things are being driven by the huge deficit--so-called deficit.  
[Paragraphs omitted]

So that's a little piece on revenue estimating that we got going there, giving the flavor of what we've done over the years, what the problems have been, what I see continues to be a problem.

HICKE: OK, and then we were just starting to sum up the unitary concept. Did we finish all that?

DOERR: Yes, I think we finished the unitary. So that probably puts us back to 1969.

HICKE: Yes, do you want to take up there?



DOERR: Yes, I think where we left off, if I'm not mistaken, was we just trashed the governor's tax program, sort of.

HICKE: I have a note to the effect A.B. 1000 and 101 . . .

DOERR: That's 1970.

HICKE: Seventy. OK. Yes, I think we just finished the Biddle bills.

DOERR: After we were trashing those, the speaker at that time was Bob Monagan. The Republicans took over control in 1969 of the assembly from the Democrats, so he was elected speaker. He was really supportive of what we were doing, the committee. He was only there two years, but he was a very good speaker.

[End Tape 15, Side B]

[Begin Tape 16, Side A]

HICKE: You say he was supporting what you were trying to do?

DOERR: Yes, the committee. Here's the governor who was a Republican, and his bills are being trashed by a Republican legislature. That's common to a degree. The party loyalty wasn't there. But he was supportive. In other words, he wasn't saying, "You guys have to go along with the governor; party unity." "Just take your best shots. Do what you think is right. We're an independent branch; you have a responsibility to look at these things," et cetera, et cetera. So that's what I mean. He was supportive.

So we did a couple of things under his leadership. One: he sets up a task force approach between Democrats and Republicans, and we'd go off to several meetings. In fact, I believe we had them at the Senator Hotel, in the capital, just to try and break the ice. So it was less formal. Attendees would have dinner, talk about the

tax problems, see if they couldn't put together their own tax program, which was done. There was a consensus package, on which I've saved an article. [Takes out article] This came out in June.

HICKE: "Ten Percent State Tax Rise Urged in New Plan." June 7, '69.

DOERR: That was an informal coalition of Democrats and Republicans.

HICKE: "A bipartisan panel. Six assemblymen outlined a complex \$1 billion tax shift package."

DOERR: Yes.

HICKE: Now, who was . . .

DOERR: This was Bagley, who's now chairman. And Moretti played a big part in this, who was a Democratic member of the committee. It was a major property tax relief program through various provisions. It says something, "The informal tax study group was established several weeks ago by Republican Speaker Robert G. Monagan, who had maintained throughout the session that tax reform can be accomplished only by a bipartisan effort."

[Interruption]

HICKE: You were just reading that bit about Monagan.

DOERR: The package would double the homeowners' exemption. Provide for state to take over the full local cost of administering and financing welfare programs. That would, of course, reduce property taxes. Extend property tax relief to renters. Increase state aid to schools. Increase income tax revenues by closing loopholes. I'm kind of giving this short shrift because this was just a step. Nothing much happened to this program because there was never any agreement with the administration or the senate. The assembly was still



creating these tax programs that we started as a result of the tax study. Here we are again with another assembly-created tax program. The governor kept pushing his program, or versions of it.

So this stalemate continues through 1969, and we're still working on these big, humongous packages at Christmastime. Then in 1970 we finally get together with the administration on the package, which is A.B. 1000, 1001. The Bagley program.

HICKE: Did you actually have conversations and so forth with the executive people who were preparing his tax program, or did you just wait to see what they came up with?

DOERR: No. I didn't at this time. The conversations come in '71. That's an interesting episode that I want to cover. Because I spent sixteen days sitting across from Governor Reagan at this table. I don't know why he happened to sit across from me.

HICKE: Moretti was on your right and Gonsalves on your left.

DOERR: And he'd often look at me and tell these stories and jokes.

HICKE: Yes, you said he told different stories all the time.

DOERR: So anyway, we have the Bagley program that we've worked out with the administration, which was a major program; it took most of 1970, the effort to try and pass this program. It raised the homeowners' exemption, provided renters' relief, provided property tax relief through the taking over welfare and Medi-Cal programs. Then it had a sales tax increase to pay for it. A bank and corp tax increase to pay for it. Income tax changes, et cetera.

So this passed the assembly without any problem, and we got to the senate. We needed a two-thirds vote because it had appropriations in it. We got twenty-six votes.

HICKE: In the senate?

DOERR: Yes. One short. So days and days and weeks and weeks passed and we kept trying to get this bill through.

HICKE: What was the problem?

DOERR: The Democrats in the senate were holding it up. They didn't want to see. . . . It's the same issue: property tax relief, and they didn't want to see a big property tax relief bill. Senator [Walter] Stiern was just dead set against it. He was the chairman of the senate Rev and Tax Committee. So we had this band of thirteen Democrats holding up the bill, and the governor would yell and scream.

[Looking through papers] I saved quite a few clippings here. I haven't looked at these in a long time. There are statements from Bagley about defending the bill. One of the things that was in the bill, as I recall, was a tax rate limit program, because the governor said, "If we're going to provide additional monies to local government to reduce taxes, then we have to put limitations on their tax-raising authority." Cities and counties never had that. And that was a fierce fight because the bill was putting tax limitations on local government. Schools had a tax rate limitation, as I recall. The bill proposed to put a revenue limit on schools and a tax rate limit on cities and counties.

Here's a press release from Reagan dated February 3, 1970. "My office and I have been working with State Controller Houston Fluornoy, Senate [President] pro tem Howard Way, and Assembly Speaker Bob Monagan. Together we have developed a broad, fair share tax reform program, reduced the homeowners' exemption, increased renters' credit, provided for a school equalization program,



an expenditure limit and--as I mentioned--property tax relief for welfare. Inventory exemption would increase to 50 percent. To pay for these tax cuts we propose to increase the sales tax by one cent, add a new bracket to personal income tax, adjust capital gains treatment. . . . " He was always interested in changing capital gains. "Adjust oil depletion allowances. Increase bank and corp taxes. Establish a minimum income tax concept to close loopholes."

HICKE: What does he mean by "adjust"? He doesn't want to say whether it's up or down?

DOERR: No, all of them went up.

HICKE: Up?

DOERR: Yes.

HICKE: But, I mean, he doesn't want to say "raise," so he says "adjust"?

DOERR: It says "adjust oil depletion allowances to produce another \$15 million a year."

HICKE: Oh, OK.

DOERR: "Adjust our capital gains treatment to produce an additional \$20 million a year."

HICKE: Oh, so it does say.

DOERR: Yes. So this had the administration support, and the Republican, and the bipartisan support in the assembly, because this is a continuation of what the assembly started again with the tax study. Another big property tax relief program going over to the senate.

I remember I had to go in and talk to Senator [David] Roberti, who was at that time kind of low man on the totem pole over there, trying to convince him to vote for the thing. It didn't work. We pleaded with a number of senators. Bagley always said, "No bill

has ever been lost on the senate floor with twenty-six votes. With twenty-six, you're bound to get one more vote. Just bound to get one more vote." And went on and on. We never did. So the bill failed.

HICKE: Is that right? So there was a bill that lost.

DOERR: By one vote. It was the Bagley tax reform bill. It came really close. But the drama goes on. In the election that fall, the governor's reelected. He's being attacked by Jesse, who's the Democratic nominee. But Jesse loses. But something unexpected happens. The Democrats regain control of the assembly. Nobody expected that, because the governor was reelected by a big margin. The Republicans had a majority; how could they lose it? Well, they did. I'll never understand how that happened. Why they lost that majority.

So right after the election, we had had a committee hearing scheduled at the Golden Gate Bridge, in their administrative offices. I remember at that time, Bob Moretti's decided to run for speaker. So he's off, he's making calls, talking, and he winds up, he's calling members from a phone in this anteroom where we're holding a hearing, to line up his votes for speaker, which he was successful in doing.

And Bob, of course, was a great friend of mine, fortunately. He'd been a part of all this tax reform process, working on our bipartisan teams, et cetera, et cetera, so he was fully supportive all the way through. So when he became speaker, that was good for me, because then I was able to go back to working for a Democratic committee chair. People were saying, "He's been working for



Republicans for four years." But Bob knew that I had been. . . .

[Pause]

HICKE: So it wasn't any problem, the transition?

DOERR: No, the transition back, which you might have expected to have been a big problem because I'd worked for the Republicans for four years and they might have thought I was a traitor, was just an easy transition back.

HICKE: Who headed the committee?

DOERR: Then Joe Gonsalves took the committee over, and Bob had told him, in effect, that I was the person to stay on and do the work, because Bob had worked with me and wanted me to stay there.

HICKE: Maybe that's a good place to wind up?

DOERR: Yes. Because that will take us into the Democratic period.

HICKE: Did you work for Jesse in the campaign, or were you involved in that?

DOERR: No. I was on the Republican side, working for Bagley, so I couldn't get involved in that.

[End Tape 16, Side A]

[Tape 16, Side B not recorded]

[Session 7, August 3, 1990]

[Begin Tape 17, Side A]

DOERR: We can start with the 1990-91 budget.

HICKE: OK, I was just going to say last time we covered up to around 1969 and '70 but I wanted to ask you about the recently passed budget for next year for the state.

DOERR: After setting a record of twenty-eight days without adopting a budget, the legislature passed a budget on July 28 calling for a \$55 billion spending plan. The problem with this budget was it contained a gap of \$3.6 billion. This gap was produced by a combination of factors.

One, the revenues from 1989-90 fell significantly short of estimates. So this required the exhaustion of the prudent reserve to keep the 1989-90 budget in balance. So in 1991 you had to spend \$1 billion three million to boost back the prudent reserve that would have otherwise gone for spending for programs and things. So that's the first factor.

The second factor: over the past several years the legislature undertook major new spending programs without either reducing other expenditures or raising taxes to pay for them. This structure can't hold continuing additional spending without one of those other



two things to compensate. So that just overloaded the spending system.

Third: the economy is projected to be soft for this year, so the projected revenue estimates can't keep pace with what's been mandated by the constitution and by statute to be spent for various programs: for COLAs [cost-of-living adjustment], et cetera, et cetera. It differs between. . . . The governor says it's about 90 percent mandated; the analyst says it's about 75 percent. Either figure is an enormously large fixed amount of what is required to be spent. So that's, in a nutshell, what the problem was.

The solution was that they raised some revenues here, there, and everywhere--about seven different components to that, I think. Some of them were kind of questionable. And they reduced the growth in spending for a number of programs. They froze welfare spending, cut back some county subventions, told government agencies they had to reduce their budgets by 5 percent. The legislature even cut back its own budget by 2 percent, while everybody else had bigger cuts.

There are some significant problems. A lot of people that have looked at it think that it's just sowing the seeds for another problem next year, because a lot of its provisions are one-time deferrals of expenditures, and one-time revenue increases. The biggest item in the revenue mix is the conformity, adoption of conformity of state tax law to federal.

HICKE: That is with the federal . . .

DOERR: With the federal law, which produces about \$500-plus million. There are two problems with that. One is that it goes down substantially next year.

HICKE: What does? The federal?

DOERR: The revenues from the conformity bill. Because part of it, again, was just accounting changes. Once you make those accounting changes, then there's nothing else. So a lot of it is, in effect, one-time revenue money.

The second problem is that both items are in an initiative that's on the ballot in the fall. If that passes, they've spent the money twice.

HICKE: Could you explain that a little bit? The items that they have allocated money for?

DOERR: Yes. They've counted this revenue as revenue to balance the budget.

HICKE: Oh, it's revenue that we're talking about.

DOERR: Yes. Now, in the initiative in the fall--and that is Proposition 129<sup>1</sup> by [Attorney General John] Van de Kamp and [Assemblyman Johan] Klehs--those conformity items are in there to pay for a new program of crime, et cetera, build prisons, whatever. I haven't looked at the spending portion real carefully. So if that passes, those expenditures pass, but since the revenue has already been spent to balance the budget, that money can't be used to fund these new spending programs but those would still come into play. In effect you spent the money twice, which will again contribute to the fiscal problems for next year. So you have those two fiscal problems stemming

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1. Proposition 129 (November 1990) failed.



from the adoption of the conformity items. That was the major big-ticket item in the package.

The other revenue provisions are kind of what you might call nickel-and-dime type of stuff. They put a \$300 tax on new cars coming to California, which is of dubious constitutionality. That's really a "Welcome, stranger," classically. It's not new cars; it's cars of people who are not residents of California who are moving into California.

HICKE: And they don't have the catalytic converters on them? Is that part of the. . . . It seems to me I read something about that's to do with . . .

DOERR: I think they have to do that anyway.

HICKE: Yes. OK.

DOERR: The second piece, or another piece--they're not in any particular order--adopts withholding on sales of property by out-of-state residents. This is [U.S. Senator] Russell Long's old tax theory: "Don't tax you; don't tax me. Tax the man behind the tree." So we're going to tax people that are not here; they're going to withhold from out-of-state residents. That has the potential of bringing in some money, but again, it may be just one-time money, because you bring it in by withholding earlier and then repay it in a subsequent fiscal year. That remains to be seen really whether they can get the money out of that that they're counting on.

One of the most controversial things, I think, is it they authorized the Board of Equalization to reestablish the foreign purchase tax. So the board's going to start collecting taxes on goods folks bring home from overseas.

HICKE: In addition to the federal customs?

DOERR: Yes. The way they set that up is really stupid because all you have to do is land in a non-California airport.

HICKE: And go through customs in New York or someplace?

DOERR: Yes, go through customs in New York. I've gone over four times--twice coming straight to California, twice going through New York. To an extent, coming directly to California is nice, but on the other hand, it's one heck of a long flight, and to a certain degree I kind of like breaking up the flight by stopping in New York. Your mind set is, "I only have a six-hour flight." You read, and watch a movie, and you land.

So I think people would be well advised to land out of California. It's not that big a deal to stop in New York or Seattle or St. Louis or wherever; Dallas/Fort Worth.

HICKE: This is probably only for major purchases like diamonds, right?

DOERR: Yes, if you think you're going to be buying something significant, you just arrange a flight so that you land in a non-California port of entry. Anyway, so only the unsophisticated will be caught with this, which isn't a very good tax policy--to tax the people who are unaware of how to beat the dealer.

They reduced the renters' credit for married couples from \$137 to \$120. That'll save them some money and it actually increases income tax revenues.

Then they gave the counties authorization to impose utility user taxes and business license taxes in an unincorporated area. Cal-Tax looks aghast at that. It doesn't make a lot of sense in terms of what they were trying to do. They were saying, "Hey, counties,



we're cutting you. We're giving you this revenue source." Well, for the major metropolitan counties they don't have much in the unincorporated areas, so it doesn't help. Alameda County has 9 percent of the population in an unincorporated area. For L.A., it's 11.

Secondly, it's really questionable why the people in the unincorporated area would have their taxes raised to pay for countywide health and welfare services the state is refusing to fund. That doesn't make a lot of sense. This is a statewide program and a problem. Why is the state asking a narrow group of taxpayers to fund these programs? We've studied utility taxes; they are very regressive.

HICKE: When you say "we," you're talking about the California Taxpayer's Association?

DOERR: No, now I'm talking about the California legislature.

HICKE: Oh, OK.

DOERR: When I was with the committee. We studied the utility user tax, put out a couple reports on it. It is one of the most regressive taxes on the books. It's more regressive than the sales tax in terms of its impact. So as a tax source, it really is not a good revenue source.

Anyway, that's what they did. All this was done without following the normal, customary rules and patterns of legislative behavior, which was, in a sense, maybe the most egregious aspect of this whole sorry episode. For the past thirty years, when you have proposals like this, they go through hearings. I've described how the big Reagan tax bill went through the senate, came to the assembly; we changed it, fixed it up, passed it through. This year

[1990] all this was done behind closed doors without any public input, amended into bills at the last minute, jammed through the legislature without opportunity for public comment, hearing, et cetera, et cetera, et cetera. I mean, just outrageous. Democracy disappeared in terms of the normal input that folks are supposed to have.

HICKE: How do you explain this? What are the implications?

DOERR: They don't care any more, apparently. This is starting to happen more and more. I've seen this in the last three or four years. Members will introduce a noncontroversial bill that will run through the assembly. When it gets to the senate, they'll amend a big program in it so they bypass half the process. Or they'll take it to conference. It's just more of the insider manipulation: "Hey, I know how to use the system to get around all this and just jam my stuff through." And you've seen a lot more of that in the last four or five years.

In 1990, legislators took it to the nth degree by having major proposals that nobody ever saw or had a chance to comment on, popping up and going through.

HICKE: Is anybody protesting?

DOERR: We wrote a letter. Cal-Tax. Said, "This is outrageous." We were dismayed at the process, that people didn't have a chance to comment. There was the same thing on the other side--I mean on the cutting side--too. Whatever they agreed on, they just jammed it through.

Then they make mistakes. People aren't there to comment and say, "Hey, look at what you're really doing. You don't know this."



One of the problems is nobody over there has any institutional memory any more. So I'll give you one little example. One of the provisions to help the counties out, because they whacked them a lot, was to say, "OK, counties. You can charge cities and schools and special districts for their proportionate cost of the property tax administration." In other words, the legislature told counties, "County, you're spending \$20 million on administering the property tax but you're only getting 30 percent of the revenue. Charge the other 70 percent of those administrative costs off to the cities, counties, and districts."

Well, in 1986 the legislature put through a bill<sup>1</sup> that said, "Counties, you can keep a percentage of supplemental roll. You can in effect not give local agencies all the money from the supplemental roll. You can keep the administrative costs before you allocate the money on the supplemental roll, provided that you keep your assessments up to 95 percent of what they ought to be." In other words, the state is saying, "We want the assessors to keep assessments up to snuff." Which is a program California had for a long time, until Prop. 13 passed and shifted off the market value system.

But still, as a result of the 1986 bill, counties still have this incentive for them to keep things current.

Well, now they come along and say, "Hey, you can keep the monies anyway." What, in effect, they did was void this program, forcing assessors to keep assessments up to snuff. Because of the

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1. A.B. 2890, 1986 Reg. Sess. Cal. Stat. ch. 1457 (1986).

procedure to surface major tax proposals without hearing and jam them through at the last minute, and nobody had a chance to say anything. And the staff's not aware of that because it's not a well-known provision. It was in a property tax reform bill that had about fourteen other provisions that was put through in 1986. So everybody just forgot about it and didn't think about that.

So those kinds of things are going to happen when they do things like that. And I thought that was a pretty fundamental reform. That was one of the things I thought was very important when we did it at the time. They're going to lose more money when assessments slide than they gain from charging off the cost of the administration.

So anyway, those are some of the things that are troubling. I'm sorry that it may be, again, precedent setting, too. Anytime there's a fiscal crisis in the future, which may be next year, we're not going to deal with it beginning in January in the normal sequence and try and work out a solution where everybody's involved. We wait until the last minute, sit behind closed doors, and then ram through a program.

HICKE: Then when it got to the governor's desk, he line-itemed a few things.

DOERR: Yes, he vetoed out enough to get it down, to build a reserve back up to \$1.3 billion, because the budget the legislature passed didn't do it, even after all the negotiations. I guess that was one of the elements of the deal.



HICKE: Do you see any relationship between the budget problems in California and the problems Congress is having dealing with their budget?

DOERR: Exactly the same. Exactly the same.

HICKE: You're talking about the reasons for. . . .

DOERR: I think some of the reasons are the same. The federal budget's gotten bigger because the revenue projections have gone down because the economy is softer, et cetera. The reason why it's hard to deal with it is it's just politically hard to say no to pressures for spending, and it's equally politically difficult to say yes to proposals to raise taxes. Politicians don't want to do either one. It is interesting. I think it's generally been written about how it's hard politically to raise taxes.

The thing that hasn't really been discussed is how hard it is to cut spending. What is interesting, if you watch the dynamics of the legislature--and I think it's the same thing in Washington--the heavy, heavy lobbying for increased spending comes from the providers of government services, not the recipients of government services. You have the CTA [California Teachers' Association]--the teachers' association--the doctors who are paid through the Welfare and Health appropriations, the state employees, the counties, the mental health provider groups. All these various groups that are organized are putting on all this pressure. Many of these are the heavy contributors to legislators.

You look at those groups; some are among the highest contributors. They're all putting pressure on the legislature to preserve what they've got and get more. They represent the

providers of government services, which is interesting to examine. Because they're providers and organized, they made heavy contributions. The members find it difficult to say no. Politically they can't go out and say, "No. We're going to cut you."

When I went through Prop. 13 implementation, which was a dreadful time and we'll get to that, I saw that just as vividly. These people are zealots. Their program is the most important thing in the world, whatever they're doing, and if you cut them it's like slapping them in the face. Against a tax increase that's kind of diffused and everybody grumbles about it, but few come to the Capitol to lobby--there are some tax groups, but you don't get the kind of of ferocity that you get with the advocates of these special programs in terms of they're really there--it's an impossible situation.

The implementation of Prop. 13 was very difficult--we called it the "Week of the Long Knives"--at the staff level. It was the week after we first proposed how we were going to implement Prop. 13. Next week was the "Week of the Long Knives," but at least that was known by the staff.

And that's the same thing that's going on even more now. Because that was twelve years ago, and these people are even more well organized because they've had these experiences.

HICKE: Would you say the recipients aren't up there lobbying because they're not organized or powerful enough?

DOERR: Some of the recipient groups are not organized. That's probably clear. Others are, but they're not asking for the services as much as some of the providers. The providers are more interested in providing services than the recipients are in receiving the services.



HICKE: Well, at least they're more visible. Or audible, or something.

DOERR: Oh, yes. More audible.

HICKE: The newspapers said right after the budget was passed that it was going to hurt three groups: the so-called foreigners or people moving in, which you've mentioned; and the welfare recipients or the poor; and businesses. One article said they're all people who don't have much of a vote. Certainly none in some cases. People coming in don't have any vote.

DOERR: Businesses obviously don't vote.

HICKE: Exactly. As businesses.

DOERR: But their executives do. The welfare recipients--I would be surprised if a lot of them are registered to vote. I don't know of any studies that show that; that's just a guess. In designing the cuts they didn't look at the recipients of the services; they looked at the providers of the services. That's my impression. Where you saw programs protected and things protected is because there's heavy-duty lobbying by the providers.

HICKE: It sounds as if they were sort of cornered and they took the only way out regardless of policy that they were implementing.

DOERR: Yes. They just didn't know how to handle it, basically. That's my impression. They hadn't thought about it, didn't have a strategy. They were reacting to basically outside pressures and couldn't come to grips with it. There's no plan; nothing was thought out in advance. So things just kind of drifted for a long time. They couldn't get agreements on what was to be done.

HICKE: So you're saying some strategic advance planning might help the situation next time?

DOERR: Yes. One of the things they put into this package that may force it is that they put in a kind of a Gramm-Rudman trigger: that if revenues fall below some of these mandated levels of spending, then those mandated levels can be reduced down to the revenues. It's a variation on Gramm-Rudman. They tried to force them ahead of time to do the strategic planning.

I think the budget process somewhat has become an anachronism. They do it exactly the same way they did it when I first came up here. They sit down and they divide up into budget subcommittees. In each budget subcommittee, they wait for about a month and a half, which they shouldn't, because that's really good-quality time, because not much is happening. When the governor introduces his budget, they should be ready to go on a lot of planning and budget decisions. They wait until the [Legislative] Analyst [Office] puts out the analysis, which also an anachronism. It goes through each department and reports, "They're asking for one more secretary than we think they need." So then these subcommittees will meticulously plow through each one of these items and have this debate about, "Analyst, do you think this is wise to spend \$25,000 for this position?"

[End Tape 17, Side A]

[Begin Tape 17, Side B]

DOERR: The department comes in and says, "Oh, this is very important. We can't possibly do the job the legislature wants to do unless we have this additional position." So they're down in the nitty-gritty and looking at the trees, and they just miss the forest altogether.



By the time all that's collated and these committees meet, they've lost a month and a half between the time the governor introduces the budget and the time they start to meet. Then they meet interminably for the next couple of months. Then all this kind of filters up without any overall coordination. Then it's about the end of May, and they slap all of the subcommittee reports together. That's the budget, and that's what goes forward.

It's a funny process, in a sense. Maybe it did work a long time ago, but maybe it doesn't work as well now. They could spend a lot more time looking at major portions of what they want the budget to look like, setting priorities, goals, et cetera, et cetera. It seemed to me it would be better to let them deal with these issues earlier and on a timely basis. Because then they get to the end, and after they put all these things together, they come up with a total that doesn't work. You have each of these separate groups putting up so there's no priority setting or no interrelationships. They're just at the end of it; time has run out before they have a chance to do any thinking of what the end product is going to look like.

HICKE: Is that a lack of leadership in some cases?

DOERR: Well, it's just the way it's always been done.

HICKE: But shouldn't somebody see that it needs to change?

DOERR: Yes. I would think they ought to do a lot of things, procedurally, to reform the whole budget process. This is one of them.

Another one is the revenue estimating problem has been getting them into serious trouble for the past four years. Every single year we have these monstrous swings in May that they should be at least focusing on this as a problem. There's not a boo said

about that. Nobody even in this whole process said, "Next year let's see if we can't find why this is a problem and how we can improve it." They argued about another thing--whether there should be a prison in Los Angeles County. That's the issue that they're arguing about and not doing some thought. . . . Not making an effort just to determine what the problem is.

So I would start the budget process earlier, do the strategic planning, outline goals and objectives, draw some parameters, look at the various things. They can all do that. They could even start before the governor submits the budget in terms of a lot of these things. But even if they just start it after he submits his budget, instead of wasting all that time, it would be a big plus.

And the analyst's office is just so ineffective. When Alan Post was there, it used to be a much more effective office. I think that they're afraid politically to do a lot.

HICKE: Who puts pressure on them? Why did they . . .

DOERR: I wouldn't say it's necessarily overt pressure. It's just after being ground down in the legislative process and being yelled at by members, they tend to be more cautious.

HICKE: It's the legislature itself that beats them down?

DOERR: Yes. Because if the analyst is negative on a proposal that has heavy provider lobbying, members are going to chew up the analyst's staff. These people are the legislative staff employees. That's just the way things work. It's nothing that's said, I would say, that probably hasn't been said directly. "Don't you dare recommend cutting this program." But if they do, and if they do it one year and then they just get beat up unmercifully before the committees.



It's in this kind of an atmosphere--as I've observed it for the last umpteen years--that I've seen the analyst's office become less and less effective as a part of this whole budget process. When we got into this problem, they were nowhere to be seen in these twenty-eight days. It was the legislators and their legislative staff aides meeting with the governor and his people and the provider groups. That was where all the action was. They didn't have any role to play at all. It's partly because of these institutional pressures, I think.

They've changed the method a little bit, and I give them credit for that. About three or four years ago, they started focusing on some issues. They do issue papers now with the budget.

HICKE: The analyst's office?

DOERR: Yes. Before that, again, they were just locked into this "Hey, there's one more body here" syndrome. So they are doing some of these issue papers, but somehow those don't get translated into the budget process. Some of these papers are very good. But instead of the legislature having hearings on the issues, the fiscal issues, they go back to the old system, and the analyst gets plugged in. It's very labor intensive, so it just consumes everybody's time. Everybody's tired, and there's not a lot of time. Because you're going through all these hearings, and both houses are doing it at the same time. So you're in there talking about the Department of Corrections or the Department of Fish and Game or something, and you're looking at bodies or positions, the quest for typewriters or computers or this and that.

So the issue papers that have been presented by the analysts are just, "Hey, that's nice. That's good stuff, and we'll pull it out and read it."

HICKE: Think about it later.

DOERR: Yes. But it doesn't get built into the process. These are the things that they ought to be looking at, particularly during January and February, because they don't do anything. Nothing's happening much.

HICKE: Who should take the leadership in some of this planning? The Rev and Tax committees, or the speakers, or the . . .

DOERR: I think the leadership of both houses should sit down and really reevaluate this whole thing; how they produce the budget, what kinds of things they want to look for, the areas where there's likely to be impasse, are we doing. . . . There are still a lot of areas that appear to be inefficient, and maybe there's other ways. Technology sometimes passes them by and they just continue to do things the way they've always done. I know the Board of Equalization didn't start getting computers until a couple of years ago.

HICKE: Oh, dear.

DOERR: Talking about efficiency.

Anyway, those are just some off-the-top thoughts about the budget crisis.

HICKE: Let me ask just a couple more questions.

What about the two-thirds vote required? Do you think that's a stumbling block? I mean, obviously it is, or it's presented as a stumbling block.

DOERR: No, it's not a stumbling block.



- HICKE: It's an important aspect of the procedure?
- DOERR: Yes. There are two ways to look at it. Maybe more than two ways. The first was. . . . When I was on the legislative staff, I showed them how to get around it.
- HICKE: You did?
- DOERR: Yes. But I think they may have forgotten.
- HICKE: How do you get around it?
- DOERR: You see, the two-thirds vote requirement is only two-thirds vote requirement for certain things.
- HICKE: Certain parts of the budget, you mean?
- DOERR: Yes.
- HICKE: Oh, I thought it was for the whole budget.
- DOERR: No, no, no. It's for general fund and for other than education. OK?
- HICKE: Yes.
- DOERR: In fact, I'll tell you some history on this, because it's kind of interesting.
- HICKE: Oh, good.
- DOERR: So if you pull out education, that can be done by majority vote, OK?
- HICKE: Yes. And that's a big . . .
- DOERR: Big chunk. Half the budget, more. Then, for the others, you just set up some special funds and run those programs out of special funds. So the general fund maybe will have the legislature and the attorney general. I mean, you can do all kinds of things. The opportunity to be creative is there.

I broke a budget deadlock in 1983 when they were holding up on a two-thirds vote. I went down and told the speaker, "Here's what you can do and how you can do it." This was part of the way

through. Because they'd always thought you needed a two-thirds vote to pass the budget just to send it to the senate, to get it into conference. I said just put in a statement saying, "Notwithstanding any provision of this bill, nothing is specifically appropriated until otherwise appropriated by the legislature." That made the budget a majority vote bill; it passed and got into conference, so that the budget avoided that procedural block. Everybody just was dumbfounded; they couldn't understand what was happening. But it obviously worked.

HICKE: Then the speaker doesn't remember that?

DOERR: I think they've forgotten that. Maybe somebody remembers. The two-thirds vote requirement for the budget was the state's original Gann limit. I don't know if you know that or not. It goes back to 1933, I believe, during the recession. It was in effect a Gann-type spending limit before Gann came along. In other words, the Gann thing wasn't new in terms of that was the first time the state had made an effort--or the people in this case--made an effort to say, "OK, spending can't exceed a certain level." This was done in 1933 because the people wanted it.

HICKE: An initiative? It's in the constitution, I know.

DOERR: Yes, it was in the constitution.<sup>1</sup> I'm not sure if it was an initiative or not. The legislature may have put it on. What they said was OK, the state budget could pass, but if state spending grows by more than 5 percent, then it requires a two-thirds vote. That was

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1. SCA 30, 50th Leg., r. ch. 63 (1933). Also, Proposition 1 (June 1933).



what was put in the constitution. It was based on the base year. So in the second year then it would have been 10.

Almost immediately they went over the 5 percent and got the two-thirds vote, and never went back below the 5 percent. After several years of exceeding the 5 percent, it was like being on a drug; you couldn't get back off of it because you'd have to drop it a whole lot. And again, it always had excluded education from the very first. It's spending for other than education, exceeding 5 percent of what was spent in the prior year.

This went on and on and on, so it eventually kind of got institutionalized as a two-thirds vote, although it wasn't. It was just a two-thirds for this "excessive spending." Along came the Constitutional Revision Commission in, I believe it was 1966. They were trying to clean up the constitution. I objected to this at the time. I told some people they ought to not do this. They decided to change the constitution.

HICKE: You mean they shouldn't revise the constitution? Is that what you said?

DOERR: No, no, no. On this particular point.

HICKE: Oh, OK.

DOERR: No, I was for constitutional revision. On changing this two-thirds vote requirement. So in effect, they wiped out what was there before. What they decided to do in the name of simplicity was to remove this provision and just say that the effect was that the budget general fund expenditures other than for education required a two-thirds vote. Because that was the practical effect. They said, "This is the practical effect of that other provision, so we're just

going to change it just to. . . ." They told the people this was no change when it went out on the ballot. They were not changing anything.

HICKE: But they took out the 5 percent.

DOERR: Yes.

HICKE: Which was the original point.

DOERR: Which was the original. So one, you lost the history of what was going on. Two, you lost an opportunity. These budget battles aren't new. I think it was 1963, there was a big budget fight. That was one of the things that was suggested. I said, "Wait a minute." Because members then didn't realize it wasn't a two-thirds requirement. I said, "It's only a two-thirds requirement for this excess spending. So why don't you craft a budget that just leaves something out? Why not take education out, because that can be done by majority vote? Put all the things you want to protect into here, and bring that below the 5 percent. And then these other things, put those off into other bills, and even though those will be two-thirds, those are bills that people can vote for, because those are noncontroversial. Put your controversial things into this main package that'll still be under 5 percent."

We talked about that a long time and they decided not to do that. But it was an option. In 1963 the legislature still had that option. Jesse kind of liked it. Jesse was intrigued by it because it sounded like something that was fun; it would surprise everybody. He said, "I thought this required two-thirds." I said, "No, well, really, it's not, you see." And then they gave the flexibility away; so it just became a flat-out two-thirds requirement.



I have mixed feelings about the two-thirds vote requirement, particularly in light of what I talked about earlier. The way things have changed in terms of the budget process, the budget planning, the heavy influence of the providers of services in terms of legislative campaigns, the process. Maybe a two-thirds didn't make as much sense a long time ago as it does now in terms of the way that politics of the situation have evolved.

HICKE: You think maybe that two-thirds requirement protects some of the unheard-from groups?

DOERR: Yes. It protects the integrity of the budget against the powerful provider groups who might be able to steamroller monies, again going back to the Week of the Long Knives. These people--they were cutting each other up. Schools were trying to screw the counties and the counties were trying to screw the cities. Whoever was strongest politically was going to come out on top. It should be more of a collegial and consensus thing that can represent all interests. These are just random thoughts; I haven't really concluded my own thinking on it, but I'm beginning to see how things have changed and how things work, and maybe revising my views.

HICKE: Dan Walters said in his column this morning--I don't know if you had a chance to read it . . .

DOERR: I did.

HICKE: . . . but he didn't know how this all came about, so somebody should call him and tell him that you know.

DOERR: Yes. Give him a little history lesson.

HICKE: One more question about the budget. Would you say that this is obviously the major function of the legislature?

DOERR: To pass the budget?

HICKE: Yes. Because . . .

DOERR: Oh, yes. This is clearly the biggest policy document the legislature deals with. You're setting all kinds of philosophies and policies of how you want things to work in the budget. That makes this preeminently important. That's why they desperately need to do this in a more logical and rational way than they've been doing it.

HICKE: OK. Getting back to where we were before . . .

DOERR: A little diversion.

HICKE: Well, that was a very worthwhile diversion. We wanted to talk about [U.S. Senator] Pete Wilson.

DOERR: Yes. Pete Wilson is a very interesting person. He came to Sacramento as a freshman assemblyman in 1967. Jack Veneman, who was then one of the most highly respected legislators--we went through that before--kind of took a shine to Pete and said, "I think this guy's going to go somewhere. I'm going to try and help him." So he interceded with the powers-that-be to try and get him good committee assignments. He got him onto the Rev and Tax Committee as a freshman and took him under his wing, so to speak. He became a protégé of Jack.

I got a chance to work with him during his early years in terms of some projects. Property tax reform was one he was very interested in. He was really just ideal, if you wanted to say, "This is what I'd like a legislator to be like: open-minded, fair, very quick in picking up the concepts and problems, getting along with everybody,



working well." I thought to myself, "Hey, this guy's going to someday be somebody." We had a really good relationship.

Then he went off and became mayor of San Diego. Of course, that's kind of out of our arena--this is really short--but he used to call me up at home for advice.

HICKE: About San Diego?

DOERR: Yes, when there was a tax issue of some kind. And then on Prop. 13 I got a number of calls. "What does this do? How does it work? What do you think?" and this and that and the other thing. So he always kind of kept in touch during those days when he was mayor of San Diego. Then he got elected to the U.S. Senate. I haven't had any chance to talk to him since then.

HICKE: Well, that is interesting. What kind of a governor do you think he would make?

DOERR: He would be superb. He was just the best mayor of San Diego.

HICKE: Is that right?

DOERR: Yes. He really is one person who could stand up and say no to the special interests, for some reason. Put in a growth management plan down there before any other jurisdiction ever had one like that. It was highly controversial, but he was able to forge that. He's very pragmatic--his view on fiscal policy. He will think through some of these things that we've been talking about in terms of how this works. Probably bring a legislator in and say, "We need to start doing this differently. You guys need to have a role; I have a role. This process has not been working. Here's some thoughts on. . . ." I look for a lot of things like that if he's elected.

HICKE: That's encouraging.

DOERR: So anyway, the interesting thing is--I think I may have mentioned this before--the people running for statewide office who have been on the assembly Rev and Tax Committee always best somebody who hasn't been. Almost all the people in statewide positions now have been on the assembly Rev and Tax Committee. This governor, this lieutenant governor, the secretary of state, the controller, the last elected treasurer. Just go right down the line.

HICKE: Little did they realize how important it was to get on the Rev and Tax Committee.

DOERR: Yes. Get the right . . .

HICKE: . . . right start.

DOERR: Right start. Right training from the start.

HICKE: But since you're no longer there, I don't know if they're going to get the right start anymore. [Laughter] OK, does that cover . . .

DOERR: Yes. It covers it through this. . . . I don't know how much more I want to go into that.

HICKE: Well, then I think we wanted to talk about the conference in which you were with Reagan and. . . . It's kind of an end to that story of . . .

DOERR: Yes, I've kind of forgotten where we were. I don't know if we started in 1971 or not.

HICKE: I don't think so. We got to 1970, and . . .

DOERR: . . . Moretti was elected speaker.

HICKE: Yes, but we wanted to talk about the election a little bit.

DOERR: The 1970 election?

HICKE: Yes.



DOERR: That's when Jesse ran for governor against Reagan and did surprisingly well. I mean, Reagan had beaten Pat Brown by a million votes or close to that. Jesse cut that figure in half when Reagan's popularity theoretically was an all-time high and Jesse had had this reputation of being a cigar-smoking, rotund political boss. Somehow Jesse had managed. . . . And without much money. He was probably outspent five to one. I don't know for sure, but I know he was heavily outspent.

HICKE: Were you involved in the campaign?

DOERR: No. I was working for a Republican. [Laughter]

HICKE: I have to ask, just to make sure we don't . . .

DOERR: Bagley was the chair of the Rev and Tax Committee at the time, so clearly I wasn't involved in any campaigns. They expected to maintain control of the legislature for the 19. . . . Nineteen-seventy-one was a reapportionment year.

HICKE: Oh, yes.

DOERR: Yes. So the Republicans thought, "Boy, we're going to do the reapportionment. We have a Republican majority in the legislature and a Republican governor. And Reagan's running for reelection as governor; that ought to protect our majorities in the legislature." Somehow, it didn't happen. The Democrats took control of the legislature back. It was a small majority, but it was a majority.

That's the one mystery I've never been able to figure out, is how that happened with a popular governor winning reelection. You had control of the legislature to start with. How you could lose it in that critical year, I don't know. I don't know the reason for that. I still don't know. In any event, that's what happened.

The Republicans won other statewide offices too: the lieutenant governor, the controller. Right down the line. Attorney general. They won the election but somehow lost the legislature, so the Democrats did the reapportionment, which the governor vetoed. I wasn't involved in that too much. I remember all the controversy, because that always poisons the well in the one and two years . . .

HICKE: . . . after reapportionment?

DOERR: No, the year they're doing reapportionment.

HICKE: Yes. OK.

DOERR: So there's often not a lot of other legislative accomplishments in those years. The Democrats organized the 1971 legislature, and the assembly in particular. Bob Moretti became speaker. Moretti was on the Rev and Tax Committee. And I worked with him very closely and we had gotten to be good friends. He liked Veneman a lot, and he was a moderate politically. Great fellow. Great speaker, I thought.

HICKE: And then Gonsalves became . . .

DOERR: . . . Rev and Tax chairman.

[End Tape 17, Side B]

[Begin Tape 18, Side A]

DOERR: I had two associates at the time. One, [Arthur] Art Azevedo, and the other was [Pamela] Pam Pecarich. I lost Art to the political turnover, but I managed to even keep Pam. Went down and argued vociferously that I needed to have Pam stay with the committee as assistant consultant. So that worked out.



Again the big issue on the agenda was the tax reform bill, plus it looked like the state needed some additional revenues. The Bagley bill had failed in 1970, so it was just like a continuing soap opera. Every year we'd come back and try and resurrect a big property tax reform bill. Of course, Moretti wanted to do the same thing. He'd been involved in all the negotiations that had put together the other bills, so that was high on his priority list. So we introduced another bill. There were a lot of things happening, but in an historical context, nothing much was happening during the early part of the session. They were getting organized.

Then, towards the end of the session, which. . . . In trying to reach this compromise with the governor, we'd been fighting back and forth. He wanted this, and we wanted that.

HICKE: On the tax?

DOERR: On the tax program. So finally this big conference was set up that lasted about sixteen days. We went into negotiations with the governor.

HICKE: Who all was involved?

DOERR: Gonsalves and Moretti and somebody else from the assembly. Maybe it was Bagley. I'm pretty sure it was Bagley. Then there were senators in the room--Walter Stiern--and the governor and his staff. We met in the big conference room, which is right directly behind the reception area as you go into the governor's office. It had a big table, so we would sit on one side. I sat next to Moretti on one side of me and Gonsalves on the other, so I could kind of whisper to them both. And then the other legislators, the senators sat down a ways. Right across from me sat the governor, for some

reason, because the administration people sat on the other side of the table, but he kind of ended up sitting directly across from me. A little bit unnerving, but it was interesting.

There were basic philosophical differences. What we tried to do was to bridge the early differences. And then there were a lot of things in common that both sides wanted to do. Both sides really wanted to do a property tax relief program. So we agreed on increasing the homeowners' exemption. We agreed on more inventory tax relief. I believe we even agreed on the sales tax way of raising funds to do this.

HICKE: I've got this here for '71 and '72. I don't know if these were passed or if these were just proposed, but . . .

DOERR: This (the 1972 bill) was passed. Nothing happened from this (1971) meeting.

HICKE: This sixteen days of talking?

DOERR: Yes. It just blew up into a big crisis. That's the bottom line.

One thing we did, which I thought was clever: we wanted to control the numbers. We knew that the only people who can provide from the administration information on various income tax changes that might be proposed was the Franchise Tax Board. So I called Martin Huff and suggested to him that the chief revenue estimator of the Franchise Tax Board be assigned to a short-term contract to work for the assembly Rev and Tax Committee, which he agreed to, and we did. So we in effect captured their revenue estimator and brought him in on our side.

They were just furious. [Laughter] It was a great strategic coup. I mean, it was fun. It probably contributed to the breakdown



of the ultimate product, but they didn't know what to do. It was just something that nobody ever conceived of, that we would do that kind of thing.

HICKE: A real end run?

DOERR: Yes.

HICKE: Did Martin Huff know what was going on?

DOERR: Yes, Martin was on our side. He didn't like Reagan at all, so he was happy to do anything to help.

HICKE: Can you describe sort of how this all broke down eventually?

DOERR: It broke down because. . . . Which is interesting, because we agreed to this later. We'd just about developed the package. The governor gave up on the oil depletion allowance and he gave up on capital gains and a lot of things that we thought he would really be upset about.

It was quite an experience. He would go through a routine. One, he would tell a lot of stories about his days in Hollywood or his days as radio broadcaster. I remember him telling one. Some of them just were unbelievable. You just took them as stories but you were sure that they were fiction.

About half the time of these sixteen days we're listening to these stories. It was in a sense unbelievable, but it was fun, because here was this guy who would tell about his days in Hollywood. He looked directly at me one time and said, "You know, I was with the Screen Actors' Guild. I used to negotiate with the owners representative, Y. Frank Freeman"--who was from Paramount. . . . And he sat across the table from me just like you're sitting across the table, and points at me. "And I used to do this,

and I used to. . . ." I forget the rest of the story, unfortunately. I should have made notes at the time. But he goes on in this long story about this particular set of negotiations, which had some point and some humor in it. It's long been forgotten what he said. I remember the fact that he was doing that. So we went through the stories.

Then the other thing I remember was that we would present this and we'd argue about this and that in terms of the tax policy and how we were going to try and put this package together. Then we'd push on something where they were resisting, and he would get mad. I mean, he would blow up, throw his books down and. . . . [Pause]

HICKE: Reagan would?

DOERR: Yes. I was convinced that this was an acting job, you see? It was very good, but I kept thinking, "What we're getting here is this professional acting job that he's going through to make us think he's upset, and we're going to have to cool what we're trying to propose and work at it some other way." This didn't happen frequently, but it happened enough that it sticks in my mind as one of the interesting parts of this negotiation.

HICKE: Would he get his way, then, when he. . . . Was that effective, I guess is what I'm asking.

DOERR: Yes, it was effective. Oh, yes. Then we have to go back and get a different idea or come up with an alternative proposal. Then we'd come back the next day. The meeting would break up.

So we kind of worked from the easy to the hard. Everybody thought, well, if we can get 75 percent, well, then you've kind of



committed to the package. Everybody's got a certain time and emotional commitment. It would be easier to solve the hard issues.

So we got all the way to the last issue, and it blew up. Absolutely. The last issue was control.

HICKE: Control?

DOERR: Tax controls. Reagan's position was, if the state's going to spend all this money for these tax programs, then we have to institute a program of controls to make sure the taxes don't go back up. That was his bottom line: we've got to have this fundamental control mechanism that prevents taxes from going back up. Moretti and others said no, they couldn't agree to that. Local governments had to have more flexibility in the future. You couldn't just put on a control for all time based on this one package. We weren't writing the Ten Commandments; things could change.

HICKE: Where was the senate in this?

DOERR: They were with the assembly. They didn't want the controls either. So that issue was discussed for maybe the last three days. We kept coming back to that. "Well, maybe we can do this. Maybe we could. . . . No, we can't. It's still too loose." Back and forth. Finally he just blew up. We walked out to the press. They had gathered around the governor's office like a scene out of a movie--all these cameras, you know, every day you're coming out, waiting for a puff of white smoke. [Laughter] So it just blew up. The thing's over. That's the end of it.

HICKE: Who gave up first?

DOERR: I guess we did.

HICKE: You just said, "We can't agree, so we're. . . ."

DOERR: Moretti. Moretti was to a certain extent a little temperamental. He just said, "That's the end of it. I'm not doing this." He just walked out, and that was the end of it.

So that major effort collapsed, but as I mentioned, there was still a need for state revenues. So that's when we get the so-called Bagley mini-tax program, which was not a mini-tax although it was a nice way of packaging it. It was the year of the mini-skirt, so Bagley called his program the mini-tax program.

HICKE: Did that mean taxes were going up?

DOERR: Yes, it did.

HICKE: They were going up a little?

DOERR: They were going up a lot. In juxtaposition of this big tax program we were working on, which was huge, this was the so-called mini-tax program, but it also raised taxes. There was a major tax increase program to get the money to run the budget. So this is where a number of major things were done in the so-called mini-tax, including withholding. This was when we would bring about withholding of state income taxes, which the governor had adamantly opposed.

HICKE: Is this the 1972 one, now?

DOERR: Seventy-one.

HICKE: This is still '71. OK.

DOERR: Have you got the property tax chronology?

HICKE: Yes. But it wouldn't have the . . .

DOERR: There were few property tax provisions in this program (1971). All it had, in terms of property tax, was an embellished senior citizens' program and a little inventory relief. It was mostly state revenue



related. That's when the legislature raised the top income tax rate to 11 percent. That was in the Bagley mini-tax program. Again, that's when capital gains was changed to reduce the preference for capital gains in that program. The state had that three-tiered capital gains program for quite a number of years. The middle-length holding period provided only 35 percent capital gains exclusion.

HICKE: What was the three-tiered. . . . That was the three different levels for the . . .

DOERR: . . . taxation of capital gains. Gains on assets were fully includable in income if held for one year or less. If held from one to five years, 35 percent of the gain was excludable; more than five years, 50 percent excludable. So Bagley's bill was quite, in a sense, an ambitious program in terms of tax packages. In the magnitudes of the changes, it would rank right up there. It is more significant than anything that's been done since 1972 [until 1991], I would say. Because when we get to '72 you'll see that what the legislature did in '71 laid the groundwork for '72. In 1972, the assembly agreed with the governor, and again went to battle with the senate. The other old alliance formed and eventually jammed through this big program that we'd worked on in '71.

HICKE: Oh, I see. Well, the difference between these two, then, is at least partly in the size of the tax increase, is that correct?

DOERR: Yes, the size of the program. The Bagley program actually increased taxes more. The big program increased taxes but decreased property taxes, so the net increase wasn't as great, although the magnitude of all the changes were greater.

HICKE: I see. OK. I see.

DOERR: This was a major realignment.

HICKE: Yes.

DOERR: The Bagley program was primarily to raise money to run the state. As I recall it, I think this was the year--I'm sure it was the year; yes, yes--that the state was going broke.

HICKE: In '71?

DOERR: Yes. And we're talking about going to registered warrants, stuff like that. It was really a time of serious fiscal problems. Bagley introduced a bill to require that the picture of the speaker be shown on registered warrants. So there was definitely a need for a revenue package. And I think that this may have been the longest legislative session in history. Clearly longer than anything I can remember since. Because we went into December before we hammered out this tax program. This was passed in December.

HICKE: On this one, were the forces still the same--the legislature against the governor, only the scope wasn't so large?

DOERR: No. Bagley had secured an agreement with the governor. They pushed it, and legislative Democrats were kind of resisting, because they had not reached agreement on this big package and were unhappy. In exchange for votes to pass the Bagley bill, the Democrats got a few concessions.

They got the senior citizens' property tax relief program increased. Gonsalves decided to name it after himself. It was called the Gonsalves-Deukmejian-Petris Senior Citizens' Property Tax Relief



Program<sup>1</sup> at that time. They also got some inventory relief plugged in.

The other thing was, Congress had made some big reforms in the federal income tax. Bagley's bill was probably what we would call the first big conformity bill. It was like 180 pages, something. We plugged in the preference tax idea that we didn't have before, and made a lot of . . .

HICKE: Preference tax?

DOERR: In other words, a loophole user's tax. It said--which was carried through since that time in various forms--if you take a deduction, if you deduct out capital gains preference, then you have to add up what you saved. Then we have this little preference tax on that money you save.

HICKE: OK. I see.

DOERR: It's a loophole user's tax. That was first. That was a battle. Martin Huff was dead set against it. He wouldn't even cooperate with us on that. He said, "I am absolutely philosophically opposed to that."

HICKE: Why?

DOERR: He says, "Either you close the loophole or you don't." He was for closing it. He says, "This is Mickey Mouse. If you think that capital gains exclusion is bad, close it, but don't let it be and then go around the back door and tax some of the benefits of it." Repeal of preferences was not politically feasible. But because Congress had passed a preference tax, it was politically feasible to follow suit.

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1. A.B. 1, 1971 First Ex. Sess., Cal. Stat., ch. 1.

So we had to draft the preference tax at committee level, from absolute scratch. Drafting! Costing it out! Everything! Because the FTB wouldn't cooperate. Then Bagley picked it up and it got enacted as part of this so-called mini-tax package that he adopted.

HICKE: So that was 1971?

DOERR: Yes.

HICKE: Let me just interrupt here. There were some changes proposed for Medi-Cal. Were you involved with those?

DOERR: No.

HICKE: OK.

DOERR: Veneman had gone to Washington--I mentioned that before--so I kind of drifted out of the Medi-Cal issue. None of my chairs was interested in Medi-Cal.

HICKE: And then I read that there was a six-month study by the Citizens' Tax Force that led up to Reagan's tax bill or his tax package. Do you recall anything about that?

DOERR: I'm not sure, but we may be talking about 1973.

HICKE: OK. Maybe that's. . . . I don't have an exact date here.

DOERR: Because '73 becomes a big fight with Reagan.

HICKE: OK.

DOERR: It's like we were blowing hot and cold. In '71 the assembly Democratic leaders end up fighting with him, '72 they're back together. Then '73 they have this fierce battle. They give him the only significant political defeat he's ever had. They cleaned his clock in '73. That has to go down in history as the biggest political defeat he ever had. That was Bob Moretti did that.

HICKE: I just found my tax chronology. That's what I'd been looking for.



DOERR: Unfortunately, because of this move [to a new office], I've lost many of my references. I have a binder somewhere on Bagley's mini-tax program.

HICKE: You seem to remember quite a bit. But one more thing from '71 I have: Serrano v. Priest.<sup>1</sup> The California Supreme Court decision directed the legislature to equalize school funding statewide.

DOERR: Yes, that's right. I have a comment on that. Because I was a witness in that suit.

HICKE: Oh, yes, by all means. [Pause]

Are you going to comment, did you say?

DOERR: Well, in a sense, it kind of flows after this 1972 tax package.

HICKE: OK. So we should go to that first?

DOERR: Yes. I wish I had something that.

HICKE: Let me see what I've got about it. S.B. 90?<sup>2</sup>

DOERR: It's S.B. 90 (Dills).

HICKE: "Reagan-Moretti compromise increased the homeowner's exemption to 1750. Voters refused cuts in public spending and opted for tax relief. Includes property tax benefits, renter's tax credit of twenty-five to forty-five, inventory tax exemption. . . ." Why don't you take this and comment on some of these--it's that paragraph right there--instead of me reading them off?

DOERR: Now we're moving into 1972. Again, the legislature's failed to write a property tax relief program that they've been talking about doing since. . . . Well, back to 1965. They set aside some money in '67,

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1. Serrano v. Priest, 253 Cal. Rptr. 1 (1971).

2. S.B. 90, 1972 Reg. Sess., Cal. Stat., ch. 1406 (1972).

did a little bit in '68, but not the big program that was always envisioned. So property tax is again the big issue, and as the chronology shows, Watson is loose again with another property tax initiative. So this adds to the urgency of. . . . That's how we got property tax relief in '68.<sup>1</sup> Watson had his initiative so the legislature responds and devises the homeowner's exemption, et cetera.

So Watson is out again in 1972 and he's qualified his initiative. Now, this one is clearly. . . . In retrospect, I'm surprised. . . . Well, I'm not surprised it didn't pass, but the people that dumped on it probably shouldn't have dumped on it, let's put it that way. It was a 2 percent limit. It was far more generous than Proposition 13, and had no assessment controls in it. It raised a lot of taxes to pay for the relief.

HICKE: Who dumped on it, and why?

DOERR: Reagan didn't like it because he didn't like all the tax increases. People in local government didn't like it because they didn't want a hard-and-fast property tax limit. It was a philosophical position.

So the governor and the legislature ganged up on Watson to try and kill his initiative, which was defeated. The idea is, "We'll produce a better program." So they started working from the framework of the negotiations that had collapsed the year earlier as the framework for the new S.B. 90 tax package, which had to have a significant property tax component. It expanded the inventory exemption. It increased the sales tax by a percent. A lot of the

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1. Proposition 9 (November 1968).



sales tax money was to flow out to schools in return for schools reducing their property tax rates. If you remember, the issue that blew up the 1971 negotiations was the tax rate controls issue. In the spirit of compromise, that was worked out in 1972. Property tax rate or revenue limits were imposed on all local government. The school districts were given revenue limits so that the revenue could grow by so much, period. So for computation of the tax, if the assessed value went up X and the revenue limit only went up Y, they had to roll back rates, that kind of thing.

Cities and counties in other jurisdictions were given tax rate limits. Before that time, cities did not have tax rate limits at all. That was absolutely foreign. It was a major change, and that's why it was such a philosophical issue. A major change. The limits were based essentially on existing revenues. And then the statute provided certain exceptions. You could exceed the limit for bonded debt, paying retirement pensions that were already authorized, and the various things you might logically think needed to be outside the limit. That took a long time to construct that.

HICKE: Did you do that right off the bat instead of leaving it until last?

DOERR: Yes, well, it took a long time to get agreement on the limits. It took quite a bit of 1972. Because as I recall, this bill didn't pass until way towards the end of the year. But these were still very controversial. The schools and local governments didn't like them at all. They just lobbied hard to defeat them. It boiled down to the same thing that happened in 1967: the governor and the assembly, Reagan-Moretti, against the senate leaders.

So as I recall what happened, we took the bill over to the senate . . .

[End Tape 18, Side A]

[Begin Tape 18, Side B]

DOERR: I remember having to go in and lobby David Roberti on it, because nobody else could get to him; he didn't want to hear from any of the assembly members or he didn't want to hear from the governor's office, but he was willing to listen to me. He didn't like the sales tax increase, thought it was just awful, but he's sure changed his tune now. Those people across the street now will take any tax, no matter how bad, they're so desperate for money. But at that time they were still concerned about tax policy and what was good tax and a bad tax. Now it's "Any tax is a good tax."

He was really concerned about the sales tax, so I had to try to convince him it wasn't so bad. I said, "Well, this sales tax isn't so bad, because food is exempt, shelter is exempt, utility services are exempt, medical care is exempt, all the basic necessities are exempt." So the poor basically aren't paying an undue share of the tax.

In any event, the bill was taken to the senate and as I recall, we couldn't get the votes. Couldn't get the votes. I mean, it was the same issue. The state shouldn't be providing property tax relief to local governments; that's their problem. And these tax increases were egregious. The bill did have a major school component. As I said, we were reducing property taxes through the school mechanism as well as the homeowners. But that school program also was designed to bring more equalization between school



districts. We were going to take the opportunity to respond to the Serrano decision.

Well, because of the Watson initiative, S.B. 90 finally got the votes; so the bill passed in 1972. Finally got the votes. The sales tax increase was delayed until July 1st of '73. That was one of the compromises. Revenue from the sales tax increase was not needed right away. I could probably remember more if I had all my files. I just have a great deal of material from that period in binders.

Then I remember--because this gets back to Serrano--that Bagley gets the idea, because Bagley is helping with S.B. 90. Again, Bagley and Moretti are working together. So Bagley gets the bright idea, because the Reagan administration's worried about this Serrano trial, that I should go down and testify that we solved the problem. As the consultant on this big tax bill, I should say that this is solved.

HICKE: Can you give me a little background on the trial, what the problem was that you solved? The school funds equalization?

DOERR: I was to go in and say that because we passed S.B. 90, the state had acted to bring these disparities in closer together.

HICKE: The trial was about school funds equalization.

DOERR: Yes. After the Serrano decision. It kind of came backwards.

HICKE: Now I am confused. After the Serrano decision?

DOERR: The Serrano decision set the policy: unequal support for students resulting from disparities in property tax assessed values is not constitutional. After this decision, they went back to try if in fact this is what occurred.

HICKE: Oh, to see if actual practice violated the court's decision?

DOERR: Yes. To determine that if in fact actual practice violated the Supreme Court's decision. You know, [they asked the court], "OK, go back and decide this based on our decision, whether or not in fact there is an inequality." It was decided that S.B. 90 would be used to show disparities had been reduced.<sup>1</sup>

So we flew down to Los Angeles and I went to testify. This was the only time I've ever testified in a trial, and this was a biggie. So they called me as a witness. I was just dismayed. It was awful.

HICKE: Really?

DOERR: Yes. If I told the judge off I probably would have been thrown in jail. Because I wanted to explain what we'd done and how it worked and how it reduced the disparities, et cetera, but he wouldn't let me do that. He says, "Mr. Doerr, you only answer the questions as you're asked them." The guy that was asking questions didn't know what questions to ask. He was just an attorney who was. . . . And I'd try to start explaining something and I'd get this admonition.

I thought to myself, "Jesus Christ, don't you want to hear the facts? You're supposed to be deciding this court case; you ought to have the information. You're not letting me present the information. This is not fair. This is unfair." I said that to myself, fortunately.

HICKE: I've never understood why that's the rule.

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1. [Question and answer added during editing process] HICKE: Was this case a separate case that was tried after Serrano? If so, can you cite? DOERR: No. At first, no one believes there is a constitutional requirement for equal property tax funding capacity. The issue goes up on this point. The Supreme Court says yes, then remands case to see if the facts indicate there is or is not a violation of law.



DOERR: Yes, if they're trying to find . . .

HICKE: That a witness can only answer the question.

DOERR: Yes. I was trying to present it so that they'd understand how S.B. 90 changed school finance, "This is how it used to work, this is how it works now." I was not going to tell the court whether S.B. 90 meets the test or not; the court had to decide it, but the court ought to have the facts on which to base its decision. Then I get these questions, and the attorney couldn't question me.

HICKE: Because he didn't know enough about what you knew.

DOERR: He had no knowledge. He was a deputy attorney general. We rushed to testify because S.B. 90 had just passed and they were concluding the trial. I'd never met the attorney until I walked in the courtroom, because it was this last-minute thing. And they wouldn't let me talk. Finally they just dismissed me. I didn't get to say. . . . They didn't get the story out.

HICKE: Does that mean that the only way you could have gotten it out is for the attorney to have been smart enough to find out . . . ?

DOERR: . . . to ask all the right questions. I probably needed to just try and figure out and write all his questions out for him. But it was just organized so fast that it didn't happen. So I came away just kind of disappointed that the court did not find out what S.B. 90 was all about and how it worked.

HICKE: So what ever came of that? The Serrano v. Priest order?

DOERR: Well, I think they then got an order to equalize substantially. The legislature kept passing school bills to reduce disparities. Every year or two there would be a school finance bill which would provide more money for low districts and squeeze the high ones, bringing

them closer and closer together. Then Prop. 13 passed and wiped out the issue.

HICKE: But it was gradually being solved anyway by legislators.

DOERR: Yes, it was very gradually. . . . Because you didn't want to pull down the high districts and say, "You have less to spend this year." You just kind of slowed their growth and let the others grow faster, because they all had spending limits now, because of this S.B. 90. You could control how much was being spent. Before, you couldn't.

Jesse Unruh tried to work on this issue in the sixties. This whole school finance issue was a big issue, because there were these pockets of great wealth. Remember, wealth is measured by assessed value. Many do not understand this and thus do not understand Serrano. Wealthy districts aren't necessarily made of wealthy people. These are often poor people, and they're the ones that are being penalized. They're the ones under attack. It's actually boggled the mind. In fact, when I went back to Washington I had to explain all this. Nobody understood it at all. But these poor districts are often not poor people, they're the middle class. The wealthy districts are often composed of poor people.

Now, many wealthy districts were basically districts that had a lot of business property in it and not too many students. That's what made them wealthy. They were an oil district in Kern County, where most people would never want to live. There'd be a power plant up in the boonies. PG&E has a big power plant in a district with shacks and rural folks. Or it would be an industrial enclave in Los Angeles County, like the City of Industry, or some of those.

HICKE: Yes. That's really interesting.



DOERR: And the poor districts, by and large, would be the ones without any business properties, OK?

HICKE: Oh, sure. And lots of kids.

DOERR: Those would be the suburban districts. The district where I used to be on the school board, San Juan [School District], we were a classic poor district, because we were basically a suburban bedroom community. There was virtually no industry in our district. We had some shopping centers, but in terms of revenues per pupil, it was just all from basically residential property.

HICKE: I can see why you did have to explain all that.

DOERR: Yes. So all these things made this interesting. So there was a big legislative fight for many years on how to deal with this problem.

Jesse was sensitive to this. Jesse pushed a program in the mid-sixties that was very controversial and probably won him more enmity and hostility than anything else he did as speaker. He put through a program trying to force consolidation of school districts. So if you had a school district here that was wealthy, you'd gobble it up by its surrounding districts. Then it would spread out the wealth. That was very controversial.

He got kind of half a loaf. He got an incentive, what they call a unification incentive, which was repealed maybe ten or fifteen years later, but he gave school districts extra financial state aid if they would unify. In the old days there used to be elementary school districts and high school districts that were separate. Early on there were a number of unified districts, but not like you see now. And you might have five elementary school districts. One of them was real wealthy, because it happened to have the wealth.

HICKE: The business part.

DOERR: Yes. What the unification program would do was to take those five elementary school districts, stick them in with the high school district, and call it a unified district.

HICKE: So it averaged out the . . .

DOERR: It averaged it out within that area, but still left disparities because some unified districts would be wealthier than others. People fought this tooth and nail, so you still have a lot of non-unified districts around the state. We have it in Sacramento County across the river in north Sacramento. They're still elementary school districts and high school districts, for example. In Sacramento County, most of the county districts are unified--San Juan, Folsom, Sacramento, Elk Grove, et cetera. In north Sacramento you have Grant High School district and then you have three or four elementary school districts.

HICKE: Why are there a few left, I wonder?

DOERR: There are many reasons--local control, politics of incumbency, race, busing, and a host of others.

So it wasn't a total success, but it did achieve some unification. Again, that was trying to lessen this issue of disparities. So it wasn't a new issue. The legislature had been trying to do something in various ways over time. But the court stepped in and said, "Well, wait a minute, this system's got to go." But it really didn't do anything, because the legislature, in S.B. 90, started to squeeze the spending, and they continued to do this afterwards. That probably would have happened whether the decision came or not.



So it was a symbolic decision but I don't think it ever really changed the flow of what was happening.

[Discussions omitted]

DOERR: So Reagan was appreciative of things you did for him, I can say that for him. Because he knew that we had made the major effort to get that bill through for him. So he gave me a signing pen. Maybe I shouldn't have thrown it away, but it's too late now.

HICKE: [Laughter] It's hard to keep everything.

Do you want to go on to 1973, or do you . . .

DOERR: Yes, because it follows along. Because as you remember, the reason why the '71 negotiations blew apart was this issue of control of taxes. In '72 we put on a compromise. We agreed to some controls, but it was not as rigid as the governor wanted. But in view of the Watson initiative we needed to do something, and people compromised on both sides.

But in 1973, Reagan announced his proposal to tighten and expand revenue controls. So he drafts this initiative, Proposition 1, to in effect put a spending limit. I wouldn't say he drafted it. I'll tell you who drafted it.

HICKE: I was just going to ask.

DOERR: Anthony Kennedy.

HICKE: Really?

DOERR: The current Supreme Court justice. Drafts this initiative.

HICKE: What was his position at that time, do you recall?

DOERR: I don't remember whether he was just called in as a special counsel or not. But I absolutely know that he did it.

HICKE: That's interesting.

DOERR: I had friends, you know, spies that had given me the lowdown on what was going on. So we knew exactly what he was doing and how it was being put together during this process, although it was not public until they had a big press conference to start the effort to get signatures to qualify it for the ballot.

HICKE: Are we into the chronological year of '73 now?

DOERR: Yes.

HICKE: It was in '73 that he drafted it?

DOERR: Yes. I think there's something else that happened in '72. But why don't we talk about this and we can go back to '72? At some point we put in this gas tax financing program. It was '72 or '73. I just want to check. Because this was the big. . . . It's still misunderstood. It was a big deal.

So Reagan's proposal was very complicated. At the risk of a horrible oversimplification, government spending was tied to economic growth, ratcheted down a little every year.

HICKE: What was ratcheted down?

DOERR: The spending.

HICKE: OK.

DOERR: In other words, it's pretty close to the way the Gann limit looks after 111. The Gann limit was far more severe than Reagan's proposal. The Gann limit worked off price and population. Reagan's limit worked off economic growth in the relationship of government spending to this figure of how much of the state product. . . . I think it was around 8.5 percent in government spending as a relationship to state gross product. So you got to



keep that relationship and you went down a tenth of a percent a year, but the legislature could suspend it.

In retrospect, if that had passed, there would never have been any problem with the Gann limit. The Gann limit wouldn't have happened, but Reagan's proposal would have produced a limit so far above the Gann limit it would never have had any effect.

HICKE: Looking better all the time.

DOERR: It was a fairly reasonable thing, but assembly Democrats thought it was totally unreasonable at the time, because they just worked with Reagan to put a tax rate limit program together. There was this compromise in S.B. 90. It was felt that they were breaking faith because they were proposing to undo the compromise.

Moretti's really upset, so he says, "We're going to defeat this." Everybody thought it was going to pass. But Moretti raised some money, got some economic research done, and went around to the newspapers. The Assembly Revenue and Taxation Committee held hearings throughout the state. The hearings were just presenting information to the public but at least focusing the issues on the campaign.

I remember one little incident. Reagan was speaking to the assessors' conference that was in Santa Rosa that year. So I was there, with my two associates at the time, Pam Pecarich and Betsy Hauck. Reagan was there to tout his spending initiative. And then he thinks he's before a friendly audience with the assessors. He says, "Any questions?" Betsy and Pam get up and bombard him with questions he can't answer.

HICKE: Your associates?

DOERR: Yes. It was so funny. He didn't know who they were. Eventually, finally Bagley, I think, told him later who they were. So he sends them a letter appreciative of the opportunity to answer their questions. [Laughter] But it was real embarrassing.

That gave us the clue that turned out, I think, to be the fatal flaw, because the opposition campaign kept saying, "This is too complicated." Nobody understood it. Finally some reporter got to Reagan and he admitted he didn't understand it. So there were big headlines in the paper: "Reagan doesn't understand this." With all the organized groups that were organized to oppose it, with the media generally coming out in opposition, somehow it got defeated.

HICKE: Was the opposition based just basically on Moretti's sour grapes?

DOERR: No, it was organized by Moretti, who felt that he had compromised enough on this issue, that government didn't need this kind of a limit. He philosophically didn't like it; it wasn't just sour grapes.

HICKE: OK, that's what I want to get at. What were the things about it that you were able to defeat it on?

DOERR: That the state shouldn't have a limit. The only limits agreed to in S.B. 90 were local limits. There was no legislative leadership for a limit on the state, period.

HICKE: Yes. That was the same as you said before.

DOERR: Yes. The legislature thought we had to compromise the issue to secure passage of S.B. 90. Assembly Democrats gave up on the local limit issue, and the governor gave up by not pushing for state limits.

Nobody thought Moretti could beat the governor's initiative, so Moretti was just flying high after the election. The people in the



governor's office were just devastated: how could they have possibly lost this to this speaker who they thought was a nobody? Here was Ronald Reagan, loved by all, losing an election. But his prestige was right on the line. It was a vote on his proposal. It was a special election, because this was an off-year. As governor, he can call a special election. That was used against him. The opposition argued he was wasting \$6 million or whatever it costs to hold the election, to try and jam this down the voters' throats, and all these things. But nobody ever thought it could be defeated, except Moretti thought there was a chance. So it was a major upset.

HICKE: What part of it didn't Reagan understand, or what did they actually get him on?

DOERR: The way it was written, it had all these formulas. It had this Economic Estimates Commission; they had to determine growth in income. It's hard for me to explain too. I tried to oversimplify it by saying it was an economic-growth-based formula, but it was much more involved than that. It was a kind of a Rube Goldberg device that you can't explain. [Laughter]

So he finally admitted it. I remember that. I think it was the Oakland Tribune; could be wrong. So there were big headlines: "Reagan admits he doesn't understand this."

HICKE: But did you say you thought it actually would have worked, looking back on it?

DOERR: Yes. When we got into looking at the Gann spending limit, when that came up, we started comparing it to this old one and found that the Reagan limit would have worked. It could be computed.

Curiously, it also would have been much more flexible and produced a limit that would have been higher than Gann's.

HICKE: That's really interesting.

DOERR: So in retrospect, it would not have been a rigid limit at all. It would have been far less rigid than the limit actually passed in '79. It's only six years later. It seemed like a long time at the time between '73 and '79, but looking back, that's not really a long--six years from the time this was defeated to the time that the Gann limit was passed. It's not a long time in the global scheme of things. It will be looked at as fairly contemporaneous, I think.

HICKE: Obviously the fact that the legislature couldn't get something like this passed contributed to the continued buildup of discontent?

DOERR: Perhaps.

HICKE: Perhaps?

DOERR: Not many were convinced the Gann limit should have been defeated, or could have been defeated. It passed on the coattails of Prop. 13. When Prop. 13 passed, then many elected officials ran for cover. Remember Jerry Jarvis? Many Democrats, including Speaker Leo McCarthy, supported the limit.

HICKE: Yes.

DOERR: Well, when this came up, the legislature is trying to fashion a limit itself. [Assemblyman John R.] Garamendi had a bill to do it, the biggest opponent of it now. Deukmejian also had carried a bill. As a result of competing bills, the legislature failed to pass a limit proposal. That was not because they didn't favor the idea. It was the politics over who would get credit. The speaker, Leo McCarthy,



signed a ballot argument in favor of it. So there was no opposition. Nobody was politically up to opposing it. So it passed.

[End Tape 18, Side B]

[Begin Tape 19, Side A]

DOERR: Another thing happened in '73 that's kind of amusing: because the assembly Democrats were in this big fight with the governor, they were trying to make his life miserable. In '73 it turned out that the state had a surplus again. So Reagan wanted an income tax rebate, or income tax reduction. This was a big, divisive issue in the legislature at the time.

You remember when I was talking about S.B. 90, I said that we were able to defer the beginning of the sales tax until July 1 of '73. Here Reagan was talking about an income tax rebate at the same time the sales tax was due to go up. It hadn't gone up yet.

So the legislative leadership thought, well, that's silly. Why do we want to have this tax go up when the state doesn't need the revenues? That got to be a big debate. So what developed was one of the great, all-time maneuvers that ever happened. It was funny.

It was about two days before the start of the fiscal year. It was around June 29 or June 30. There's no agreement on the tax rebate. It was towards the end of the session on the 29th, I believe, and members were leaving their desks because the house was taking the routine motions up (such as "I move that we let this bill be set for hearing," and umpty ump). Joe Gonsalves was the chairman at the time. I worked this out with [Consultant on Revenue and Taxation Donald] Don Collin, who was the consultant to the senate

committee, and we worked this out secretly together. I went to Moretti and told him, "I got this deal," and then Moretti liked it. I said we would amend a senate bill to postpone the scheduled sales tax increase and put it on the governor's desk in one day. It was all done very fast, but in great secrecy.

Senator Walter Stiern had this bill in the assembly Rev and Tax Committee. It was just languishing there. It was a nothing bill. So at the close of the session on the 29th, when everybody wasn't paying attention, Gonsalves got up and asked unanimous consent to adopt the amendments, and then have it reported out and set on the third reading file for the following morning. It was just done.

HICKE: Nobody was paying any attention.

DOERR: "Any objection? So be the order." Nobody was paying attention.

The next morning, here was this bill to delay the sales tax from going up. It was on the assembly floor, it was a senate bill. The assembly passes it the next morning, it goes back to the senate for concurrence; they concur it in before noon, and it is on the governor's desk.

HICKE: My word.

DOERR: The administration was furious. I mean, they just couldn't understand how it happened to them. Nobody had even had an inkling the day before.

HICKE: You mean the people in the governor's office?

DOERR: Yes. There was nothing happening, and the next day they get a bill. Because we pulled it out of committee, amended it, put it on third reading so it could be passed, and it was done. He had to veto the bill, which he did. But see, by vetoing the bill he forced the sales



tax to go up. Again, that helped in this campaign against the spending limit initiative, because the sales tax was wildly unpopular. "Reagan vetoes bill; sales tax to go up."

HICKE: Why did he veto it?

DOERR: Because he wanted the income tax rebate.

HICKE: Oh, OK.

DOERR: That was what he was trying to do, was get this income tax rebate. So he vetoes this bill, so then like a day later, the sales tax goes up. Everybody's paying more and noticing it. The papers have all these headlines: "Reagan vetoes bill; sales tax to go up." That tarnishes his image, which helps in the fight against Proposition 1. Which is one of the factors that probably helped defeat the proposition.

HICKE: That was pretty good.

DOERR: Yes, that was an interesting little episode.

Another thing that happened in 1973 was that we finally adopted the Multi-State Tax Commission.

HICKE: The what?

DOERR: We finally joined the Multi-State Tax Commission. That was the [Assemblyman Newton] Newt Russell bill. The Franchise Tax Board finally decided they were desperate to join it, because they wanted to influence it. Moretti was very suspicious of this, so we had to do a lot of research on it. But eventually they adopted it.

HICKE: That was mostly your job, wasn't it?

DOERR: What?

HICKE: Representing the state?

DOERR: Yes. We lost that. We had it originally set up so the legislature would be involved, but that got taken out in the senate, so the

legislature didn't become involved. It was given to the tax administrators to represent California on the commission. That was a disappointment.

On another issue: I think this happened in '72, but it could have happened in '73. This was the first breakthrough in the establishment of a comprehensive transit funding program. The problem was that Article 19 dedicates the revenues from gasoline taxes and motor vehicles so that it was really not feasible to use those to fund a transit program, but they wanted to keep the funding related to gasoline, wanted gasoline to fund the transit program. So we came up with this idea. . . .

Gasoline at that time was exempt from the sales tax. Well, [we said] let's make gasoline subject to the sales tax. The sales tax is not subject to Article 19 requirements for dedicated use for highways. So a sales tax on gas could be used for rapid transit. The governor didn't want to have a state tax increase. That wouldn't look good. Bad for his record again, although he'd had, what, three? I think we've gone through three already. Couldn't have the state increase taxes. So what we devised was a convoluted formula that has plagued people ever since and is clearly misunderstood.

The state imposed a sales tax on gasoline. That money goes to the state general fund. Now, the state general fund didn't need the money, so we reduced the sales tax rate by an equivalent amount, which was a quarter percent. So that was a wash. The state got money from gasoline and the sales tax rate was dropped by a quarter percent. Counties were told, "You impose that quarter



percent sales tax rate, and you've got to use the money for transportation. You can use it for rapid transit or you can use it for highways," because some of the rural counties didn't need it for transit. So by this convoluted device, in effect, the net effect was an imposition of the sales tax on gasoline, using it for transit purposes.

[Senator] Jim Mills was the author of this bill. I remember the bill was in committee, and we all worked on it together. At the hearing he comes up to me and says, "I don't want to advocate this publicly. Could you get the chairman to suggest that this bill be named after me?" [Laughter] There's this big concern, so I mention it to the chair, and we get that taken care of. So he becomes the author of the bill.

HICKE: It's called the Mills something-or-other?

DOERR: I think it's the Mills-Alquist-[Assemblyman Wadie P.] Deddeh<sup>1</sup> bill.

But what's happened over time is that the histories of these agreements are not recorded and the principals move on. Nobody recalls what was done and why it was done. So now people are looking and saying, "There's a tax on gasoline that's going to the general fund. We shouldn't be doing that. That tax money should be going for roads. This sales tax on gasoline is going for general government, and that's not right. We've got to do something about it," and they want to rip it back off. Well, they forget the fact that the only reason that it's going to the general fund is because Reagan

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1. S.B. 325, 1971 Reg. Sess., Cal. Stat., ch. 1400 (1971).

didn't want to have it look like there was a state tax increase involved.

There are two concerns, really. I forgot. Both diabolical. One, he didn't want to have a tax increase, so that he shifted this thing to the counties to oppose the. . . . The other was that he didn't want the state budget to grow. If that money had gone into the state budget for transit, his opponents could have said, "State spending has increased by X percent higher than last year." It would have increased the state budget totals. Instead of 18 billion, it might have been 19 billion or whatever the amount was. They didn't want the budget to grow. That would look bad in a percentage growth figure. So they said, "We'll propose this, shift it back to the counties because we're reducing the sales tax by this amount," so the budget impact is neutral. So it was all done for . . .

HICKE: Smoke and mirrors.

DOERR: Yes. Political punch. Trying to fool people into thinking that . . .  
[Pause]

HICKE: That's amazing.

DOERR: I remember that so distinctly, because we said at the time, "Well, this is kind of a silly device. We're shifting all this money around. Why don't we just have the state impose a sales tax on gasoline, set it up, and ship the money out to where it's needed to build these transit facilities?" "No. That would increase the state budget." We were told this by key people. "The governor's just dead set against showing any increase in the state budget. We've got to do it this



way." So we had this kind of, it's almost like money-laundering, to show that the state didn't do that.

That was almost twenty years ago. People have forgotten that the reason we did it was to protect Ronald Reagan's face, and they're thinking somehow we're taxing gasoline for general fund purposes.

Let's talk about constitutional revision.

HICKE: I've got another question, too. Let me just slip it in here. Talking about transit, were you involved when BART came back for their extra state financial help?

DOERR: See, that's the one I found. [Points to file]

HICKE: Aha. "Transit funding." It's about a three-inch-thick file.

DOERR: Yes. There's a whole bunch of material in here.

HICKE: Oh, this is '74.

DOERR: Yes. I think this thing starts out in. . . . Here's the analysis.

HICKE: This one is from the legislative counsel, George Murphy. In summary, he suggests that legislation be enacted to authorize a state agency to manage the district.

DOERR: This was the extension of the sales tax.

HICKE: This is A.B. 3785, 1976.<sup>1</sup>

DOERR: Yes.

HICKE: Extends the half percent sales tax for BART until '78. Well, it had already been enacted before that, then.

DOERR: Yes, it had been enacted, and I'm trying to see if this will give us a clue what. . . .

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1. A.B. 3785, 1975-76 Reg. Sess., Cal. Stat., ch. 1204 (1976).

HICKE: In '75 the analyst recommended that the half percent sales tax be extended.

DOERR: [Looks through file]

HICKE: Are you looking for the original?

DOERR: Yes, I'm looking for the original to see when we first started it.

HICKE: I just want to see if there's some history of it in here. I can get that, if the date is the problem.

DOERR: Well, also to see if there's anything in here that would give us a clue.

HICKE: Oh, yes, that's OK.

DOERR: If I can get through all this stuff. "No State Funds for BART, Says [Senator Randolph] Collier."

HICKE: So Collier was against it. What year is that? That sounds like it might be the original one.

DOERR: BART is again told. . . . [William] Bill Stokes. Remember that guy?

HICKE: Yes. He was the head . . .

DOERR: He was the P.R. guy that claimed to build the system, I think.

HICKE: There isn't a date on this one, so. . . . But it looks like this might have been the original one.

DOERR: I'll have to ask that, call him back.

HICKE: Right. That's fine.

DOERR: I think what happened was BART was given a very short-term, half-cent transactions tax that expired in 1977. Then the question was how were they going to fund the system when that expired, whether or not it should be made permanent. Most of this goes for the first issue.

OK, the first one was passed in 1969, according to this.



HICKE: That's right, because they actually started operation in '71 or '72 or something. And I know they ran out of funds before.

DOERR: Yes, and then they had this big crisis and they were going to go broke and all this stuff. So this whole issue of the half-cent sales tax then became a biggie.

HICKE: Were you involved with that in '69 when they. . . ?

DOERR: Here's the memo I did in '66, from me to [Assemblyman] Tom Carrell, who was then on the Transportation Committee. It was a think piece on alternative ways to fund transit. So, yes, in answer to that.

HICKE: So you were way ahead of them. How did you know they were having problems, or how did this come to your attention?

DOERR: I don't recall.

HICKE: You suggested a property transfer tax? Excise taxes?

DOERR: I think I listed alternatives. I'm not sure.

HICKE: All right. These were possibilities--taxes on motor oil and tires. Motor vehicle in lieu tax. Admission tax at race tracks.

DOERR: I think this kind of identifies it a little bit. It's a story on Mills, what he was doing at the time, showing that the thing started in '69 apparently to bail out some bonds, and then they were going to. . . . The question was, should it made in permanent and used for operations?

HICKE: OK. He wanted to authorize county boards of supervisors to use existing sales tax.

DOERR: I haven't looked at this in a long time. I just noticed that this was a file that I have.

- HICKE: You put your hand on it as soon as I asked the question. That was pretty good.
- DOERR: We were involved in that whole episode and worked the program out so they could get their sales tax, half-cent sales tax.
- HICKE: Was it opposed essentially by anybody?
- DOERR: I don't know if it was opposed. There were lots of concerns, as you can see, at the time, about whether that was really something they ought to do in terms of giving up that. Since the passage of Bradley-Burns, that was the first nonuniformity that we had in the sales tax. So it was really to a certain extent a hard pill to swallow.
- HICKE: What's nonuniformity?
- DOERR: Before that time we had a uniform state and local rate.
- HICKE: Oh, OK.
- DOERR: From county to county. Anywhere you went in California, the rate was the same. You bought something, you paid--I forget what it was at the time--it was probably 5 percent. It might have been 6. Then we come along with this. Now we've just got this all over the lot.
- HICKE: So this tax, which applied only to the counties in the Bay Area that were having BART, was the first one that made them nonuniform?
- DOERR: Yes, it was a breach. They were nonuniform in the forties and fifties. Then the legislature and the merchants were upset, so there was this big reform in the mid-fifties before I got here. It was called Bradley-Burns,<sup>1</sup> where they set up this uniform state and local

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1. "Bradley-Burns Uniform Local Sales and Use Tax Law," A.B. 3111, 1955 Reg. Sess., Cal. Stat., ch. 1311 (1955).



sales tax system. That was supposed to be the answer to this problem.

And there are a lot of problems with merchants when you have nonuniform rates. You buy something and deliver it out of state; and then there are itinerant merchants, and you can't audit them. We get into the nitty-gritty, the problems, in addition to the competitive problems of trying to compete with somebody across the county line with a lower rate.

So they set up this system in the mid-fifties. Everybody was a very strong supporter of that. That had kind of been what everybody was protecting, and along comes this idea, "Well, BART's in trouble; they want a half-cent sales tax." That puts the sales tax rate in the three Bay Area counties higher than elsewhere. So it's a major policy change from what the legislature had done less than twenty years earlier.

Everybody was very uneasy, and in retrospect, that set the precedent where you have all these sales taxes everywhere for all different purposes. You have a great deal of nonuniformity now, which is why we're back into some of the problems that they tried to solve a long time ago.

Anyway, you can see that everybody spent a lot of time thinking about it and worrying about it.

HICKE: And you suggested these alternative possibilities, but those . . .

DOERR: None of those were sales taxes. It didn't go to the sales tax rate. We wanted to preserve the uniformity of the sales tax rate.

HICKE: So why didn't any of those fly?

DOERR: Well, taxes are hard to pass.

HICKE: Yes. [Laughter] That's the title of this story, I think.

DOERR: It's not easy to suggest a new tax, because there are people that don't want to see it. In any event, none of them did fly, and then we ended up with this half-cent sales tax. It's interesting, too, because we apparently managed to keep that half-cent all these years. We thought, "It will be a half cent now, and then it'll be another half cent five years from now." But that was the mid-seventies. It's been fifteen years. We haven't needed to go above the half cent.

HICKE: That is interesting, isn't it?

DOERR: Yes. It is, really, when you think about it. When all these other governments are having trouble. The district may have gotten some other funds. I'm not sure, quite sure. I haven't paid much attention on how it has been financed, but bridge tolls and this and that and the other thing may have helped. I don't know to what extent they've managed to generate other kinds of revenues. At any rate, they still only have a half cent.

HICKE: Well, do you feel like going on or do you want to quit for now?

DOERR: It's not too much further to go, and I think it will finish '73. Seventy-four, nothing happened, as far as I can tell. I mean, this was one of the things that was brewing. What we were doing was the constitutional revision in '73 and '74. The constitutional revision program started in the mid-sixties. Bruce Sumner was the chair of the citizens' committee to generate changes in the constitution. That was a big thing, that people were worried about the constitution. The argument for revision was, "The California constitution is too long. It's one of the longest constitutions in the



world. All this garbage that's in it shouldn't be in it. Let's work to streamline it and shorten it and this and that."

HICKE: Whose idea was this?

DOERR: I think the League of [Women] Voters was interested in it. There were a lot of people who were talking about streamlining the constitution. So the commission met in the sixties and they successfully revised a number of the articles. I mentioned the story about the two-thirds vote. That was part of one of their other efforts.

Then they tried to do Article XIII, which was the tax article, and they fell flat on their face. They couldn't do it. Their proposal wouldn't move. Nobody wanted to see certain things taken out of the constitution. So we decided to try to develop our own Article XIII revision. It was a joint effort between our committee and Sam Farr, who was the consultant at that time of the Constitutional Amendments Committee. We worked closely together, and we organized, again, a little task force to try and work out Article XIII, constitutional revision. I don't know if I ever talked about task forces.

HICKE: No. I don't believe you have.

DOERR: This kind of goes to what I said this morning about the budget. When I worked for the legislature, I was a strong believer in collegiality, if you want to call it that. Let's get all people involved, bring people together and try and work things out. We did that all the way through. It was tremendously successful, and that's why we had so many successes. When we did the implementation of Prop. 13, we organized a task force. We'd bring in senate staff, assembly

staff, people in the administration, Third House people and local government people, trying to get as many people involved in talking, working it out. And they all have a stake in the product, and you have a consensus, and it works marvelously. So we did that on the conformity issues before I left. Every year before we drafted the conformity bill we organized a task force, brought in the Third House, brought in everybody. They haven't done it once since.

[End Tape 19, Side A]

[Begin Tape 19, Side B]

DOERR: We did the same thing with the tax program, and you could have done the same thing this year, and should have done it to try and solve the fiscal problems. But going back to this issue, we decided to try and tackle this thing that the Constitutional Revision Commission had failed on, and that was to revise Article XIII. So we organized what we called the Constitutional Revision Task Force. That included me; George Cook, who represented the county supervisors; Richard Carpenter representing League of [California] Cities; Pam Pecarich, who was, I mentioned, my associate.

HICKE: How do you spell her last name?

DOERR: P-e-c-a-r-i-c-h. She went to Washington, worked with the House Ways and Means Committee for a number of years. Now is a principal partner in Coopers and Lybrand in Washington. Don Collin, who was the consultant to the senate tax committee. Ken Emmanuels of the League of Cities. Larry Counts from the Franchise Tax Board. Sam Farr from the Constitutional Amendments Committee. Les Howe from the California Retailers' Association.



Martin Helmke from the Department of Finance. Ron Welch from the State Board of Equalization. Bill Culver from the Legislative Analyst's Office. That was our little committee to see if we couldn't put together this package. I probably have a lot of files on it.

We met starting in 1973, met throughout '73 and into '74. What I have in my hand is an appendix to the Assembly Daily Journal for May 16, 1974. This is one of the very rare times where we put into the journal a history of legislative intent. You can see how it's organized: proposed constitution, existing constitution, and our comments of what we were doing and why, so that people would have a trail to follow. You can see page by page, existing constitution, how we shortened it substantially, and we just went through. Some of them we decided we couldn't tackle. Like here, look at this one.

HICKE: That goes from a column almost a page long [in the original constitution] to about six lines [in the revision].

DOERR: Yes. Writing up, trying to capture the essence of what was there, in doing it better, we thought making it clearer. Removing some provisions that were obsolete or didn't make any sense being in the constitution, where we could get a consensus it should be moved out. Sticking a few other things in that we thought should be in there that weren't.

HICKE: Can you tell me generally what this article covers?

DOERR: XIII?

HICKE: Yes.

DOERR: This is the tax article. This covers all the provisions relating to taxation; except Article XIX has the motor vehicle dedications. And

now we have XIIIa, which is Prop. 13, XIIIb, which is the Gann limit, which were added in 1978 and 1979. They put them in Article XIII but they gave them separate letters. So this article covers everything: property tax exemptions, income tax, Board of Equalization insurance taxes, you name it. There's a lot to plow through.

We would meet maybe once a week or two weeks or whenever, and we'd sit down and go through it article by article and have a big discussion. It was a great exercise, and it worked. We got everybody to agree, worked out all the problems, took it to the legislature, said, "Here's our report." They approved it without any significant changes. They printed our report in the journal to make sure that people could go back and find what we did and why.

We did add a few things. Like here's one we added that was not in the existing constitution.

HICKE: I can't read it. It's too far away.

DOERR: It says, "The failure to claim an exemption shall be deemed a waiver of the exemption for that year."

HICKE: In income tax?

DOERR: No, property tax.

HICKE: Oh, property tax. OK.

DOERR: Prior to that time the legislature. . . . There must have been thirty bills a year of people coming in for retroactive exemptions. So that change put an end to that. The next one says the legislature may authorize counties to exempt property that have values so low that the cost of collection is more than the revenue from the property. That was never there, so counties were forced by the constitution to



go out and assess and collect taxes on all these properties. So we tried to put things in that made some sense, but generally we tried to reduce the verbiage, take provisions out that made no sense, and just made it more streamlined and easier to understand.

HICKE: Why do you think you were able to succeed and the commission wasn't?

DOERR: We'd set it up so we got all the interested parties together, and the revision committee didn't have anybody that knew anything about taxes. So they were doing things that shouldn't have been done, and it was just kind of a mess. Because they weren't aware of what needed to stay in the constitution and what didn't, et cetera.

At first we were kind of unnoticed. This was just a group off there working away. Then word spread that we were serious and were likely to to produce a product.

We would go to a legislative committee room, where we'd hold our meetings.

Well, towards the end of the process, when people started taking us seriously, people wanted to make presentations to us. And what was even funnier was that legislators came in. So they'd sit down there and make a little presentation urging something. Most of us were legislative staff. So we were sitting up there. . . .

[Laughter]

HICKE: "Shall I recognize my boss or not?"

DOERR: "Sir, would you like to make your suggestion? We'll take that under consideration." As a matter of fact, you know, we didn't buy necessarily what they'd come in to say. [Laughter] We were just

being totally independent in putting together a product we thought was an honest product. We didn't care what folks would say.

HICKE: Who directed you to do this, basically?

DOERR: Well, it's. . . . We did.

HICKE: So it was your idea?

DOERR: Yes. Sam Farr and I sat down, said, "Hey, we ought to do this." The Constitutional Amendment Revision Commission couldn't. . . . They tried two sessions running to try and get it done, and it just fell apart in the first house. "This isn't going anywhere; we need to pick up the pieces. We need to see what. . . ." So we talked about it and ruminated for a while. "Well, maybe we should. Let's devise a way to do it. Let's get these people together. Let's get the people that really know what's in the constitution, how it works, what's important, where the bodies are buried so we don't necessarily trip over something that we politically can't get away with. But we can do a lot of good."

Like one of the things we didn't do, for example, is we didn't touch the insurance article. That still is. . . . That section, as I recall, is still as ugly and convoluted as it was before. It was just too sensitive. So we said, "We cleaned up most of it. We'll. . . ." See, look. See the insurance section? Then we see no change.

HICKE: Oh, I see. That's this one. OK.

DOERR: So we just left that.

HICKE: No change at all.

DOERR: Yes. We couldn't politically change it, write it to shorten it or this or that, because the insurance companies wanted it just the way it was. So we said, "If we can clean up most of it, we can live with



that being what it is." This is better than it was. So we knew when to zig and when to zag in terms of putting our package together, so we could get something through.

So it passed, it went on the ballot, people voted for it, and that was that.

HICKE: That was a good "that." I mean, it was well worth doing.

DOERR: Yes. It took a lot of time, and as I said, as I recalled during that period, at that time, there wasn't a lot going on. We saw it a little bit on the transit funding thing. I don't think that 1974 was a big tax year in terms of any global thing that's important other than what we were doing here. That's my main recollection of what we did in '74. But every single year we processed many bills. Everybody has a bill to do this, that, and the other thing, but in terms of anything significant. . . .

Reagan was leaving office that year. Moretti, who was the speaker, was running in the Democratic primary to succeed him, which he didn't; he lost to Jerry Brown. So the attention of the house was not on business, so to speak. Willie Brown was being groomed to succeed Moretti as speaker. The Democrats held a caucus, and Leo McCarthy upset him, which was just a devastating blow for Willie Brown. He's never gotten over it. He's still not over it.

HICKE: Really?

DOERR: Yes. That's why he's operated the speakership the way he has, because of that defeat. He is not about to lose again. Members didn't like him at that time too well because he was a little overbearing in terms of his relationships with members, so they

voted in secret for Leo. So now he just lets the members do whatever they want to, in effect. He's a very. . . . In terms of the powers of the speakers that I've seen, he's at the bottom, in terms of exercising power. He is reluctant because he doesn't want to offend any of the members because they might get mad at him and organize a resistance. I mean, that doesn't say he never exercises power, but he does it sparingly. And I think it goes back to this 1974 time when he was just a shoo-in to be speaker. And he was defeated by Leo, partly because he was chairman of Ways and Means during this period, when Moretti was speaker, which was really a powerful committee. And he kind of ran things there that offended members in the process.

Anyway, that's just kind of an aside. But that did happen at the same time. There was a speakership fight between Brown and McCarthy. Moretti was running for the governor. There were just a lot of distractions so that there weren't any big issues, tax issues, for members to focus on. Reagan was retiring from office.

HICKE: Well, I'd say we've covered enough for today. You'll probably need the weekend to recover.

DOERR: Yes.

[End Tape 19, Side B]



[Session 8, September 21, 1990]

[Begin Tape 20, Side A]

DOERR: We were going to start with 1975.

HICKE: Yes, I think we're about up to '75 and we're now on, so we can start wherever you want to.

DOERR: Jerry Brown got elected in '75, which wasn't, of course, my preference. Bob Moretti, who was speaker, ran against him in the primary and lost. He would have been a great governor. Then Controller Hugh Fluornoy ran against him in the general, almost defeated him. Probably should have. And Fluornoy would have been a great governor, but I think the Watergate scandal hurt Republicans and the sponsorship of Proposition 9,<sup>1</sup> which was intended to curtail lobbying--you can see what a joke that was--helped Jerry Brown.

HICKE: You could see what a joke that was?

DOERR: Now. Looking backwards. That was the big reform that you could only spend ten dollars on a meal.

HICKE: You could hardly get hors d'oeuvres for that.

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1. Proposition 9 (November 1974).

DOERR: So that wasn't going to do anything. You could still give them thousands of dollars in campaign contributions, so that the curtailing of spending money on a meal was somehow supposed to cleanse the system. Well, anyway, he conned the people into thinking that, and he got elected.

HICKE: Jerry Brown?

DOERR: Jerry Brown. Maybe he was the first governor to sponsor an initiative during his election, come to think of it. I'm trying to think back further than that. I think that may have been the prototype. Maybe that is more significant than we think. Now everybody who's running for statewide offices has to have an initiative as part of the campaign package. That was the first one I can remember where a candidate had his initiative as a part of the campaign. His initiative was to clean up the legislature. Since that time, particularly in the last couple of elections, we've seen candidates who almost have to have an initiative. This year everybody's got an initiative. All the candidates have an initiative.

HICKE: Some of them more than one.

DOERR: Yes.

HICKE: That is interesting.

DOERR: Maybe it was Jerry Brown who first pioneered--for want of a better word--the idea that you could promote your candidacy by having an accompanying initiative to run on. And of course, running on that issue was like running in favor of motherhood. Who's going to be against reforming the legislature? It wasn't going to antagonize any voters; it just. . . . So he was a crafty fellow, and he probably realized both of those things: that he had an issue that was one, all-



win, and two, would tie his election to an initiative that would have positive benefits in terms of the election.

Moretti was a member of the legislature, so they weren't looked on at that time, even then, all that favorably. It's hard for a legislator to run for statewide office. Some do it OK, but it's harder.

HICKE: I remember you, I think, said that Deukmejian didn't do much in the legislature, and maybe that's why he was able to do this successfully.

DOERR: He was just lucky. Now we're off on that. This is my view. He in a sense ran for three offices, three statewide offices: elected attorney general one time and governor two times. And all three times he had a black person as his [opposing] candidate. This is a . . . California is partly a Southern state. People don't realize that. Particularly during the thirties and forties, we had a large migration of people from Texas, Oklahoma, Arkansas in particular. John Steinbeck wrote about this. In the San Joaquin Valley and southern California, you have these descendents of the "Dust Bowl." They're registered Democrats, because they were in Texas and Oklahoma. But they vote like Southern Democrats, and they still do in California. People sometimes don't realize that.

HICKE: Oh, yes, I think a lot of people don't realize that.

DOERR: So that's why you have a state that goes Republican on the top of the ticket, but has had a Democratic legislature for thirty of the last thirty-two years, despite the fact they haven't voted for a Democratic president during most of that period.

HICKE: That's true of the national elections, too. The executive is Republican, and the . . .

DOERR: Yes. Primarily because of the same reason. The Southern states vote Republican at the top, but have this enormous Democratic legislature at the bottom. And representatives in Congress. That's why you have that. If the Southern states were voting the way they did at the top of the ticket, you wouldn't have that. And you have the same thing happen in California because of the same phenomenon.

HICKE: Why do they vote Republican at the top of the ticket?

DOERR: Because they're basically more conservative than the top of the ticket.

HICKE: The top of the Democratic ticket is too liberal for them?

DOERR: For the people. But their local representatives tend to be more in tune.

HICKE: I see.

DOERR: So you have somewhat the same the phenomenon working in California. Part of it's just when you get below that, they still see themselves as Democrats and they don't really know who's running, is my view. They focus on issues that are top. So it's a "yellow dog" vote. You know what that means? Yellow dogs were the voters in the South who would vote for a yellow dog who's on the ticket as a Democrat. It's an old political expression. So they would just vote the party affiliation for the lesser offices since they didn't know who they were, but they wouldn't at the top of the ticket.

You have the same thing happen in California, and I think for somewhat the same reasons. Deukmejian ran against three black people. That's just the kiss of death in the statewide election



because of the Southern roots in California, all the Southerners that are here, that are in Los Angeles County and southern California and in the Valley. In fact, Bakersfield was long known as Nashville West. Anyway, that's an aside.

HICKE: Well, that was interesting. Back to Jerry Brown.

DOERR: Back to Jerry Brown, who was. . . . This was the first election after the Watergate scandal hit. He barely won. He barely won. That was a surprise, because we thought he was going to win easily, because they were capitalizing on Watergate and the legislative reform that was no reform. He still barely beat Fluornoy.

Well, before he came in, he came up to Sacramento to start the transition, and he brought with him my old friend, Rose Bird. Rose and I had quite a few chats, just at that time, about people: who was who and what was what, in terms of what they were doing in terms of setting up administration and policy. She was really one of the prime movers there in that transition--in fact, during most of the time she was here, before she got named to the [California Supreme] Court. I think she was the power, to whatever degree that Brown listened to anybody. Sometimes not apparent. He would listen to her advice.

HICKE: Why did he . . .

DOERR: They were in law school together and they'd known each other. So I guess they'd become reasonably comfortable with each other. He appointed quite a few outsiders--people you didn't know who had almost three strikes against them. They were outsiders, so nobody knew who they were.

- HICKE: By outsiders, you mean they didn't have any state political experience?
- DOERR: Yes. They didn't know the system, but they didn't really know the issues all that well either. And they had no constituencies to call on.
- HICKE: You mean the people that were here already? Those civil service types, or . . .
- DOERR: No, everybody. Civil service types, the legislature, the legislative staff, the lobbyists. Nobody. This was like people from the moon coming in. Adriana is a good example. You know how unpopular she was.
- HICKE: Gianturco?
- DOERR: Gianturco, who dismantled California's transportation system. At least tried to.
- HICKE: Did he know what he was doing? I mean, did he know this?
- DOERR: Yes. I heard him give a speech in San Jose that first year after he was reelected. It was an anti-freeway speech, that freeways were crowded, and if we built more freeways they would still be crowded, so why were we doing that? I think he was trying to position himself for the presidency, as an outsider, essentially like Ronald Reagan. There was very little difference between Brown and Reagan, if you want to strip away all the labels, on lots of things. In fact, they both kind of ran against government.

On this point: there was a discussion I was listening to right in the office. Jerry Brown had sent up the word that he didn't want the legislature to pass the pay raise that was pending for state officials, because he had been running against that. And that was



kind of the attitude. His platform was on absolutely no new taxes. And he never did raise any taxes, except that in the last year, the eighth year of his term, he let a gas tax increase of two pennies go through. He supported the constitutional amendment requiring a federal balanced budget. Whether that's good or bad is another issue, but that was perceived to be an issue that was being supported by the tax protesters.

HICKE: "Small is beautiful" was his line.

DOERR: Yes, small is beautiful.

HICKE: You're right. Reagan was trying to reduce government.

DOERR: Reduce the size of government too. And with Brown, it was the same kind of mentality: "I don't want to have any more people on the state payroll than were there before. We're going to keep the number of employees the same, so when I run for president, I can say, 'I held the line.'" Held the line on taxes.

HICKE: He perceived that these outside people he was appointing would help him in the run for presidency or help him maintain his status as an . . .

DOERR: . . . outsider. Yes.

[Discussions deleted]

Another point: when Deukmejian came in, everybody said, "This is great. Now we have somebody who can work with the legislature, because he's been in the legislature." Jerry Brown didn't know how to work with the legislature, never could, never understood the legislature, et cetera. The first State of the State message was four minutes. Everybody's saying, "What's going on here? Nobody gives a four-minute State of the State message." He's

just trying to be different, trying to be the outsider, trying to be glib. And that was his m.o. [modus operandi].

HICKE: What did he see as his base of power if it wasn't the people here in Sacramento?

DOERR: The people.

HICKE: It was the mandate of the people that he should do his thing?

DOERR: Yes, he was the Ronald Reagan of the left, so to speak. Maybe I'm talking more process than views. Some of his views, of course, were just diametrically opposed to Reagan. But the way he operated, so many things struck me as just being exactly the same. You know, no new taxes, "I'm the outsider, and I've got these people nobody knows." But in terms of policy!

They got a farm labor bill. Rose basically did that. The Agricultural Labor Relations Board was created. He was always a big friend of Cesar Chavez, who I have been told was not a very nice man. That's another story. My brother-in-law, who was a reporter for the New York Times for many years and was the West Coast bureau chief, wrote some stories about a certain amount of scandal within the farm workers' union. He wanted to interview Chavez, and he wasn't given an interview. Finally he went out to interview him, and some thugs met him from the Chavez group, put him in a car and took him for a ride. He thought he was never going to come back. In a sense they worked him over and told him they didn't want to see any more stories that weren't favorable.

HICKE: Is that right? Oh, dear.

DOERR: So you wonder, that someone who has a good public image is kind of unsavory.



HICKE: Indeed.

DOERR: But anyway, they put through a farm workers' bill.<sup>1</sup> That was one of the accomplishments at the time.

HICKE: Well, how did he do that if he wasn't able to work . . .

DOERR: Rose did it.

HICKE: Did she have more of a . . .

DOERR: She knew the ropes. She'd worked with the legislature. She enlisted some help from certain members. I forget who carried the bill. It was surprising that it got through. I think the people that helped to get it through were trying to solve a problem. It wasn't necessarily "I'm doing this for Jerry." "We see this as a social problem that needs to be solved, and this is a good way to do it."

HICKE: Can I ask you about [Legal Affairs Secretary] Anthony Kline, who's a person we're going to be interviewing shortly?

DOERR: He was the legal affairs advisor.

HICKE: Yes. Can you think of things that we should be sure to ask him about?

DOERR: I never had much dealings with him. I don't know what he did.

HICKE: Well, we'll find out, I guess.

DOERR: The unitary issue is another example, because, you see, we really had not had many direct dealings with Brown from the tax standpoint.

HICKE: When you say "we," you mean you, and the people on your . . .

DOERR: My staff. Because we're working in the tax policy field, and he's pretty much aloof to start with. But he doesn't have a tax program

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1. Agricultural Labor Relations Act of 1975, 1975 3d. Ex. Sess., Cal. Stat., ch. 1 (1975).

of any kind; he just wants no new taxes. So there's not a lot of support or interaction or anything in terms of direct dealings. I had more dealings with his father, and I had more dealings with Reagan than I did with him.

HICKE: You probably could have gone on a long vacation, right? I mean, if there're no new taxes, there's no tax policy to worry about.

DOERR: Well, there was something significant going on which we'd spent most of our time working on. The problem was just festering, and we went out and investigated it. It was the property tax that was building to a boil.

HICKE: Let me stop you right there, because you started to talk about the unitary system, and I interrupted you on that.

DOERR: The unitary issue is an example of Jerry Brown. The unitary issue was a hot issue beginning towards the end of the seventies. We talked about this before. The Congress had a treaty before with Great Britain that would have restricted the state's unitary method.

HICKE: You mean there was a treaty with Great Britain before Congress that they were considering?

DOERR: Yes. It was up to the senate to ratify it, and one of the points in it was that the state couldn't do this, couldn't expand our unitary system worldwide. And of course, Jerry got on the bandwagon and contacted U.S. senators to get them to oppose a provision of the treaty restricting California's unitary method, and it was tossed out. Then a year or so later, he visits England and he gets the word. [Richard] Silberman, who was director of finance, was always on the other side of the issue. He did not believe California should expand worldwide, so he of course had some influence there. That's



one of the times I went downstairs to talk to him, one of the very few times.

HICKE: To Jerry Brown?

DOERR: Yes. Because he wanted to learn about unitary. I guess he'd come back from England and they'd filled him full of this. So I sat there with Brown and Silberman. The three of us talked about how it worked, what it does, and this and that and the other thing. He asked some questions, and then he came out just on the other side of the issue, totally opposite of what he'd done in terms of the treaty. So the press asked him how come he changed his position. He said, "The other position was based on some flaky data from the Franchise Tax Board." So that "flaky data" expression has kind of been in the currency of the capital ever since. The estimates of the Franchise Tax Board equal flaky data. That expression was a Jerry Brown creation.

HICKE: So he then decided that California should not expand.

DOERR: Yes. Except he never ended up doing anything about it. It wasn't until much later we managed to get a bill through changing it. But he changed his position.

I guess we're talking '75 through '78. We have a governor who doesn't have any relationships with the legislature, has rather inexperienced people in position. They have a few program recommendations, like the farm worker bill and some other labor relations proposals. They got the teachers' labor relations bills through, and some other issues like that. But they didn't have a big program.

And then the legislature, of course, was pretty much on its own. It's clear the state was not going to raise taxes, so there are few major state tax issues. I believe in '75, the legislature proposed some tax reforms. It changed the insurance tax a little bit so that the insurance companies didn't get an exemption for their principal office building. It revised the oil depletion allowance so that it was available only for a small mom-and-pop oil producer, so to speak. Everybody thought that was the funniest thing, because we coined that phrase. Because people would come into committee for years, and they'd have a very small constituent in their district who needed help. "This is a mom-and-pop bill to take care of mom, you know, a mom-and-pop business." The idea was that we were just going to cover the big oil companies. We thought this was going to be hilarious to say, "Exempt the mom-and-pop oil companies." That phrase stuck, so when they talk now about oil over there, it's the big oil companies or the mom-and-pop oil companies.

HICKE: [Laughter] The seven sisters or the mom-and-pop companies.

DOERR: Yes. So that was a bill that was passed in '75. But the big issue was the property tax. It was big going into '75 as far as we could see, on the committee, and getting bigger. [Senator] Dan Boatwright became chairman of the committee. He's still a state senator. Dan is a very interesting guy. He is a very smart guy, kind of opinionated, but very sharp, very smart, and easy to work for. He was really concerned about the property tax. He had introduced bills in the '73 and '74 session to try and do something. So during the '75 session we toyed with various ideas.



The big push came on a bill [A.B. 377]<sup>1</sup> that Dan had. We got it to the assembly floor. The bill provided that if there were inordinate increases in values, local governments had to roll the rates back. At the time, that was a major, major proposal. The cities had not ever been told what to do. They could control the rates, and that was home rule. So there was a big fight on home rule, and the bill was killed on the assembly floor.

HICKE: Obviously the League of California Cities opposed, the association of counties . . .

DOERR: . . . counties opposed. And Dan up to this day will tell you, "Hey, we wouldn't have Prop. 13 if they'd listened to me. I had this bill in 1975 that would have required the tax rates to be rolled back as these huge assessment increases came through, so the people wouldn't have been upset enough to vote for 13." He loves to tell that story.

HICKE: Who else supported it? Did any special interests support it?

DOERR: Not particularly. It was primarily supported by our committee members.

HICKE: What about Cal-Tax?

DOERR: They probably would have supported it. I'm sure they would have. Cal-Tax would have supported it. Maybe the Chamber of Commerce. People in those groups.

HICKE: But obviously the legislators had a lot of constituents to report to in their local areas?

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1. A.B. 377 (1975) did not pass.

DOERR: No, they just got lobbied by the League of Cities members. They'd have the mayors call the members, have the supervisors call; they have their own political basis, so when they get a call from the mayor saying, "Hey, vote against this, this is very bad and I'll pass the word around," they're going to. . . . I've got the mayor on one hand, and here's Dan Boatwright and Cal-Tax. And I'm listening to the mayor.

HICKE: I think that's exactly what I meant. When I meant constituents, I wasn't thinking of the people--the voters--but the local political governments who must have been pressuring him.

DOERR: Pressuring him. So that bill failed, but that's kind of the major opening shot leading up to 13.<sup>1</sup> In today's climate, it would be considered very reasonable.

HICKE: Did you draft the bill?

DOERR: Yes. But I think the failure of that . . .

[End Tape 20, Side A]

[Begin Tape 20, Side B]

DOERR: . . . the failure of that proposal added impetus to the groundswell that was developing. This was the first concrete example of the legislature being unable to act; they weren't going to be able to take care of the problem.

So that fall, the committee began a series of interim hearings around the state. There was one out in the desert; I'm pretty sure there was one in Daly City. I think this was the same fall we had

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1. A.B. 377 (1975) did not pass.



the one in Santa Barbara. I think it was '75, because the chairmanship changed early '76.

HICKE: You told me 1975 before.

DOERR: Yes. So the committee went to Santa Barbara, and this was the first time we'd really felt the hostility. We'd lined up a series of witnesses to hear about the problems, try to build the case more or less to do something about it. So there was a scheduled meeting at the board of supervisors chambers in Santa Barbara. The committee not only got an earful; the hostility of the people there was just immense.

HICKE: Towards?

DOERR: Not only towards the local officials responsible for the tax levy, towards the government in general, and towards us. "You're all part of the same problem. The only way we could solve this problem, we've got to haul you guys off and string you up to a lamp post." Everybody would applaud in the audience, and they're threatening to string us up.

HICKE: A little tar and feathering?

DOERR: Yes, it was a tar and feathering, which nobody was prepared for, because normally the committee would have hearings and hear the testimony without threats. But you really got the feel of the sense of the frustration and hostility there. Probably Santa Barbara was on the cutting edge at that time. It was one of the earlier counties to have these enormous assessment increases. It was this pattern that was just beginning around the state, which built up 13: these enormous increases in assessments. So your tax that maybe had been \$750 jumps to \$3500.

HICKE: That was because of the increase in property values?

DOERR: Yes, because of various factors, and you can see that working now in certain areas. In Sacramento it went up 30 percent last year. In Santa Barbara probably earlier, because it was a very desirable spot, limited amount of property available, people wanted to move in, limits set by the coastal initiative, whatever the various reasons that have gone into property values. The people that were there couldn't handle these kinds of tax increases. They were just beside themselves with rage. They were saying the system was just out of control.

HICKE: What about the local government there? The city government? Were they involved in this hearing?

DOERR: Yes, we'd always invite them to come in. Of course, they would always advocate, "Sacramento needs to increase its aid to local government," and "More homeowners' exemption," or whatever. But they didn't want us to fiddle with their rate-setting systems.

HICKE: So did they speak on the opposite side in the hearing, or did they just stay quiet?

DOERR: Yes, they were vilified too. Everybody was vilified by the taxpayers that came in, which we were unprepared for.

HICKE: Were they organized? The taxpayers who came in and spoke?

DOERR: Yes, there were these little citizens' organizations: taxpayer associations, Citizens for Fair Taxation, all these little neighborhood people. They were organized, and they were mad.

So again, we could see that this problem out there is an undercurrent of what's going on. We could see that. That's way before 13. You could see that these people were irrationally upset,



and they're going to do anything. So it was clear to us but not to many others, including Jerry Brown, that something was amiss. You needed something more than just another mandate. You needed some structural reform of some kind.

So that was the end of 1975. [Looks through papers] I wanted to check something here.

HICKE: What did you do with the information you got at these hearings, particularly the Santa Barbara hearing?

DOERR: Nothing. We just. . . . It was making an impression and trying to influence legislators.

HICKE: Did you try to pass this word on?

DOERR: Yes, yes, we'd pass it on. We'd draft bills. I mean, we continued to push for this objective, but we didn't publish anything directly.

HICKE: You didn't have a big press conference?

DOERR: Yes, we didn't put out specific reports. So then 1976 comes. There is a change in committee chair. Dan Boatwright is appointed chairman of the Ways and Means Committee by Leo McCarthy early in 1976. So a new chairman of the Rev and Tax Committee is needed.

HICKE: Before we move away from Dan Boatwright, could you tell me a little bit more about him?

DOERR: Yes, he was an attorney, worked in the Contra Costa District Attorney's Office. He would be best classified as a moderate to conservative Democrat. He came to California from Arkansas, so you can see why he would likely be in that category to start with, based on the fact that officeholders in the south at the time tended to be moderate to conservative. But he was somewhat of a populist.

He wanted to do something about property tax. That was one of his major legislative objectives. He tried to, as chairman of the committee. Then he went on to be Ways and Means chairman. So he became quite an influential person in the legislature.

HICKE: Is he an effective negotiator?

DOERR: He's very effective in almost anything, because he knows the subject. He's such a quick study, so sharp. He knows, so he can be very effective. He then was elected to the senate, and climbed again very fast up the ladder, Rev and Tax chairman, chairman of the Senate Appropriations Budget Committee. I mean, just right up. Then he thought he could overthrow Roberti. That was his downfall. So he got punished for that, has not been the same since.

HICKE: You mean his chairmanship was taken away?

DOERR: Taken away, and he lost his influence. But if he's on a committee, you're much better off if he's on your side. And now he's often on my side. We still get along great.

HICKE: Do people develop a certain amount of bitterness when that happens to them?

DOERR: I don't know. I would think they would, but I don't know.

HICKE: It's not evident?

DOERR: Here's the number of that bill, A.B. 377.

HICKE: Oh, terrific. Thank you.

DOERR: Nineteen seventy-five.

HICKE: Thank you.

DOERR: [Looks at file] Oh, here's another thing we did. I'm glad I got this out. Yes, it's coming back to me now. This is when we had a hearing in Santa Rosa, again in the fall of '75, to study another tax



problem, which was the taxation of timber. At that time timber was taxed as a building. The value of this tree was determined as the owner paid a property tax on it. So there were a lot of people saying, "That's really not the system that we want," because what that does is tell the taxpayer, "Cut the tree down." If you leave the tree standing, it'll be taxed. If you cut it down, no tax.

So the committee held a major hearing on how to tax timber. Then there were negotiations with the timber industry, and out of that a new timber yield tax was produced. The new bill exempted trees from the property tax and instead imposed a tax when they were cut--a yield tax, which reversed the economics. Now there's no taxing of the tree in place, but if you cut it down, you pay the tax. A revenue pool was created with an averaging system so that counties wouldn't get hurt because of the switch. It's worked pretty well since then; that's fourteen years ago.

HICKE: Where did the impetus for this bill come from?

DOERR: It came from committee hearings, discussions with various groups, conservationists. The timber industry wasn't. . . . At first they weren't sure they were going to like it. After negotiations, they finally decided they'd go for it.

[Interruption]

Yes, I think we're just about finished with that.

HICKE: It actually started at the Santa Rosa hearings, is that right?

DOERR: Yes. Dan Boatwright was instrumental in working on that. I was just going to make another Shakespearean aside here. You can see, as I have described it, how committees were active during the

interim period. All through this time there were hearings. You can see that shelf up there of all those studies that were produced.

HICKE: It looks like about three feet of books.

DOERR: Yes, and those came out of interim work. I pick up the file for this year, which is so sparse . . .

HICKE: It's a tiny file.

DOERR: The legislature has five times the staff they had then.

HICKE: Looks like about a six- or seven-page pamphlet.

DOERR: Yes. The Rev and Tax Committee has no interim hearing scheduled whatsoever. I mean, it's a joke.

HICKE: Well, how do you explain that?

DOERR: It's all political now. They're out doing the reelection activity. They're not doing policy. It's such a contrast to what the legislature used to do every fall. We really busted our butts, produced reports, and held hearings around the state, really made an effort to delve into problem areas to see if there's some resolution. I think the timber yield tax is a good example, because that wasn't a burning political issue; it was just a problem area in tax. Let's take a look at it, let's have a hearing, let's bring in the people, let's see if we can't make it work better. So we switched the emphasis from a tax system that encourages cutting to a tax system that doesn't.

HICKE: Well, it's not just a tax problem, it had environmental impact.

DOERR: Yes, it had environmental implications. We were looking at the tax component and saying, "That doesn't make a lot of sense."

HICKE: But it's also a good illustration of how a tax policy can affect all kinds of other issues.



DOERR: Yes. But it's just depressing to me, having been there and seeing that the system has just gone out of sync. Something is wrong, when you go from a system that produced these kind of studies and hearings and reports to one they don't even have any hearings. They have twice, three, four, five times the staff; they don't do anything.

HICKE: By "Shakespearean," do you mean something rotten in Denmark?

DOERR: [Laughter] Yes.

I'm using this to refresh my memory here. So in 1976 we had the timber yield tax as a result of our '75 hearing.

HICKE: That was legislation?

DOERR: That required legislation. And then reacting to the property tax, there was an attempt to expand the Senior Citizens Tax Relief Program by including a senior renters relief program. So there was an attempt to do a little. You could see the line we're going down with the circuit breaker.

HICKE: Do you know those bills--the timber yield, and the . . .

DOERR: The timber was A.B. 1258,<sup>1</sup> Z'berg, and . . .

HICKE: In 1976?

DOERR: Yes. The senior citizens program was A.B. 2792<sup>2</sup> Boatwright.

HICKE: Thank you. That helps. Also in '76?

DOERR: Yes.

HICKE: OK. Where did the renters relief ideas come from?

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1. A.B. 1258, 1975-76 Reg. Sess., Cal. Stat., ch. 176 (1976).

2. A.B. 2792 (1976) did not pass.

DOERR: Members thought if we were going to give things to homeowners politically, we ought to do it for renters, because the argument was they were paying higher rents because of the property tax component of the rent. They were hopeful that this was going to ease some of the pressure on the property tax. Boatwright tried again with his proposal to roll back property taxes, and this time we had worked out a different idea. That was, instead of rolling back tax rates--you know, if assessment goes up, rates would go down--we devised a system which at the time I thought was a way of dealing with it: you would divide property into classes, like you would have a residential class. In each class you'd roll back the assessed value by the increase in assessed value. In other words, property was assessed in at 25 percent of market value. We'd had a standard ratio since A.B. 80 passed in '66.

So we came up with the idea that if this assessment increase on homes is going to be huge, then we'll roll back that assessment by lowering the assessment ratio, say like to 20 percent, so that the assessments would tend to dampen. So there was more focus directly to the problem rather than having rates drop, although the result was exactly the same. It was felt that people would understand and see that better.

It would have been a constitutional amendment, and I don't have the number. But that didn't get anywhere either. Even though we left the rate-setting mechanism in place, we had local government opposition. So that was killed.

But the other thing that happened, as I mentioned, in 1976, was that Dan went to Ways and Means Committee as chair, so Leo



McCarthy had to appoint a new chairman of Rev and Tax. He appointed Willie Brown as chairman, which surprised everybody, because Willie had been in effect exiled because he had run against McCarthy for speaker. In fact, everybody thought Willie was going to be speaker, but McCarthy had somehow worked, and he got one more vote than Willie did in the Democratic caucus, so he was the Democratic nominee for speaker.

Willie just took that hard. He's never gotten over that to this day, that he was defeated. In fact, you can see his actions as speaker directly go back to that incident, because he had antagonized people as of the Ways and Means Committee when Moretti was speaker. Members thought he was arrogant and they took the opportunity to stick it to him. So he had been out of the picture.

Leo was elected speaker in '75, and Willie was banished to a one-room office on the sixth floor--whatever they do to the losers. All of a sudden he makes this comeback and becomes chairman of the Rev and Tax committee. Of course, he was instructed by the speaker to keep the current staff, so he inherited it, so to speak--me and my staff at the time.

HICKE: How do you explain his appointment?

DOERR: Leo was just trying to broaden his base. He got the commitment that Willie would be a team player, et cetera. He was trying to bridge the entire caucus so that he'd have strong support.

HICKE: Bring us all together?

DOERR: Yes, in terms of the legislative program.

Another interesting aspect at that time, as I recall, is that more than two-thirds of the members were Democrats. They had something like fifty-seven Democrats to twenty-three Republicans. It was just unbelievable, because this was a result of Watergate--the so-called Watergate babies. So you could get constitutional amendments through. That will be important later when alternates to Prop. 13 are proposed.

So anyway, Willie becomes chairman, and he was very much different than I expected as a chair. His reputation was not the way he proceeded.

HICKE: For example?

DOERR: For example, he wanted to know what's going on. That was one thing: he was very interested. So we produced memos. I found one the other day. I should show you. You'd outline the issues and problems, and he would react to most of this. And invariably he'd be very supportive of what we told him. If we said, "This is the way to go," that was the way to go. We thought he was going to dominate, but he didn't. He was supportive of staff, he listened to staff. Then you'd tell him something; the next thing you know, he'd be making a speech or statement and there it was--boom! It just came right out, exactly as. . . . Or we'd be in a committee and I'd whisper to him something, and the next thing you know, there'd be a question out. Boom! Out it comes. He had the facility to pick it up real fast, but he relied on the staff.

HICKE: He understood that you were a professional expert and he wasn't, probably, and he took advantage of that fact.

DOERR: Yes, he did.



HICKE: So he made good use of his resources.

DOERR: And I had not expected that.

The other thing that I did not expect, and I think this is something that people to this very day don't understand: Willie was chair for four years, from '76 to 1980, so I got to know him very well. I still think I could almost predict what he's going to do and how he's going to react to certain events. Because after that period of time in the relationship, you could get that understanding. But there's a perception that he's a very liberal person, and I think that's still a perception in the public's mind.

HICKE: And you're saying that's not the case either?

DOERR: No, he's a very pragmatic person. He's interested in compromise. He'll compromise and try to work out a problem. If a compromise has to go, if he has to jettison positions, he will.

HICKE: So get the job done?

DOERR: Get the job done. I think you saw that to a degree on this year's budget. Remember, everybody was bleeding over cutting the benefits for welfare recipients, not giving them their COLA.

HICKE: Yes.

DOERR: Well, he said early on, that's gone. He's willing to trade that away to get a resolution to the problem. As I started work for him, I began to appreciate that this man is not out on an ideological limb. He doesn't have really a strong ideological bent.

HICKE: A politician at heart.

DOERR: Working on a day-to-day basis, he was a pragmatist. He wanted to solve a problem, take care of a problem. He was one of the first members to understand the problem of unitary and to work for a

resolution that in effect the business community wanted, while there are people in the liberal community who never have ever bought into unitary reform. It was Willie, as much as anybody else, that caused the problem to be solved in 1986; by that time he was speaker. But in the fall of '79, we held an interim hearing, and I can show you the background books we put together. At the end of the hearing, he said that was the best legislative hearing he's ever attended.

HICKE: Really?

DOERR: He was very complimentary to the staff perspective and how we set it up and got the information out and made it understandable. He said, "I understand that we've got a problem; we're going to do something about it." He tried, and I think we already went through this.

But by the time he became speaker, he still remembered that 1979 hearing. So word went out from the speaker's office that essentially I knew what I was doing, and that the Demos were to go along, at least the ones that were listened to. It could have been a real problem, because here was a bill that was giving \$200 million in tax relief to big corporations. He could have expected the liberal block just to say, "Wait a minute. That's outrageous." But Willie says, "If there's a problem there, I'm sympathetic. He knows what he's doing; go with it." I mean, that wasn't an isolated incidence. That was pretty much what he's willing to do, all the way through.

So it was quite a different relationship than I have with other members. We'd go down to San Francisco and have staff meetings and talk about these problems, and he'd listen and say, "OK," or



provide some input. We'd send him memos, and I'll give you an example here.

[End Tape 20, Side B]

[Begin Tape 21, Side A]

DOERR: This is when he was chairman. We'd just gone through the '76 session with him. He took over early in the '76 session. I put together this memo for him on what we ought to be doing.

HICKE: What are some of the things on the . . .

DOERR: You can see how he reacted to what the staff proposed, and that's the way we worked.

HICKE: Oh, his notes are on here.

DOERR: Yes, his notes are on there. We sent him the memo, and then he'd send it back with his comments and notes. You can see it's a pretty good document, because it was a pretty comprehensive list of things we thought we ought to be working on.

HICKE: Here on school finance he's got, "Progress reports to all members of the legislature must be made." And then he's got, "I would like a proposal for Rules Committee consideration of a special committee on" something--finance?

DOERR: State finance? It's hard to read that.

HICKE: Well, anyway, it's on finance. "Staffed with a two-year maximum report date. I think I can get that through." Yes, this is great. "We must have a statement made for political use by members who foresee the bad situation in L.A." or something. So then he sent this back to you with his comments, and you . . .

DOERR: . . . took it from there. He liked this. He liked staff to take an aggressive position, produce the outlines of various things that needed to be done, and then have him react, and then we would take care of it and anticipate.

And when he became speaker, we'd have these staff meetings with the entire staff, and he would tell about how we used to work together as an example for the rest of the staff to follow. "I want the staff to. . . . You go and talk to Doerr. He'll tell you what I'm looking for in terms of how to do the studies, how to do the interim projects, how to write the committee reports." So I had to tutor other staffers, based on what he would tell the staff of other committees on how they should be operating. Some of them didn't appreciate it all that much, but it was interesting that every time you'd have a staff meeting, he would hark back to the things we did.

HICKE: What was it particularly in your work that he was impressed with? With the fact that it's so thorough?

DOERR: He was thorough. One was, we anticipated the problem. Some of the people, you have to tell them what to do: "Tomorrow you go to. . . . You do this, and the next day. . . ." He wanted somebody that would say, "I've got the things I've got to do. I don't have time to fool around and figure out what you have to do. You know your issues. Develop the issues, come and talk to me, and we'll go over it, and then you do it. Anticipate. Anticipate what I'm going to need." I learned to anticipate what he wanted, so he didn't have to waste a lot of his time fooling around with that kind of stuff. I think that was one of the big things, in that we put the information



together, it made sense, and we covered all the bases--the factual but also the political bases--so that he was always protected in terms of having good work done.

HICKE: And he was prepared, because you prepared him.

DOERR: Yes, and he was prepared. So he was prepared. That's what he wanted. He wanted people to do that.

Also, once you got his confidence, it was pretty much unshakable, which was nice. I think that works that way to this day. You look at the way he staffed the speaker's office for quite some time after he became speaker. He would basically rely on people that he would work with before. Like people he knew became his confidants. Steve Thompson, who had been on the Ways and Means Committee staff, was his chief staff speaker. Elizabeth Kirsten, who was on the Ways and Means Committee staff. Now, when he became Rev and Tax chair, I got her hired as an assistant to Rev and Tax, so she was one of our staff persons, because I talked Leo McCarthy into that. And of course Willie was very pleased that I did that. She's now the head of the Senate Office Research. But he had worked with her; he was comfortable. Then when he became speaker, she went on the speaker's staff as a key person.

Then after that it was people he knows and trusts. John Mockler was always being called back. He went to work in private as a consultant for schools. Any time there's a school issue, Mockler gets called back to go on the speaker's staff for a while to give advice. So you find that pattern. It doesn't surprise me; it's almost

predictable that once he gets your trust, then he relies on it. So that's kind of a thumbnail sketch.

HICKE: That's good. That's really good. It's not the kind of thing you normally hear and read about Willie Brown.

DOERR: No, you don't. But if you watch for it, you'll see that.

HICKE: Very closely.

DOERR: Yes. You'll see that when he takes positions on issues, you can. . . . There's a group working on it, on trying to. . . . He'll be in there compromising, you can almost count on that. The senate will be the one that will be hanging back.

So this kind of outline is what we were planning to do during this period.

HICKE: Yes, I was looking at that. That's a good . . .

DOERR: . . . outline of . . .

HICKE: . . . things we might talk about.

DOERR: The issues that we had. . . . This is going from '76 into '77. Sales tax exemptions, medical problems--we did a report on that. Property tax deferral--that was another thing we did to try and mitigate the problems of property tax, was to set up a program where you can postpone your payment. If you were a senior citizen below a certain income level, you could just write the controller, "I'm deferring my tax until I die." That's still on the books.

HICKE: And then your estate pays it or something?

DOERR: Yes, it's taken out of the value of the property.

HICKE: And what happened to that?

DOERR: It passed. That's on the books.

HICKE: Oh, it passed.



DOERR: Yes. So we got that through right about that time. Then we had the school finance thing. The Serrano issue, of course, was. . . . Did we ever talk about Serrano? I think we did, because I told you I went and testified.

HICKE: We talked about that one, yes.

DOERR: The legislature's still trying to figure out how to deal with it.

HICKE: Did you have any new thoughts at this point?

DOERR: What I'm saying in the memo, I'm suggesting that this year [1976] we not look at the proposed measures but concentrate our efforts on hearing background material and understanding the problem of various tax shifts. We discussed the property tax. . . . We discussed an Ontario [California] hearing with [Assemblyman William] Bill McVittie, who is a member of the committee, now a judge in Los Angeles. Very good member. Too bad we don't have more members like Bill. He was just outstanding. Independent, intelligent.

The idea was to explore all the avenues of how we can deal with the property tax problem. So we set up this hearing in Ontario. I remember that very well, because Martin Helmke hit the doorknob in the middle of the night and got a black eye. It was a very good hearing. We produced at that time a comprehensive background information booklet on the property tax. That work was essential, as we worked through the whole process both right before 13 and right after. We developed this information out of this Ontario hearing, because we'd sent out directions to everybody on what we were looking for. Massive data that were very useful.

HICKE: What kind of background information was it? The history of attempts to . . .

DOERR: If I could find it. Maybe I have it up here. Refresh my memory. [Searches for material] But anyway, it was a background book with trends in finance and property tax, and how the property tax was distributed among income groups and assessment growth, and really much good information.

One other thing is conformity of the income tax.

HICKE: Yes, I was going to ask about that.

DOERR: Because there was a major tax change that occurred in 1976 when [Gerald] Ford was president. They made a number of reforms in the income tax, so we thought we needed to be prepared for all those conformity income tax issues.

HICKE: So you did do that?

DOERR: Yes, we got ready for that.

And here: the BART financing's back. It says, "The BART sales tax is still temporary. However, the district is making some fiscal reforms and appears to be in better shape than was the case earlier." We discussed the possibility of a hearing. We suggested we stay involved with the issue. So those were the kinds of things we were looking at. BART financing, income tax conformity, the entire property tax issue, school finance, property tax deferral, sales tax exemptions. Our plate was full. Then we had the Ontario hearing.

Then we came to 1977, and that's when the legislature got serious about the potential of an initiative. [Howard] Jarvis, interestingly enough, had drafted a different initiative just before he



qualified 13. So it would be contemporaneous with probably right about this time. He had an initiative drafted that he failed to qualify, which was very similar to 13, and maybe it was too bad he didn't qualify that one, in retrospect, because it repealed a number of exemptions too--property tax exemptions. There were more reform elements in that. Then he took those out after failure to qualify it. I have a copy of that floating around here somewhere.

HICKE: Was that one of the important reasons, well, it never did . . .

DOERR: People in the capital became aware that there were initiative efforts, and they thought, well, Mr. Jarvis didn't qualify this. It probably means he can't qualify anything else, but maybe we'd better do something this year, 1977. The assembly committee had been pushing property tax relief and had these hearings. The leadership decided to see what could be developed. We were in a sense working with a variety of ideas. One was the idea of rolling back assessments.

The other idea was to expand the circuit breaker program. We had at that time a senior citizens tax relief program. We called it a circuit breaker. That was the professional name for it. Based on your income, you got a certain amount of property taxes refunded by the state. A lot of members thought, "We ought to take that idea and run with it, and expand that program, so that, one, it covers everybody, not just senior citizens. If you don't have the income, you're into the program. Raise the schedule so that it covers more people, and put that in place as the answer to the property tax program." These ideas were debated a lot during the '77 session.

HICKE: Could I just interrupt and ask, at some point didn't the courts come down with the decision that the assessment had to be at full property value?

DOERR: No.

HICKE: I've got a note, but I don't know where I got it.

DOERR: I think the courts came down on the other side [Sacramento County v. Hickman]. The legislature changed it, through a vote, from 25 to 100 percent. That happened after 13 was passed.

HICKE: OK. Maybe that's what I found something about.

DOERR: Getting back to the property tax relief issue, I remember Willie wanted to have a hearing, and we did, in the early part of the session, where we took all the various proposals and analyzed them and set them side by side. We did that.

HICKE: What conclusion did you come up with, anything?

DOERR: No. [Laughter] Because there were a lot of these competing ideas.

We were looking for the alternatives, and the question, of course, was how much could we afford? At this time, we were always talking zero-sum gain. In other words, if we were going to provide property tax relief, cut property taxes, the state would backfill the money so that there wasn't any reduction in local revenues. So then the question was always how much could the state afford to kick into the kitty?

HICKE: But weren't local revenues going up since the . . .

DOERR: Yes, they were. At this point, having lost to the cities and counties twice, the idea was let's see if we can't find something that they can buy. That's why the thought shifted to this circuit breaker idea. The state would pay for the amount of tax relief. So the question



is, if we pass this program that costs a billion dollars, can the state afford a billion dollars worth of property tax relief, or can we afford 500 million, or what can we afford?

The preliminary target we got from the administration, from Jerry Brown, was \$200 million. So that was what we had to work with: \$200 million. You couldn't buy an awful lot with \$200 million in terms of doing anything.

This is what kind of pushed us in the direction of a circuit breaker. You have \$200 million to work with, and you can do some of these across-the-board relief proposals, but it's not visible. Because at the time, over ten billion or something like that of property taxes was being collected. So \$200 million, that's 2 percent. I mean, it wouldn't be visible to the average taxpayer. That steered the dialogue in the direction of the circuit breaker. There, with that kind of program, \$200 million could provide some significant relief to a small segment of the population. No relief for anybody else. At least you could get some bang for the dollars.

It kind of evolved as the preferred alternative. The local governments were fine on it. The administration's willing to spend the \$200 million. The Demos liked it because it had some income redistribution aspects to it. It helped the poor, so to speak. All those things working together pushed that idea to the forefront.

I'm trying to think of exactly when it happened. We had a conference committee that was trying to resolve the issue. Willie Brown and [Assemblyman William] Lockyer were on it. And [Senator Jerome] Jerry Smith. They wanted to put more reforms into the package. That was one of the problems.

HICKE: Who wanted to put more reforms into it?

DOERR: Well, essentially the liberals. Jonathan Lewis was working for Senator Nick Petris, and he became a player. I remember they wanted us to repeal a preferential treatment for capital gains. That became the big issue and deadlocked the committee. Jerry Smith was a member of the conference committee from the senate, and he was opposed to the idea. Willie and Lockyer were willing to go with that. Petris was on the conference committee; he supported the idea. The Republicans didn't want it.

Smith was the other conference committee member, and he didn't like it either. He was a Democrat--Santa Clara County senator, now a judge. Very good man. Outstanding legislator. The California Tax Reform Organization, a liberal tax advocacy group, went down and picketed his house, of all things. Talk about bad judgment; that just backfired.

HICKE: Who picketed whose house?

DOERR: The liberal tax reform association types, Jonathan Lewis's group, picketed the house.

HICKE: Picketed Smith's . . .

DOERR: Smith's house, because he wasn't going to vote for capital gains tax increase as part of this broader package that had this property tax relief element in it. He wanted a broader tax reform package. An expanded inventory exemption proposal was thrown in there, with a number of other issues.

There were insufficient votes to get the bill out of conference committee. Summertime came, and the idea was to have the staff sit down. Jonathan Lewis decided he was going to be in charge of



the staff efforts, so he got himself appointed in charge of putting together the staff briefing book. Of course, most of it had already been done. It was more of a compilation than an action. I remember that I had already made plans to take my family to the East Coast. My kids had never been to New York and Washington. So I just bailed out; I said, "The hell with this. You're going to do that, be my guest." So I didn't participate. And I didn't particularly like the product that came out of it, but I guess it served a purpose. There was a staff effort to put together background information. The legislature came back from its summer recess in '77.

And there are other playes, too--it's just a little bit fuzzy-- [Richard] Richie Ross. . . . You know Richie Ross? He's this big PR guy now. He ran Van de Kamp's campaign. He's run a lot of the campaigns. He used to run Willie's staff. At that time he was kind of a flunky working in Art Agnos's district office in San Francisco. He was just an administrative assistant. Well, he thought we had to have a speculation tax in this package, too. What was needed, he thought, was to put a tax on property speculation. That got plugged in. The real estate people didn't like it.

So you kept having all these ideas plugged into the package. A second conference committee was named after the recess to try and pass out a package. At this time, you still had the circuit breaker. It goes out on the senate floor. By this time everybody knows that Jarvis has qualified his second initiative [Prop. 13], so there's more pressure on the legislature to come up with an alternative. But the Republicans in the senate absolutely didn't like it. They didn't like the circuit breaker, they didn't like these other

provisions--no way. So it's defeated. And it goes to another conference committee, and they make some changes and bring it back.

I've got binders on these developments upstairs that we haven't looked through; I should have looked through them, but I just got back from Washington this morning. We were going through all the details of these packages, and they're probably not very important, other than the fact that the legislature was floundering in terms of being overloaded with these ideas from tax reformers that weren't acceptable, that were extraneous to the main issue. The idea of a circuit breaker was not palatable to the Republicans, because none of their constituency got any relief. They figured, "I'm representing my district. Nobody's going to get any money out of this. The hell with it. I'm not going to vote for it."

I remember it was raining that day. Strange. It was late August, early September. There was a big thunderstorm in Sacramento, so we just started to take up the conference committee report. BOOM! Boom! The temporary legislative chamber's just rattling. We were out there in those portables. When they renovated the Capitol, they put the legislature out there on the lawn in portables, so they were flimsy. They rattled! So somebody says, "That's Howard Jarvis. He's giving us our voting instructions here." So the package was defeated.

Maybe that was a precursor of the way things are now. The legislature couldn't resolve the problem, and that was one of the early instances of what we see now. It's become pretty regular.



The legislature can't respond to a major, major problem, so the initiative process takes over.

HICKE: OK, so the components of this problem, you've more or less listed. One, there were too many reforms involved, and everybody was pulled in too many different directions?

DOERR: Yes. So you had people working against the proposal. Too many reforms.

HICKE: There was something in it that everybody could fight?

DOERR: Yes. And that the circuit breaker was not popular with Republicans. Democrats liked it. Local government liked it. Local government lobbied for it. They had to get this . . .

[End Tape 21, Side A]

[Begin Tape 21, Side B]

HICKE: In spite of the fact that they had these problems, couldn't they see something worse on the horizon?

DOERR: Well, they got caught up in their own rhetoric of the politics of the issue. So years later we have our inside joke that "Who's the father of 13?" We laughed. "Jerry Brown's the father of 13." Because he was so cheap, he allocated such a small amount of resources, that we couldn't put together a major comprehensive program. "No, no, not Jerry Brown. Jonathan Lewis is the real father of Prop. 13," because he stuck all these extraneous, real left-wing proposals that we couldn't sell. He wouldn't give up on them. The people wanted a speculation tax, and a lot of those ideas. So I'm saying, "No, he's the real father of 13."

HICKE: What were you doing? Observing, or were you . . .

DOERR: No, I was helping, providing staff assistance. Trying to get the proposal through.

HICKE: You were trying to get the whole thing through?

DOERR: Yes. That was what we were trying to get through. Because we needed something. We recognized there were problems, but . . .

HICKE: Somebody told me about the Petris bill. They said it was '78, though. It was deadlocked on the last day?

DOERR: This is '77. It's the Petris bill.

HICKE: And that's the one you're talking about?

DOERR: Yes, S.B. 154.<sup>1</sup> Deadlocked.

HICKE: What was the last-minute high drama of that one? Something about the last day they were still deadlocked, and so they had to go home? I don't remember the story.

DOERR: They didn't pass that. I remember the thunder and lightning.

HICKE: OK. This was the last day, then, that you were meeting?

DOERR: Yes, the legislature just deadlocked and adjourned.

HICKE: OK, that's the one I guess I referred to.

DOERR: Curiously, enough, the same bill. . . . If you're in a conference committee and the bill is defeated, the bill is never defeated, you see. That's what's different about the legislative process. The bill can be killed in committees, but once you get it through a conference committee, it's never defeated. What's rejected is the conference committee report.

HICKE: Oh, I see.

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1. S.B. 154, 1977-78 Reg. Sess., Cal. Stat., ch. 292 (1978).



DOERR: So you send it back. In effect, "We don't like this. Go do it over."  
So the bill is still there.

HICKE: And it's not been voted on.

DOERR: No, they've just said the conference committee report's no good.  
Come back with another one. The legislature adjourns, but it's a two-year session, so the bill is still sitting there. That bill becomes the bill we used to implement Prop. 13. Because you needed a bill that was in a conference committee, because between June 6 when Proposition 13 passed, and July 1 when it had to start, you needed to get something done quickly. There was insufficient time to take a bill through the process. So they had to start with a bill in conference committee and that had something to do with taxes. So there it was. All that was needed was a change in the contents. It's the right topic, and that was the bill.

HICKE: So this is still S.B. 154?

DOERR: Yes. So it was a Petris bill that tried to resolve Prop. 13 and failed, and it turns around and becomes a conference committee bill that implements 13.

HICKE: That's an interesting bit of irony, isn't it?

DOERR: Yes, it's interesting. So then Jarvis, of course, capitalizes on the fact that the legislature can't do anything, goes out and starts to campaign. Most Capitol observers figure that he's going to lose.

HICKE: So the legislature didn't really think there was anything coming?

DOERR: They knew there was a problem. They just thought it was so ridiculous. "People will never vote for this." They couldn't comprehend that it could possibly pass. I didn't think it would pass. We'd beaten Watson 1, we'd beaten Watson 2; this just was another

one to beat. Sure, it was probably ahead, but once you got the campaign going and people understood what was going to happen, it would go down about the same way the Watson ones went down. So the conventional wisdom was that it was not going to win; don't take it very seriously, et cetera, et cetera.

But still, they wanted to do something, so in 1978 another effort was started to produce a package. This involved Jerry Smith, among others. This kind of gravitated back to the idea that Boatwright had, only to be changed back to tax rates. But split the property tax classifications. As assessments run up, the tax rates will go down for those classes of property.

Now the business community really wasn't too keen on that idea. It's not a classical split roll, because they could have benefited more than the residential. Just depended on how fast the values went up. If business values went up faster, then they got a better break. So it wasn't the classical split roll of shift the tax burden from homeowner to business. It was just each class was keeping itself whole in the sense that they're going to keep classes where they were. But they weren't sure that they really wanted to see this split anyway. Eventually they supported it, but this was. . . .

Jerry Smith had gotten this proposal for a split roll out of the senate somehow, because the lobbyists weren't taking it seriously in 1977. So it was in the assembly in 1978. All it did was it authorized the legislature to split the roll. Well, this then became the vehicle for this legislative alternative. Because there were more than two-thirds Democratic members of the assembly, McCarthy twisted every single Democratic arm and pushed the measure out. It



didn't have to go back to the senate. Opponents were stunned: "I thought we were going to kill this in the senate." "But it doesn't have to go back to the senate. We haven't amended it." "Oh, my God, it doesn't have to go back?" There was just consternation at that point.

The legislature now had an alternative on the ballot to compete with Jarvis; how would it be implemented? That's when we came up with the idea of the Boatwright plan, modified by using tax rates, to roll back tax rates as assessed values went up by property class. That's kind of oversimplified. That was the legislative alternative that was on the ballot.

HICKE: Do you know what the name and number of this bill was that enabled the legislature to act?

DOERR: No. Maybe it's in here. I bet it's in here. They estimated that would reduce property tax rates by 30 percent. The proposal the legislature put on the ballot.

HICKE: You mean the rates would go down 30 percent, or it would reduce the income?

DOERR: It would reduce the tax. We set up a mechanism that would reduce the tax 30 percent and then keep it . . .

HICKE: Oh, it started out reducing at 30 percent, and then it would go down more as it. . . . Yes, I see.

DOERR: That was S.C.A. 6 and S.B. 1, 1978.<sup>1</sup>

HICKE: Thank you.

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1. S.B. 1, 1977-78 Reg. Sess., Cal. Stat., ch. 24 (1978).

DOERR: Which became Proposition 8<sup>1</sup> on the June ballot. That didn't sell. One, it was too complicated--that was conventional wisdom--because you're trying to explain how you're going to split the property and reduce the rates by assessed value increases. Thirty percent was good, because that was across the board; that took care of the Republican objection to the circuit breaker. But Jarvis was offering over 50. So the legislature was offering 30, Jarvis was offering 50.

But I've always contended, and I'll do so to my dying day, the reason that people voted for Prop. 13 was not the tax rollback so much. It was the control on assessments, because that was the problem we'd identified as far back as 1975. People did not want to see these huge jumps in assessments. That was what was bringing people out of the woodwork. Prop. 13 said, "Your assessment stays there, except it goes 2 percent a year, unless you move." When you're buying a new house, you can buy what you can afford and you'll know what your assessment is. That was what was popular.

HICKE: That's what everybody in Santa Barbara wanted?

DOERR: That's what they wanted. That's what they got. Prop. 13 could have provided a lot less in terms of the rollback provisions. Still, the assessment control was what people were looking for, I think.

HICKE: Did you ever consider going that route?

DOERR: Freezing assessments?

HICKE: Well, or controlling assessments.

DOERR: Yes, we did. In fact, I had developed that idea. Going back to when Joe Gonsalves was chairman, we introduced a constitutional

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1. Proposition 8 (June 1978) did not pass. Also, S.C.A. 6, 1977-78 Reg. Sess., Cal. Stat., r. ch. 85 (1978).



amendment to put a freeze on assessed value growth. This proposal just got clobbered. The local government lobbyists came in and just beat us up, and it couldn't get anywhere. So that was kind of instructive. We could never get that out of the legislature. But, yes, we had that idea.

HICKE: That's another one that would have solved the problem before it got to Prop. 13.

DOERR: Yes, we thought about it and thought that made sense. But it didn't go anywhere.

Getting back to the problems of Proposition 8 of 1978: One, there wasn't all that much time between the time the legislature passed this and the election to really get people to understand it.

Two, there wasn't really any money for a big campaign chest to support it or to convince people to vote for it. The legislators weren't putting up money. Local governments can't put up money. The business community opposed 13 in support of Prop. 8, but their support wasn't enthusiastic. They didn't like the idea of a split roll, even though this was kind of a harmless split roll. It was still the principle of split roll. So they supported it, but they didn't want to toss in a lot of dough behind it. So there's not a lot of money to spend. And the voters took 13 as the better of the two, in terms of what they were looking for. So it passed.

There was one other thing that happened. We could go into the whole history of 13. I wrote a paper on it somewhere around here. Essentially what happened, why it happened. Probably could find that.

What had also happened prior to the passage of Prop. 13 relates to Phil, our old friend Phil Watson, who's coming under increased attacks as assessor of Los Angeles for corruption, doing special favors for this group and that group. And he has a heart attack and is seriously disabled. But in the process, he has implemented an assessment freeze--what we had been talking about earlier. "I'm not going to increase homeowner assessments in Los Angeles County." So that's what he was doing. He was the assessor, he could do anything. There's not much you can do to change what the assessor does unless you think you're overassessed, and then you have a mechanism to go in and protest. But if he's underassessing you, the only thing that happens is that some time the state Board of Equalization could come around and issue an equalization order. That's all.

So he says, "I'm just not raising homeowner assessments." So that's the policy in L.A. County. Subsequently he becomes sick and has to leave office. So they appoint a new assessor. The board of supervisors appoints a new successor. They appoint [Alexander] Alex Pope as the assessor. He used to work for Edmund G. Brown, in the governor's office.

Anyway, Mr. Pope comes in and figures that, "I'm supposed to be assessing property at market value. I'm going to do that." So about three weeks before the June election, all these notices of assessment increases go out to all the homeowners in L.A. County. If you'd been watching the polls on 13 during the early part of 1978, you'd see it starting with a high "yes" vote, and then it goes down, down. The legislature passes its alternative and it drops



again. People I talked to said, "Yes, that's just the way it should be going, based on everything that's happened." It starts out high in the polls, then people gradually understand it, and it goes down, down, down. Then those L.A. assessments hit. Boom! Back up again. At that point we figured, "It's not going to fail. It's going to pass."

HICKE: That was the turnaround?

DOERR: That was about three weeks before the election, we suddenly realized that the thing was going to pass. It just panicked everybody. "God, what do we do? How are we going to react to it?" So we held some staff meetings to try and figure out how to implement it. The contingency planning started about that time. We could wait until the election, because there would not be enough time for implementation.

That process began towards the end of May. We needed to develop an implementation program. Part of it depended on what the governor was willing to do, too, but we were working more on not so much the bailout, but how we would have the property tax system work. Because Prop. 13 is just totally different than our former property tax system. We had to do that planning. The bailout was controlled by the governor and how much he was willing to put up. They started off saying we're going to give X billion to local governments.

HICKE: This is to local governments to . . .

DOERR: Yes, fill in the Prop. 13 shortfall. And then the bailout goes up. I think it went up maybe three or four times during the process, because the locals weren't satisfied, and lobbyists in the capital were

unbelievable. People you'd known or thought were nice people became monsters. People would stab each other in the back. Everybody was fighting. They thought, "Here's this money; I've got to get as much of it as I can. To hell with these guys." Everybody was doing the same thing. We called it the Week of the Long Knives. That was right after 13 passed. It was just a dreadful time.

HICKE: You're talking now about local and county government officials?

DOERR: Yes. All local. The schools, the counties, the . . . And with that, each one of them brings a coterie of interest groups along with them. Now, if it's the counties, then you have to deal with the welfare recipients, you have to deal with the sheriffs, you have to deal with a lot of interest groups. If it's the city, you deal with firefighters, you deal with other interests; the schools, you deal with the teachers' association. Each unit of the government has its stable of people who make contributions to the legislature. They're all fighting each other like crazy. And then they fight even among themselves. The counties would fight with each other. They worked so that some would get more and some would get less.

What time is it?

HICKE: Eleven-twenty.

DOERR: I don't know if we want to go into the Prop. 13. It's kind of a detailed initiative. It's going to span two years and a lot of activities. There are probably a few other things I could talk about.

HICKE: And then put that off until next time?

DOERR: Yes. Prop. 13. And I can do a little more homework, because I feel like I'm unprepared today. I've been going through this, but it's not as concrete as I usually like it. But I'll tell you this in case I forget



it for next week. The formula's deliberately structured to pump much more than was reasonable into Los Angeles and San Francisco.

HICKE: Could you explain that?

DOERR: That was what the legislature did.

HICKE: Oh, deliberately to put much more into those two cities?

DOERR: Yes. In terms of allocation of the property tax and bailout. There were technical refinements, so that we knew that if we plugged into the formulas, it would produce a certain result. I remember having a chat with Howard Berman at the time, and explaining if you did it this way, here's how much goes into Los Angeles. If you do it this other way, here's how much goes in, which is substantially more. I didn't advocate this. I'm presenting alternative ways of doing it, and showing the effects. The key decision makers at the time, who happened to be Speaker Leo McCarthy of San Francisco, Willie Brown, who's chairman of the Rev and Tax Committee from San Francisco, Howard Berman, who's majority leader from Los Angeles, you know, these are the people. . . . You're looking at these formulas, and they say, "We like that formula. OK, that's the one we're going to use."

HICKE: Didn't anybody else object, or didn't they have any occasion to?

DOERR: They didn't really have occasion to, because you're having these private meetings. I'm not having a meeting with fifty members.

Then you're putting this together. It's three weeks between passage of Prop. 13 and the end of the fiscal year. There is no chance for most people to focus on the nitty-gritty of how you put the formula together, so you just say, that's it. They're the people who are calling the shots, and that's the way it went.

HICKE: Interesting.

DOERR: Now there's agitation. Well, the agitation began shortly after the thing passed. I think in 1980 or '81 we had the first hearings about this distribution formula. At first it was from what they called the "no property tax cities." They formed an association to lobby the legislature.

HICKE: The ones that didn't get as much?

DOERR: They didn't get anything.

HICKE: Nothing. Oh, there were some that got . . .

DOERR: . . . got nothing. And then they went beyond that to "no and low property tax cities." They finally got a piece of the action. Now the counties are asking for changes. In San Diego County they get about 20 percent of the property tax. You have the revenue from the 1 percent rate and you divide it among schools, etc. So the county level gets about 20 percent. The average is something like 33 percent. On average, counties get 33 percent of every property tax dollar. In San Francisco, I think it's about 85 percent.

What that really means is that the state in effect is subsidizing San Francisco at the expense of San Diego, because the state pays for a much larger share of the San Francisco school cost than they do the San Diego school cost. Schools are pulling a lot of property tax money in San Diego County into schools; schools in San Francisco aren't pulling very much at all. So there's a lot more left over for the city and county.

That's why there are serious inequities, depending on who you are and your perspective. But the formula was cut to fit the needs



of the people who were the leadership at the time. That's the way it worked out.

HICKE: What happened in these hearings, then, when the people started looking at the formula and you said the no . . .

DOERR: The no and lows?

HICKE: The lows, yes.

DOERR: After the passage of Prop. 13, property tax then became a zero-sum game. Because of Prop. 13, there was a fixed amount of money, period. If you want more, somebody else is going to have less. So it set up (and you've had this ever since) these huge battles between elements of local government for a fixed share of the pie.

That's one thing Prop. 13 did. It in effect forced the various forms of government to fight among themselves for the resources. Eventually they got it, because the state came in and said, "OK, counties, we're going to pay you a lot more money for the court system. Trial court funding. That's going to give you some extra cash. In return, we want you to give part of your property taxes to the cities."

That's how they got it. In effect the zero-sum game broke down, and the low and no property tax cities got a larger share because the state was putting more dollars into local government. Now the counties are broke because even though they gave them more money for trial courts, they took hard tax revenues away. So it all comes around.

HICKE: There were even problems with the trial court money for a while, weren't there? Seems to me I remember reading about that.

DOERR: Yes, it was an optional program. Some counties said, "We're making less on the trial court funding than we're losing on this giving this money to cities." Santa Clara County was a county in particular where they looked at these cities and they ended up concluding, "This makes no sense. We're not going to do it." Of course, then the judges are furious. "We're not getting our trial court money." And then they finally came around and said, "OK, for Santa Clara County you can do this instead of that." Adjustments were made.

I think Santa Clara County's a good example, because I'm a little bit familiar with it. One of the no property tax cities in Santa Clara County is a city called Monte Sereno. It has no basis of being a city. It's a little enclave of homes between Los Gatos and Saratoga with no businesses whatsoever. It was just a defensive incorporation for land-use planning purposes, and they didn't want to have tax, so they never levied a property tax.

HICKE: They didn't want to have a school system or any of that?

DOERR: Well, the schools are run by other folks, but they just didn't. . . . So they'd never had a property tax. They just wanted to be left alone. So when Prop. 13 hit, nothing happened to them. They didn't have a property tax, so they didn't lose anything. So they're sitting there totally unaffected by 13, and the legislature is saying, "Then why should we give them anything? They haven't lost anything; they're not hurt."

So you work out the formula so they don't get anything. The folks that got money from the system we put together were hurting. I mean, they had significant reductions in revenue and we brought them maybe two-thirds of the way back up, but they're still



suffering, and here's this little city, they're not suffering at all. Nothing has changed for them. And then they come in and agitate and say [Thumping desk], "This is outrageous. We're not getting any of the property tax."

HICKE: They did? That takes a lot of gall.

DOERR: Well, that's what this whole thing was about. And they got it. And we said, "You never got it before 13." "Well, that was then and times have changed." The argument they used had a rationale behind it: "The people in our town are paying 1 percent, and so do the people in Los Gatos next door. Both paying the same amount of tax. We're not getting any of the money back; they're getting money back." Before that, you'd had unequal tax rates. Monte Sereno didn't tax, but people there paid a lower property tax than the people next door. Now they were all paying the same amount of 1 percent of acquisition value. As a result, these people were getting more services for their money than others.

So that was the main reason why the "no and lows" agitated. The people were feeling like they'd been unfairly dealt with because they were paying and not getting anything out of it. But from the standpoint of need in dealing with a crisis, they didn't need the money because they hadn't lost any. So you had these two conflicting principles to work with. One was need, and one was equity.

HICKE: So were the other no and low cities in more or less the same type of situation?

DOERR: Exactly.

[End Tape 21, Side B]

[Begin Tape 22, Side A]

DOERR: The other no and low cities were in exactly the same position. They had not levied a property tax. They were not affected by one iota. They didn't have to cut any services, didn't have to do anything, because they'd not lost anything when Prop. 13 passed. So they didn't get anything. You didn't give them something to replace something they hadn't lost. So the formula was predicated on need and not on equity, you see.

Those two concepts were just running head onto each other. You were not being fair to some people because they were paying money that they weren't deriving any benefit from. On the other hand, you were trying to deal with the problems that were created and give the money to the jurisdictions that needed it and where 13 had done the most damage. That issue plagues us today and will continue to be an issue probably for the next ten years--how to distribute that property tax. San Diego's suing, saying the allocation system is unfair. It's not going to go away.

HICKE: But your idea was to allocate it according to need?

DOERR: Yes. How do you define need? Well, we defined need by essentially replicating what was there. We assumed that people were acting rationally, which was not always the case, and that the amount they were spending in property taxes indicated a need for those revenues. That was how we measured need.

HICKE: That's an economic principle--the assumption that people act in a rational manner.



DOERR: If you have the most reliance from the property tax, you need the most in terms of how we restructure the formula. We had essentially two things to do in implementing Prop. 13. One, which was the most difficult, was how do you allocate the property tax? Before, it was each jurisdiction levying a tax rate on the amount on the assessed value of property. Now you've got a 1 percent tax rate countywide. How do you divide that up among all these government units? That was the first part. That was one distribution issue.

The second one was how do you distribute this \$4.4 billion the state is going to plug in? How is that to be distributed? A lot of that went to the schools. And that was a little more straightforward, but it also went to the other jurisdictions. So they had to figure those things out.

HICKE: Was it up to you to help the local governments determine how . . .

DOERR: We figured it out.

HICKE: You allocated it even for them?

DOERR: Yes. We did it. This was an unprecedented thing. Prop. 13 was unprecedented. We'll go into the details of what we did, but mechanically, Speaker McCarthy came to me and said, "I want to put you in charge of the staff project to work out the implementation of 13." So we'd started planning it ahead of time, and then what they did was take S.B. 154, which was in conference, and change the members on the conference committee. So now Leo McCarthy was on the committee. He was going to be there. The Republican leader at the time, Paul Priolo. And the same with the senate. The leadership of both houses were there. Senator Mills

was the pro tem; he was there. Senator [William] Bill Campbell was on the committee from the senate. Bill Campbell was the Republican majority leader. So you had the political leadership.

And then the staff was told to come in with a proposal. Normally the staff works behind the scenes and analyzes bills and this and that, and works with the members. In this situation, we had to come in and present a proposal to the committee as staff. "Here's what we recommend."

Then you have all the local governments come in, trying to cut us to bits because we're giving more to somebody than to somebody else. How you're going to do this. This formula and that formula. So you're working with the leadership. But we had to do it. We put it together.

Then, after we did it, we had a cleanup bill right away that we worked a little bit differently. Assemblyman Willie Brown, William Lockyer, and [Senator Arlen] Gregorio were in charge of that. We resolved some of the contentious issues and fixed up the original bill a little bit.

HICKE: What did the cleanup bill do? You mean it essentially cleaned up the one you had done before?

DOERR: Yes. A little bit, to revise a particular point or issue. There was a question of how redevelopment fit into it. The one about cities that had just recently. . . . See, we ended up with a three-year average on this basis of need.

HICKE: A three-year average?

DOERR: Yes. You took what they got in property tax for three years. That was a contention. One year or three years? We'd recommended



one year. Some cities didn't like that because that became less than they would have if they got three years. I mean, there's a fixed pot, you know.

So the members decided, "We'll go with the three years." But then some cities say, "Three years is not fair because of umpty-ump." So they had to put in a law for specified cities--I think it was Southgate came in. They had a problem, so we weighted into that three-year figure receipts from that city's utility user tax to fix that problem. I'll go into more of the theory and how it worked and who was doing what.

HICKE: OK, good.

DOERR: I remember I gave a speech the following year back in Boston when they wanted to know how we implemented Prop. 13. I started the speech with a quote. Remember what Dorothy said in The Wizard of Oz? "Toto, I have a feeling we're not in Kansas anymore." That was the attitude of all of us who worked on it. This was absolutely foreign to anything that we had done before. You were just in a totally, absolutely, brand-new and different arena. It was difficult, but you had an opportunity to be creative, because you were starting something brand new almost from scratch. It was like being in Oz.

HICKE: Yes, that was an apt quote.

DOERR: We had wicked witches, too. [Laughter]

HICKE: From the north or from the south?

OK, do you think we should stop there for today?

DOERR: Yes, I think so.

HICKE: You've got a lot of things on your desk to look at, too. They'll still be there tomorrow or next week or something.

DOERR: I know. That's where I put them.

HICKE: October 2, I think we'll . . .

[Interruption]

You just started to tell me about acronyms.

DOERR: We set up a mechanism whereby the state gave this money to local government. We needed to figure out a fail-safe device, since the state might not be able to afford to do that in the future." So we created what was called the deflator. That was a way of bringing the state money back. But you needed a mechanism to make the estimates. So we had to create a body to do the estimating.

So we created for that body the acronym, The Organization Responsible for Accurate and Comprehensive Long-Range Estimates, O-R-A-C-L-E.

HICKE: Oh, very good. Excellent.

DOERR: And we had other ones like that. So we amused ourselves during this period.

HICKE: That's good. It's a little light touch.

DOERR: So you'd find it in a statute: The Organization: "What's that?" "Oh, that's the ORACLE." And then we'd start talking about it. Or we needed a formula, how we were going to treat special districts. We had no idea--six thousand special districts with property tax--how we were going to deal with it? How were we going to allocate money to them? This doesn't work well. Gosh.

Then we had lunch. There was a restaurant called Original Max's down here in Sacramento on Eighth and L, I think it was.



The staff was having lunch there, and we said, "Why don't we give the money to the counties, and let the counties allocate it to special districts? They know what the special district needs are in each county, and they could come in and do that job." And we wrote the formula to do that. We figured, we're going to call this the Max Factor. [Laughter] Because it was developed at Original Max's.

HICKE: Terrific.

DOERR: So we come to the conference committee and say, this is. . . . Pretty soon the members were referring to this as the Max Factor.

HICKE: That's probably actually useful, particularly in the case of ORACLE, because anything like that that makes it easier to grasp the concept.

DOERR: Yes. So instead of having to talk about all the description, which was complicated, you just referred to it as the Max Factor, and people knew what you were talking about.

HICKE: Sure. Oh, that's a great idea.

DOERR: So those were the kinds of things we did. As we were working on the implementation, we would try to have fun, because it was long hours, a lot of pressure and a lot of--as I mentioned--a lot of people who were at your throat all the time, trying to get something more for their group and less for somebody else. So those were the kinds of things we did to relieve the pressures.

HICKE: And useful, too. What did you do about districts like, say, the East Bay Regional Park District that cuts across county lines?

DOERR: We had to set up special allocations for those districts, as opposed to internal county districts, and set them up as separate. . . . They in effect came in under a need formula, similar to one that we set up for cities.

HICKE: Something of an exception?

DOERR: Yes. The Max Factor was just for all the districts that didn't cross county lines.

HICKE: OK.

[End Tape 22, Side A]

[Tape 22, Side B not recorded]



[Session 9, October 2, 1990]

[Begin Tape 23, Side A]

HICKE: As you were just saying, we left off with Proposition 13, and you said you've had a chance to review some of the files.

DOERR: Maybe just to kind of recap, first of all, the causes of Prop. 13. Just to run through it quickly: the number one cause was the rising assessed values of homes during the period '73 through '78, and more importantly, the shift of the relative tax burdens, because homes were becoming a much larger part of the assessment roll. I found some statistics. In Los Angeles County, in one year, from '75-'76 to '76-'77, the percentage of the local total roll went from 31.4 percent for homeowners--the total roll for homeowners--up from 31.4 percent to 35 percent. So that is a monumental shift.

HICKE: You mean that's the percent of the taxes . . .

DOERR: . . . paid by homeowners in the county.

HICKE: Of all the kinds of taxes?

DOERR: No, the property tax.

HICKE: Oh, OK.

DOERR: In other words, they were paying 31 percent, and by 1977 they're paying 35 percent. That represents a major change. In order to shift those kinds of percentages, when you are working off a very large total, you have to have a major shift. And it got worse as the

year went on. You found that in other counties as well. The State Board of Equalization has statistics here. Alameda County: from '73-'74, homes were 33.7 percent. By '76-'77 they were 42 percent of the total roll. In Santa Clara they went from 38.9 percent to 47.5 percent. So you have this massive increase in assessments because of the inflation of the time, particularly in homes. California was growing, and home prices were growing, so you had this shift in burden. That was my view of the root cause of the problem.

HICKE: Do you have any idea how the numbers of homeowners compares to the numbers of renters?

DOERR: There were always more renters.

HICKE: The renters presumably would not be quite so concerned? Although their rent probably was up.

DOERR: Their rent probably was going up because the value of rental property was going up as well.

There are a couple of other things. I know Bill Bagley gave a speech at the time, and he attributed part of the problem to the Watergate scandal: in effect, that voters became distrustful of government and didn't believe what they were being told by government officials. Part of the way they packaged the "Yes on 13" campaign was, "Send them a message!" In other words, it's time to teach government a lesson. It was a very antigovernment campaign that was run by Jarvis and Gann, and it played into this distrust of the elected officials that Watergate had engendered. We were still in the post-Watergate period at that time.



Another factor that was playing on people, in my view, was people didn't like government employees, for the reason that you'd had a period right before the passage of Prop. 13 of a number of major public employee strikes. You really hadn't had that before 1975. Then you had a strike in San Francisco in 1975, and the legislature and Jerry Brown pushed through a collective bargaining bill for school districts in the 1975 session which created a rash of teacher strikes in 1976, 1977. In fact, I was on the school board at this time.

HICKE: Your local school board?

DOERR: Yes. So I got to see the Prop. 13 implementation from the local level and from the state level at the same time. But we also had a teachers' strike in 1977. Again, twelve months before 13. The reaction of the community was just absolutely totally against the teachers.

HICKE: Now, what were the issues in the teachers' strike?

DOERR: They wanted a 45 percent pay increase.

HICKE: Forty-five?

DOERR: Yes. And of course it was ridiculous, but it was more they were flexing their muscles. They were going to show the school board that they had this new power now.

HICKE: The legislation enabled the strikes to take place?

DOERR: Well, we maintained that it didn't, but they went ahead and struck anyway. Legally, it evolved to allow strikes; that's why you have them now.

HICKE: Before that, public employees were not allowed to strike?

DOERR: Yes. So they went out on strike, and the school board just clobbered them in the media. The public was 9 to 1 on the school board side. The Bee, which is a liberal newspaper, editorialized, denounced the strikers, just blasted them. We broke the strike, and they got the same deal that we put on the table before the strike started, so that we made it very clear they lost the strike. The purpose of that was to prevent future strikes. We broke it by keeping the schools open.

HICKE: With substitutes and so forth?

DOERR: Yes. Substitutes. And with the teachers that crossed the picket lines. About a third of the teachers crossed the picket lines, came to work. So we kept the schools open. That's been pretty much the tactic that all schools try to use, up through today. Ours was one of the very first teacher strikes.

We've had a rash of them up to today. That strategy we evolved of "keep the schools open at all costs" is the one that all school districts use now. When you have strikes in the private sector, a lot of times they'll close down the facilities, so we figured that would be a win for the teachers; if we kept them open, they would lose. That proved to be pretty much correct, because they were losing money; the district wasn't. They were getting a lot of money on A.D.A. [average daily attendance] that came to the school. In fact, we made money on the strike, because we paid the substitutes less than the teachers.

HICKE: No benefits, and so forth.

DOERR: Yes. But anyway, you started to see these strikes develop at this time, so people were just mad at government employees. "Oh, hell!



Let's hit them with Prop. 13. That's a good way to. . . ." The public wanted to strike back, and that was a way to do it. At the time, San Francisco voters retaliated by removing wage guarantees from the city charter after the strike. So you can see the public was mad. And you know San Francisco is the most liberal city in California. So the mood of the public was anti-public-employee striking. You had these underlying factors, for what they're worth. The main factor was the assessment increase.

HICKE: And also there was the surplus in the budget.

DOERR: Yes, I'm going to come to that.

HICKE: Oh, OK.

DOERR: But even with all this--I have a figure here--the California poll surveying between May 1 and May 8 reported 42 percent in favor of Prop. 13, 39 percent opposed, which is pretty close. Then two other factors happened, and the campaign collapsed.

One was that the assessment notices went out. I mentioned this last time, particularly in Los Angeles County. Alex Pope sent out notices of 50 to 100 percent assessment increases. Then the Brown administration came in with their revised revenue estimates showing this gigantic state surplus. So you had those two factors hitting at the same time and hitting together, and it set up a situation where people felt insecure with their assessments, and the Jarvis-Gann folks were telling people that the state could afford to pay for the reduction of property tax with this gigantic surplus, which was pretty much true, and that's what happened.

HICKE: Can I interrupt you? What was in it for Jarvis and Gann?

DOERR: In what?

HICKE: In this Proposition 13. Why were they so involved in this?

DOERR: Without talking to them, we'll never know why. People have speculated. One is that they were putting together these organizations, and it was a way of developing their organizations, funding their movements. In other words, find an issue that people will coalesce around. And their organizations still exist to this day. Even though both of them died, their organizations still exist.

Further, Jarvis had been involved in property tax reduction issues for a long time before. He was involved in the Watson initiatives as kind of a side man. He had tried to qualify an initiative before 13 and failed to qualify it. So he was out there favoring tax reductions. I suspect both of the things were playing in their minds.

Then the final thing came. In these last few weeks, the third factor was, Jerry Brown was just crazy. He kept fumbling around trying to. . . . At one point he suggested a total freeze in assessments. He was just shooting from the hip. And the day before the election, he said the state could implement 13.

HICKE: The state could?

DOERR: Yes. Without any trouble. So it was a message to go ahead and vote for it.

HICKE: Now, what were his reasons and motivations, if we want to speculate?

DOERR: He was running for reelection at the time as governor. Everything was guiding that, because he wanted to be president of the United States. So he saw, after the re-assessment in Los Angeles, the surplus, he saw it was going to pass. I suppose he may have had



private polls showing that the 42 to 39 percent in favor had begun to go even higher. Before, it was going down.

HICKE: Coming together.

DOERR: I don't have the figures, but early on Prop. 13 was pretty far ahead. Then as the voters were educated, they started to swing to the no side and it looked like it was going to be defeated. With those trend lines at early May, that's about where we thought it would end up.

HICKE: They're going to cross.

DOERR: They'll cross, and by June it'll be defeated by about 55 to 45. Then these last-minute factors came in, and then it started. . . . He may have seen that by private polling, I don't know. Anyway, then he started doing these weird things which further cemented the passage of the measure.

So Prop. 13 passed; it was June 6. It was really a warm summer night in Sacramento. I can remember just as clearly as if it was yesterday. It was such a major happening. I picked up my brother-in-law at the airport, and it was really warm here. It was probably 100 degrees, and we were listening on the car radio driving back. They had enough early returns. It was probably not later than 8:30 that they said, "Prop. 13 has passed."

It passed by a pretty large margin, which of course was politically intimidating in itself, because this was right before a general election in the fall, so people who had all opposed 13 now had to scramble to show that they were born-again tax cutters. They started referring to Jerry Brown as Jerry Jarvis. He was flip-flopping around like crazy, trying to get on the right side of the

issue. Not only did the legislature fund 13 by providing this massive bailout, they cut the income taxes by a billion dollars, which they couldn't afford to do.

HICKE: After it was passed?

DOERR: Yes. The Kapiloff bill (by Assemblyman Larry Kapiloff). But they had to show the voters that they were in tune with the tax cut fever.

HICKE: I see. Again, it's the image, isn't it?

DOERR: Yes, it was bizarre.

But anyway, we had started working on the implementation about a couple of weeks before the election. I might say that there was a wide range of alternatives suggested. Some of these things were being seriously considered. They ranged from go to court to knock it out to do nothing.

HICKE: You mean not implement it, or not. . . ? I'm not too sure how you can do nothing.

DOERR: Yes, the legislature would say, "County, local government, it's your problem." The state's in effect going to stay out of it. In fact, the state would have made some money, because as you reduce property taxes, you reduce the deduction of property taxes from the income tax. So the state would have received more revenue.

But part of that, and this was a very serious alternative--I think this was the big debate that went on during the final days before the passage--would we try and implement it, try and make it work, or just let it blow up? There was a substantial number of legislators who favored the latter. In fact, I remember talking to [Assemblyman] Art Agnos, who is now the mayor of San Francisco.



He said, "We just ought to let this thing blow up. We'll just show people what a dumb thing it was, and then that will be the end of this whole movement. And then we can come back and put a repealer on the ballot. Just let all these cuts take place. Blood in the street." They called it the "blood in the streets" theory. "We'll just let the blood run in the streets, let chaos ensue, and that will destroy Gann, Jarvis, 13, that whole movement."

HICKE: And there were other legislators?

DOERR: Oh, yes, there were a number of other legislators who thought that that would be the best way in the long run for the state to deal with it. They made the point that if you made it work, then the public would say, "Hey, this is great." You would create icons out of these people, and it would go on, and you would continue to have this kind of thing. Which you did, because two years later Jarvis came back with a proposal to cut the income tax in half, and then the voters abolished the inheritance tax and it just kind of went on and on.

So that was very seriously considered. There was a great deal of debate on whether the legislature ought to do that. It was finally rejected, because Leo McCarthy said that wasn't responsible. The legislators had a responsibility to try and make the government work, and they couldn't consciously support anarchy. But there was a lot of discussion of a very serious alternative.

HICKE: And it would have been anarchy, you believe?

DOERR: Yes, it was a pretty severe cut in property taxes. They cut property taxes by \$7 billion--more than a 50 percent reduction in the property tax revenues going to local government.

So anyway, the conference committee was set up--I think we went into this last time--to put together a program. This is kind of a summary of what happened. There were a number of different bills. There were ten different bills that all worked together to implement it. The main bill was S.B. 154,<sup>1</sup> which came out of the conference committee. Then you had a lot of little bills dealing with specialized little problems; S.B. 2212 (Gregorio) was probably the most significant.<sup>2</sup>

HICKE: Who was on the conference committee?

DOERR: Leo McCarthy was on the conference committee. Dan Boatwright was on the conference committee. [Assemblyman] Paul Priolo. Those were the three assembly members. James Mills, who was senate president pro tempore at the time. [Senator] Albert Rodda, and Bill Campbell. This represented your legislative leadership.

What they did was, one, put together a very sketchy new assessment law, which had some problems. I want to talk about those.

HICKE: Should we stop and go to that "go to court to knock it out" story?

DOERR: Yes, let's do the "go to court to knock it out," because this is an interesting story. This goes back to the school district, because before the election, the county counsels of all the counties had a meeting. They met every year, and they do now--meet in the spring to discuss the legal property tax issues. It's the Tax Section of the County Counsels Association.

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1. Cited above.

2. S.B. 2212, 1977-78 Reg. Sess., Cal. Stat., ch. 332 (1978).



So this was a meeting in Santa Clara County in May. The big topic of this meeting was Prop. 13. A lot of these counsels spent a lot of time working, and developed a white paper of Prop. 13's legal issues, which I happened to save a copy of for historical reasons. You can see that it just goes though, just lists a whole lot of ways to challenge Prop. 13 legally. They had pages of different reasons why it may be unconstitutional. They thought it could be thrown out in the courts.

HICKE: "State constitutional issues. U.S. constitutional issues. Distribution of tax revenues interpretation. Assessments. Parties to suits. Plaintiffs and defendants listed here." This is really fascinating.

DOERR: The county legal officers were planning this implementation of legal action at this time, at this meeting. We had always gone as legislative staffers to these meetings, because we presented a report on legislation. That was our role there. We weren't part of the county counsels.

HICKE: You didn't have to do much of a report this time. You probably knew everything there was to know.

DOERR: Anyway, we sat there and listened in fascination, in terms of what's going to happen, what are the legal ramifications. It was educational, because we became familiar with the legal issues. Apparently, and I don't know when this happened, but apparently these people decided that the best way to attack it was through the school districts: have the school districts file a suit instead of counties or cities.

HICKE: Why is that?

DOERR: Because the public would be more sympathetic to schools, the little kids, instead of counties and welfare, and all that stuff. So they made the effort to get a lot of school districts around the state to consolidate and, for political reasons, we have this long list of school districts suing on Prop. 13 and taking the issue to the supreme court.

They came to the school district on which I was a board member to have them sue. We talked about it. Our school district (San Juan Unified)--I think a lot of school districts at the time--had hired a private attorney to advise them on legal matters, particularly because collective bargaining was new, but also there were other issues. Well, in this case, the attorney became a real advocate of getting our school district involved in suing on Prop. 13. He had all this legal material, so somehow the county counsels had got into this network of school attorneys who were trying to promote the suit.

HICKE: Who would the school districts be suing?

DOERR: I can tell you. Why don't I finish the story, and I can look that up. Because there was a suit. I mean, this is the classic. It's called Amador, which was the school district in Pleasanton. Because they were the first name. "A."

HICKE: Amador, et. al.<sup>1</sup>

DOERR: Yes. And then there's a whole host of school districts behind it. But Amador was the first one. That went to the supreme court. I might as well give you the conclusion first.

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1. Amador Valley Joint Junior High District v. State Board of Equalization, 22 Cal. 3d 308 (1978).



The suit went to the supreme court, and the supreme court held that Prop. 13 was constitutional. It went there right away. I mean, boom, it got to the supreme court. [Chief Justice] Rose Bird dissented on the assessment procedure, saying she didn't think the acquisition of value assessment was constitutional. She was the only one. She thought the rest of it was. So the whole thing was upheld by the court.

[Interruption]

HICKE: We were back at your school district.

DOERR: This was May, so it came to the school district before the election. The school district looked at it, thought, "Maybe there's something there. Maybe we should sue." We had a preliminary discussion in an executive session. The guy was just pushing us really hard, the attorney, to get us to go on the thing. We had a good discussion, thought maybe we should.

Then a couple of things happened. I decided that wasn't a good idea, after doing a little bit of implementation work--that it would be counterproductive for us to sue.

HICKE: Why did you decide that this wasn't going to be such a good thing?

DOERR: Because I thought we could implement it successfully, because we'd started to work on the implementation, and I began to see how it would fall into place and fit and wouldn't do great violence to our school district. I thought, "Well, we really shouldn't." That was also somewhat of a political decision, because you didn't want to try to not implement the will of the voters.

But what happened was, because I got so busy, I couldn't get back to the school district. In fact, I wanted to go back to an

executive meeting. I was in the speaker's office until 10:30 at night. It was a matter of time. So I kind of lost touch with the school district, and I couldn't get back there and tell them not to sue.

[End Tape 23, Side A]

[Begin Tape 23, Side B]

DOERR: I couldn't get back to tell the superintendent or to talk to the members. They had an executive session to talk about what they were going to do, and I was just desperate to get to that and say, "We can't sue. No, let's not do this," for a variety of reasons. One, it would be harmful to the school district, because you'd lose some public support. That 13 would be successfully implemented at this point, I was convinced, because there were all the resources available to do it. A bunch of reasons. But I didn't get back there in time.

There was a public meeting right after the election, and the word had seeped out that we were thinking about suing, and the people were just wild. Came to the board meeting just upset-- people in our community. You'd never seen them at a board meeting before. Just regular citizens that were just desperate for some property tax protections.

I got to that meeting late, so I didn't have a chance to talk to anybody. I just got into my seat and they started to take up the question of whether or not we should sue. I made this impassioned statement of why we shouldn't sue. "It was just absolutely wrong." This was after the election. They'd started talking about it before the election, before we'd even started work on the implementation.



We'd started right after this meeting. This was--I forget when it was.

HICKE: That's the meeting of the counsels. There must be a date on that. Or maybe there isn't.

DOERR: I'm looking for a date. I know it was in May, and it was before we started working on implementation. I really argued for not having them sue, for not being involved in a suit. Apparently they had had some discussions, and now it was a point of honor that they were going to go ahead, so I lost on that vote. I voted not to sue. Three of the other board members voted to sue; one abstained. As a result of that, the public got a recall petition up and recalled all four of the other board members in November, just like that. By big margins. They just bounced them right out of office. I was the only one left on the school board as a result of Prop. 13.

And then we had to implement 13 also at the school district level, and we went through and made adjustments, absolutely protected the classroom. It turned out we had eliminated fat that I had been trying to eliminate since I got on the school board. They had a community service program which was just kind of a job creation program for some hacks. We got rid of that. It didn't really do much. A variety of things.

So our school district came through with flying colors. The employees probably wouldn't say that to that full extent. There had to be a salary freeze for a year. We didn't have a salary increase. The state didn't have one, and most of the local governments didn't have one.

HICKE: But did you lose things like extra music programs and phys. ed. and. . . . No?

DOERR: Not a thing. We kept all the counselors, the school nurses, the Miller-Unruh programs, the special arts programs. In fact, right after 13 passed. . . . Because in the process the new school board that elected in this recall had ideas out of the general mainstream. They so upset the community, they decided to get rid of them. By the next election we defeated two of them at the polls and we recalled one of the ones that came in on the recall, to get back to a more normal school board.

But we hired a new superintendent, because they threw out the superintendent because of his involvement in opposing Prop. 13. He was discharged. I got the new superintendent to put on a magnificent arts festival. We had 10,000 people come. We took over Cal Expo and we had all different venues of different kinds of things--plays, music, singing, you name it. It was just magnificent. It was after 13, so we didn't sacrifice on the arts.

We didn't sacrifice anywhere, as far as I can tell. But we managed to live within the money that we had. We got money from the state and managed just by freezing salaries. We got through fine, without any big trouble. That was part of the overall game plan as we were going into the implementation to see how we could make this work.

HICKE: So you really had experience on both sides of this.

DOERR: Yes, I saw it from the recipient side, because what happened in schools was part of what happened to local government; and I got to implement it at the state level in terms of the various provisions.



I think that little story shows the mood of the public. Ours is a big district; it's the sixth largest district in California. It's bigger than a senatorial district--45,000 students. So to put together a recall is not that easy. That's a big political effort. You had to have a lot of people organized, going out walking around with petitions. That demonstrates the mood of the people. They were really fed up, you might say.

We're still not totally sure what they're fed up with. They were clearly fed up with property tax, but it was part of a total "fed up with government" thing. I think Bagley had at least a part of a germ of truth in what he was saying, because you just had these violent, deep-felt feelings that people acted on.

They didn't want the school district to sue. That doesn't seem like a huge issue, going to court to see if it's constitutional. So we were one of the school districts on that Amador decision. I have a binder here.

HICKE: You have everything.

DOERR: This includes all the major court decisions that have come down. Prop. 13 was so crummily drafted that you've just had a ton of litigation. The Carman case was a big case. The Richmond<sup>1</sup> case. Farrell. Yes. Amador Valley Joint Junior High School District vs. State Board of Equalization. So it came fast. It really came fast.

So we were kind of involved in that decision, too, that court decision.

HICKE: You mean on the state level?

DOERR: No.

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1. Los Angeles County Transportation Commission v. Richmond, 31 Cal. 3d 197 (1982).

HICKE: You mean the school board? When you say "we," I'm not sure which hat you're wearing.

DOERR: I'm wearing my school board hat, although I voted against it. I was at the county counsel meeting, saw the thing develop as they brought it to our school board to get us to join the suit, and then we saw the suit go forward, and it was eventually rejected. So I got to play a role in that arena, in the testing of the legality, as well as the legislative arena in terms of implementation. Kind of interesting. And then we implemented it locally. So I saw it from a number of different viewpoints.

HICKE: Were most of those cases upholding Proposition 13? Were most of them decided, the ones that you were pointing out? Or do you recall?

DOERR: They were really all anti-13 decisions, except for Amador. Amador says it's legal, and then these other cases blow holes in it.

HICKE: Various pieces of it?

DOERR: Richmond said that if you didn't levy a property tax, you weren't bound by the tax limitations in terms of other taxes. You didn't have to go to a vote to impose other taxes, which was part of 13.

The Carman<sup>1</sup> decision let the counties. . . . Prop. 13 provided that the property tax would be 1 percent of acquisition value, plus any amount needed to repay voter-proved indebtedness. It didn't define indebtedness. So in the Carman case, the court said all the pension costs of local government were in fact indebtedness, which added on a huge amount above the 1 percent. The legislature finally put an end to that in 1985, passing a statute saying that you can't do that anymore.

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1. Carman v. Alvord, 31 Cal. 3d 318 (1982).



The Farrell case: Prop. 13 required a two-thirds vote to impose any new special tax. Everyone was under the impression that meant any local tax. The court said in Farrell that Prop. 13 only meant special taxes; that for general taxes, there were no restrictions, and that special taxes were for special purposes. That let all local governments start imposing various kinds of taxes, until Proposition 62 passed, which came later on.

Prop. 13 was poorly drafted. But the courts interpreted it, and the legislature interpreted it; so we set up a process to make it work. We did make it work, and I think that is probably the most interesting thing.

HICKE: Are you going to talk about how you made it work?

DOERR: Yes, I'm going to talk about how we did it. I want to kind of jump ahead, because this was the bottom line--that we did make it work. I mean, obviously people would say, "You would have been better off without it," but you had this massive cut for local government, as I said. With Prop. 13, everybody thought it was going to be a disaster.

We got the actual revenues for local governments for the year before 13, the year after 13, and local revenue before and after 13. In '77-'78, the grand total of all local revenues was--this included property tax and other kinds of revenue--\$17.13 billion. And in the year after it, the grand total was \$16.37, which was about a \$750 million drop, which was around 4 percent. It wasn't catastrophic. It wasn't near \$7 billion. It's not \$7 billion, it's only \$700 million. So 90 percent of that cut didn't happen.

As I mentioned, the salary freeze was included in the bailout bill. The idea was to freeze salaries for state and for local governments. With that, and then as I mentioned we did with the school district budget, jurisdictions had enough water in their budgets to handle the rest with some deferred maintenance or eliminating some extra people, not filling positions. Just the normal thing that you really didn't find any great problem in getting it implemented.

HICKE: I can recall that our libraries closed. It went like from seven days a week to three, or something like that. It was only temporary; they somehow ratcheted back up.

DOERR: Yes. The fact they did ratchet it back up, that goes to the point that some local governments had the same view. And that debate of what to do with 13 went on at each one of these local government levels with the same discussion the legislature had been debating privately: shall we make it work, or shall we in effect punish the people for voting for it by trying to make it visible and make people not like it?

HICKE: Painful.

DOERR: Painful, yes. So some local governments opted to try and make it painful for a while. Finally people said, "We don't want it to be painful." So they then restored the cuts that people wanted.

One of the things it did do that we said it was going to do--centralize power in Sacramento--did come true. A lot of things said didn't come true. That was one of the problems for later on, because there were all these gloom and doom stories, these horror stories. And of course, Jarvis again said, "That's not going to



happen because there's a big state surplus," umpty, umpty, ump. Well, in fact, it didn't happen, and of course then the state people lost more credibility, and Jarvis and Gann gained it. And that was a function of the campaign; you know, you're telling people all these things that didn't come true.

One thing we said that did come true, we said it's going to shift a lot more power from these communities to Sacramento, that the state is going to play a much larger role in terms of what local governments can do. That sure has come true. That's true to this very day, with Butte County asking for money. The state has played a very significant role.

HICKE: And that's because they took over some of the functions of what the . . .

DOERR: One is they control how the property tax is distributed. They gave out the bailout with certain restrictions. There's not a lot of local revenue-raising authority, so people have to come to Sacramento if they want something. Partly it's government that's coming to Sacramento. It's also citizens coming to Sacramento. If you wanted a park, let's say: "Hey, we need a park here." In the old days you might go down to the county or city and say, "We need a park." Now you wouldn't do that. That doesn't make any sense.

HICKE: Because they don't have the money after Prop. 13?

DOERR: So you come to the state and say, "Hey, we've got this project." "OK, we'll include that in this big, statewide bond issue we're going to put together." There has still been plenty of money for parks. We've passed all kinds of bond measures, so park programs have been expanding in California substantially. But instead of the local

governments making the decision on the parks, it's the state and the legislators which have done so.

The legislators like that. It gives them political goodies to hand out. They're the ones who deliver the goods now, not the local government. This was part of the discussion. Things always get political, because some of the members who wanted to have chaos in implementing 13 were--that was an election year, remember--were being challenged by local officials.

Before the eighties--late eighties--you had contested elections around the state. It was usually a city councilman or a county supervisor who was the opposition. They were known in the community and had political experience, so they were the logical stepping-stone up. So the members who had local government people running against them didn't want to bail them out. Because they were running against them; they were going to look good. "Let's make this guy suffer. Make him make these hard choices. Make him cut the budget in half. Nobody's going to vote for him after that, and I'll be home free." So that went into the equation.

As I say, the legislators liked this part of Prop. 13. It transferred all the power to the state. Now they have more power, which means more campaign contributions. More "benies" [benefits] they can provide to the people in their districts, which means that there are more votes. We said before the election that was going to happen. That has certainly proved to be true.

Let's talk about Prop. 13 now. As I mentioned, I was on it.



One of the things we did was we delayed the preparation of the assessment roll until August 21 as part of our package, because the assessors just couldn't get it out in any other way.

HICKE: When would it have been due otherwise?

DOERR: July 1, which would have been in three weeks. We didn't have legislation passed to tell them exactly how to do it right away, so they wouldn't have had any time. Still, even in a month and a half, two months--yes, we basically gave them two months--it still was a monstrous task. This became an issue.

I might as well just divert a little bit here, because Prop. 13 leaves room for interpretation in a lot of ways. It says, "The full cash value means the county assessor's evaluation of real property as shown on the '75-'76 tax bill under full cash value or thereafter, the appraised value of real property when purchase in the reconstructive or change in ownership is cleared after the 1975 assessment." That's fairly clear. Then it has this sentence: "All real property not already assessed up to the 1975-76 full cash value may be reassessed to reflect that evaluation."

So in one sense it says, "Use what was on the tax bill." In another sentence, it says, "Property not assessed up to the '75-'76 full cash value may be reassessed." This became the hot political issue of 1978. Taxpayers were demanding that the figure on the tax bill be used. The assessors and the Board of Equalization were saying, "If that's not full cash value, then you reassess and bring it up to its 1975 full cash value." You may remember at the time, a lot of counties--most counties--were in a cyclical reassessment mode. You got assessed once every five years and they brought you up to

full cash value. That's why you had these huge increases in assessments. When the notices were sent, there was a 50 percent increase, because it was a five-year span. So on the '75 roll, you could have had a property with a '71 value, you see.

In terms of the inflationary pressures, remember how we talked about how they had grown. They could be substantially lower. The taxpayers wanted whatever was on the roll, and the assessors--some of them, not all of them--a lot of them were saying you had three different options, essentially. Leave what's there, there. Two, revalue only those properties that weren't revalued in '75 to get them to '75 values. And three, the most extreme, was revalue all the properties with the feeling that even though an assessor made an assessment in '75, it was not valued at full market value. That issue was debated throughout the fall, because Prop. 13 was not clear.

HICKE: Did the tax appraisers have some stake in this, or were they just caught in between?

DOERR: They had pressures from the local government to get as much revenue as possible.

HICKE: Are you going to tell me how that came out?

DOERR: Yes.

[End Tape 23, Side B]

[Begin Tape 24, Side A]

DOERR: We put together this quickie bill which didn't provide much guidance. Then we had a task force to redo the entire assessment program that came in '79. But the upshot was we just kind of



struck a compromise. We went ahead and permitted reappraisals to bring properties up to their 1975 value. So you had some equalization as of 1975.

But we put some constraints on the assessors too, because their 1975 appraisals were being made in 1978, 1979. The legislation provided assessors couldn't use hindsight to bring these people back up to '75. All you can use is data that you had available prior to March 1, 1975 to make those evaluations. That's what you would have used in '75 to make a full cash value. You can't use new data you got afterwards to bring properties up. That seemed to be a compromise nobody fully liked, but it seemed to work.

HICKE: That's the nature of a compromise, I guess.

DOERR: Yes. So we're into implementing 13, we have this conference committee, which, as I mentioned, is unlike any other conference committee in that it isn't resolving the differences between two bills.

We set up a new assessment system, which I just described to you, and used the '75 base year brought up to '75 full value. The change of ownership issue was different. We tried to define change of ownership, not very well; that came later. But we at least tried to give an idea of what they were.

We clearly exempted interspousal transfers, which was one of the big issues, because Prop. 13 didn't. Under Prop. 13, if somebody died and left the property to the spouse, the property should have been reassessed. People wouldn't have bought that. So we went ahead and did some of those things and put in some

exemptions so certain changes of ownerships weren't changes of ownership.

[Discussions omitted]

The second part of the implementation program was what we called a bailout. This goes back to the surplus. Remember the state surplus kept growing and growing and growing.

HICKE: Right.

DOERR: Initially the governor came to speak to the legislature and said, "We need to implement Prop. 13. We're going to provide X amount of dollars of bailout." I forget how much he proposed. But within a week, that figure had gone up, and it kept going up. So we provided a substantial bailout of local government. We gave the cities \$250 million. We relieved the counties of a billion dollars of health programs.

HICKE: What do you mean you relieved them? The state took over those health programs?

DOERR: Yes. The state will relieve the counties of their fiscal liability for the cost of MediCal, SSI [Social Security Income], AFDC [Aid to Families with Dependent Children], Food & Stamp Administration, for a total savings of \$1,044,000,000. An additional \$436 million was given to cities in a block grant. We gave the block grants by the same formula. Your percentage of this money is your percentage of the total property tax. To compute the distribution, you would figure out the total property tax revenue, figure out your percentage, that's what you put your percentage of what was left after Prop. 13. So we used the same exact formula we used in



allocating the property tax. Because essentially it was to fill in for the property tax reduction.

HICKE: Was this last year's or an average of the three years, for that one?

DOERR: Three years. Special districts--that kept going up. They got a block grant of \$125 million and a \$37 million unmet needs fund. We directed the Department of Finance to figure out how to do it. So that was agreed. And basically we were instructed to follow the same formula, just replacing the property tax loss. Two billion was set aside for schools. So let's see. It was around a \$4 billion . . .

HICKE: The bailout?

DOERR: Yes. About a \$4 billion bailout, which was substantial.

HICKE: Was that general amount decreed by Brown or, how did you . . .

DOERR: Brown first suggested something like \$2 billion, right after 13 passed. But then the pressures from the local kept going up. That created a lot of ill feelings in the legislature, because the speaker was willing then to go with the \$2 billion, because that's what the governor said, and then the governor would come back and say, "I think we can do three," pulling the rug from under him. "Let's work on that." And "No, we can go to four." Because he was feeling the pressure; you know, he's running for reelection.

HICKE: But he did make the decision as to how much?

DOERR: Yes. Then they set out \$900 million for loans, for various reasons. One is to pay off bonds that might otherwise go into default.

HICKE: State bonds?

DOERR: No, local bonds.

HICKE: Oh, local bonds. OK.

DOERR: For redevelopment bonds, other kinds of things. The redevelopment increment went down. I don't think they ever spent much of that \$900 million.

HICKE: They didn't have to?

DOERR: No. But I don't have any notes here that tell me if they did or they didn't.

HICKE: Was that a bill?

DOERR: S.B. 154.

Then we started thinking about the future. We'd done this implementation, so we had three things to think about towards the end of 1978.

One we needed to really do, and that was design a new assessment system, because the one in S.B. 154 was just a quick-and-dirty due to the limited time available. So we set up a property tax administration task force and we invited a broad cross-section of interested parties to participate. We had assessors, State Board of Equalization, private sector people, state bar, everybody who was interested in property tax, to develop a consensus. I'll go into that later, because that was problem number 1.

Problem number 2 was the future in terms of local government. When the legislature passed the bailout, the state reduced its tax revenue by passing another billion-dollar tax cut, because the state didn't want to have any surplus laying around. That was one of the alternatives in this chaos theory. "Let's just get rid of this surplus by voting tax reductions. We'll look good and the locals will look bad, so they'll never beat us in election." So they did pass that billion-dollar tax cut.



But the whole thought at that time was this is a one-year bailout. We'll tide local governments over because there's only a limited amount of time. Then they can get ready and plan for the real problems that are going to come in the future, because nobody saw this going beyond one year.

So the next question was, in addition to getting a correct assessment system in place, what were we going to do with respect to the fiscal problems that were going to hit local government in 1979-80, the next fiscal year? I feel good about this, because when you go against conventional wisdom and it works out, you really feel gratified.

Martin Helmke and I were flying on United Airlines to a tax conference in Madison, Wisconsin. This was in October of 1978. That was a Federation of Tax Administrators revenue estimating conference. We were flying back in the airplane starting to talk. Everybody thought, with this freezing of the base year and the growth at 2 percent a year, plus new construction and change of ownership reappraisals, the growth of the property tax is going to be curtailed.

That's what the state board staff, who were supposed to do the predictions, came over and said: "You know, it'll probably grow 5 to 6 percent a year." Which would have been real harmful to local government. We got to talking and then started writing, and I said, "I don't think that's going to be right." I said, "No, it's not. It's going to grow faster than that." Mr. Helmke says, "No, it's not?"

We started to talk about it and isolate the components, started to analyze them, and then he says, "You're right." We developed a

theory on the airplane that the property tax would grow substantially faster than that, probably in excess of 10 percent a year. So we came back with our own little theory and pumped it into the system. Everybody thought we were crazy. After several months, we got people to sign onto that theory, which has proved absolutely correct. Property tax has grown, on the average, over 10 percent a year. It's been phenomenal growth. Better than any other tax in California. It's been phenomenal.

HICKE: What did you base your ideas on?

DOERR: We based them on the idea of the lag and the leverage. It's kind of a leveraging thing. It's a lag and a leveraging operation. Assume you assess all the property up from one year to the next, OK?

HICKE: At a higher . . .

DOERR: And you get a growth factor of X if you reassess everybody up every year. Or if you reassess only 10 percent of the properties every ten years, you'll get the same result after the initial ten years.

HICKE: Every year you do 10 percent? So over a ten-year period you get 100 percent, and the actual turnover time is less than a ten-year cycle.

DOERR: Yes. So it's a lag and leveraging operation that we were pretty much convinced was going to give us fantastic growth, because there was inflation and four years of lag already accounted for. We came back with this piece of information. This was November, because I remember this well. We were just having a great time. That shows you how restricted we were financially. We were off to the conference in Wisconsin. Then the next month we were down in San Diego for a conference. Then we go to San Bernardino and



then to Palm Springs for more meetings. They're more restricted on travel right now than we were after Prop. 13 passed.

I set up a meeting with Leo McCarthy, who's speaking to the County Supervisors' Association at San Bernardino. He wanted to talk about what we're going to do next year; in terms of Prop. 13, what could we do? I knew at that time about the property tax growth phenomenon, that I was absolutely confident that I could predict that. Then I looked at something else in terms of state revenue growth, and I said, "We can continue the bailout indefinitely, building it in with the property tax growth to make sure that local governments can stay afloat."

That wasn't conventional wisdom either. "It can't be done. We just ratchet down our surplus." "No, but you understand the growth trends of state revenues and how these different factors were interacting." I said, "Yes, it can be done." And of course the administration didn't think it could be done. So again, through December we have this series of meetings and we finally got everybody to agree, "Yes, we can do this."

HICKE: Did McCarthy give this information out in his speech?

DOERR: No, because it was after his speech.

HICKE: What was the significance of the speech?

DOERR: How the counties were going to have to tighten their belts and Prop. 13 was going to hit them next year. They needed to get ready to make some significant budget cuts.

HICKE: And you were saying just the opposite.

DOERR: I was saying just the opposite. We proceeded to show that it could be done.

HICKE: I see. So by December you had convinced . . .

DOERR: Yes, I'd convinced enough people that we could do it. I think it was December. I don't know exactly when everybody became convinced.

At the beginning of the '79 session, we began to devise a program to do this.

HICKE: Let me just interrupt once more to ask how Jerry Brown was taking this news.

DOERR: Not good at first, but pretty soon he became convinced, because we had a convincing case. He couldn't fight the flow. Local governments were on our side now.

HICKE: So far you had spent \$4 billion in the bailout and another billion in income tax cut. That's \$5 billion. Did you say it was \$7 billion or something? What was the surplus?

DOERR: I don't think anybody knows to this day. I mean, we could probably reconstruct it, but . . .

HICKE: You still had more after you had spent . . .

DOERR: Yes, there was still a surplus left. Ronald Reagan had built a money-making machine: the state tax rate, particularly with a progressive income tax, produced dramatic increases in revenue each year. So it was clear that we thought we could do this. The question now is, how are we going to do it? Are we going to have a state bailout bill every year? Some members thought that was a good idea. Let the locals come in and grovel each year and the legislature would give them some money. But we didn't think it was a good idea.



This is leading up to A.B. 8. I don't know if you've heard of A.B. 8.<sup>1</sup> That's basically the real implementation of Prop. 13. It passed in 1979. That's where we set up this permanent implementation of 13 in terms of the fiscal aspects. We had another program to do the assessment package. In A.B. 8 [Looks through documents] what we proposed was essentially kind of a simple concept. That was to shift school property taxes to cities, counties, and special districts. To, in effect, replace the bailout.

HICKE: You mean the income from school property taxes, or the tax itself?

DOERR: No, just shift the property tax. In other words, Prop. 13 decided how the legislature's going to divide the pie. Remember we said, "OK, everybody's going to be at their same percentage." Now we came on and said, "OK, we're going to take the school's percentage down, take all that money and give it to the cities and counties," in effect replacing their share of the bailout. So whatever they got in the bailout, I think we ended up with. . . . It's in here somewhere.

OK, cities got 82 percent, that's the block grant we gave them in '88. In other words, we gave them an amount equal to 82 percent of that from the schools' property tax. That became permanent. See, that then got built into their base so it was permanent forever.

The counties got the full amount, and the special districts got, I think. . . . [Looks through documents] What we did with special districts, we set up \$200 million--actually a little bit more--shifted \$200 million of school property taxes to the county. The county

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1. A.B. 8, 1979-80 Reg. Sess., Cal. Stat., ch. 282 (1979).

was responsible for dividing that up among special districts. That's the "Max Factor" we talked about.

Then, of course, when the school districts had this reduction of property tax, the state would backfill because of the way the school formula works, so that they didn't lose any money. But it made the whole system permanent. Nobody had to come to the state anymore, because the school district formulas were there and then everybody else got the additional property tax.

The governor went off in a little bit different direction. He proposed that counties shift property taxes to the schools and that the state should give the counties some sales tax to replace it, but that didn't sell. He wanted to go the other way. They thought schools should be more dependent on property tax.

HICKE: He suggested that to the legislature?

[End Tape 24, Side A]

[Begin Tape 24, Side B]

DOERR: S.B. 1050 was the governor's bill. We were working with A.B. 8, which was the legislative proposal. We didn't think that his idea was a good one, and neither did the Third House. We had the Third House on our side. Basically the business community, Cal-Tax, and other groups thought that the governor's proposal was a crazy plan, because the business community wanted the jurisdictions that made land-use decisions to have a greater share of the property tax. Schools don't make land-use decisions. If the counties and cities weren't going to get any money from the property tax, then they wouldn't care about land use proposals that the business



community was interested in. So they supported our plan because of the implications for land use.

At the same time, there were two land-use elements. One was which way are you going to shift the property tax? Two was the question of how do you allocate the growth? The first year we just divided it up the way they got it in the year before. Everybody got their equal shares. To a certain extent, that screwed some jurisdictions. It sounds fair, and it was expedient. It was reasonably fair at the time, but over the long haul it wouldn't be fair at all, because those jurisdictions that might have had a lot of growth in 1988, you see, still got their '87 share, so there were no funds to pay for those services that were required because of the growth.

HICKE: So it didn't take account of these changes? The most recent changes?

DOERR: Yes. In other words, in S.B. 154, the property tax was distributed countywide. If the growth was here and there's no growth over there, the money from this growth went to both areas. So that had to be fixed in '89, to go back to what we called the situs formula. So we put in a two-step formula that . . .

HICKE: What's the name of this formula?

DOERR: It's called situs. That's just a property tax term. Situs means property is assessed where it is situated.

HICKE: Oh, it's Latin, I guess?

DOERR: Yes.

So to take care of this problem, A.B. 8 provided that each local unit's base was the base set up originally in S.B. 154.

Everybody's guaranteed that amount. So that's distributed countywide. But growth from increased assessed valuation, the 1 percent revenues from what we called the increment, the property tax increment, would go back to those taxing jurisdictions from which the growth occurs. In other words, if this city had a large increase in assessed value, then they would get a share of those monies. There are maybe 50,000 tax rate areas in the state. All the jurisdictions overlap. Counties and cities and districts and schools all overlap, in different configurations. But in each tax rate area, everything's the same. It has all the same governments.

If you've got a building in a tax code area, the growth in revenue from that building goes back to those jurisdictions in that tax code area. It'll be the county, obviously. It might be a city, school district, special district, in proportion to their shares in that area. So if the county had 35 percent of the property tax revenue in that tax code area in the prior year, it would get 35 percent of growth. This formula worked out, so that it recognized that the growth required additional demands and services on government, and the money from that would in effect pay for those additional demands and services.

HICKE: What about places where there was no growth or loss?

DOERR: They always got what they got in the prior year.

HICKE: They still kept their share?

DOERR: Yes. Because you always had the 2 percent reassessment growth. You remember Prop. 13 lets values go up 2 percent per year. So I don't think you'll find anybody that really didn't have any growth at



all. They may not have any new construction growth. They'd have some inflation growth.

HICKE: That's right. You're talking about growth in assessed . . .

DOERR: . . . value. Not necessarily a new building. So that was an important element that was plugged in here.

HICKE: Let me just stop you again and ask you, how do you figure these things out? How do you come up with these formulas?

DOERR: What do you mean?

HICKE: When you come into the office in the morning and you sit down and look at this, how do you decide what you think needs to be done?

DOERR: We just spend a lot of time working on it, and the ideas pop into your head. We used to joke that we used the Linus Pauling theory of ideas. You'd have just a whole bunch of ideas and throw away the bad ones, and then you're left with the good ones. So you just brainstorm and talk about all these different ways you can do it. I don't know quite how we did it. Ideas pop into your head after all these years of experience.

HICKE: That's some explanation, though. You gather up all the possible alternatives and look at them, each one, carefully, and then eliminate the bad ones.

DOERR: One of the interesting provisions of A.B. 8 was the museum factor. Another was a deflator.

HICKE: This is the museum factor?

DOERR: Let me explain the deflator. We never could quite convince people that the state could fund this program. They were Nervous Nellies and concerned that we were going to give away all this money

permanently. So we built in what they called the deflator. Senator Mills called it deflatormaus [Die Fledermaus]. [Laughter] In other words, if the state had a shortfall, then they could take the money back. It's called a deflator.

HICKE: They could take it back?

DOERR: Yes. And then we had to figure out how to do that. We never did it, but we built it in A.B. 8 and it had some leverage effect. So we had a formula for taking the money back. It's known as a deflator. It says, "The bill contains a mechanism whereby the total cost of the bill will be reduced if insufficient state funds are available for future years." How are we going to do that?

HICKE: That's why I'm interested. You're not just going to not distribute it, you're going to actually take it back?

DOERR: As I say, it never was implemented. It says for '80-'81, which was the following year, "if the total general fund revenues and transfers plus the beginning surplus as estimated on June 10, 1980 falls below 20.6 billion more than \$100 million, then the cost of this bill will be reduced by the amount of the shortfall. Fifty percent of the shortfall would be reflected in across-the-board percentage cuts in school revenue limits. Mainly, 50 percent would be affected through reduction and homeowner and business inventory exemption reimbursements proportionate to the amount of assistance granted by this bill. In the future years, the governor's budget would contain an estimate equivalent to the 20.6 billion."

If the revenues fell short of that growth, then, you'd just set a revenue target, and if your revenues fell short, you'd reduce the



school apportionments and the subventions to cities and counties. It's a Gramm-Rudman type of thing.

"Cuts shall be made unless the legislature passes by June 30 a concurrent resolution providing the cuts shall not be made." So we have this estimate of revenues; it automatically triggers the cuts unless the legislature short-circuits it. So this is Gramm-Rudman before Gramm-Rudman was invented. But this assuaged the Nervous Nellies who said, "Oh, yes, we can do this, this year. I can see the money's available for the second year, but forever?"

HICKE: Who were some of those, do you recall?

DOERR: I don't recall who they were, but I know that's why we had a deflator.

HICKE: That is interesting.

DOERR: That's where we get the Oracle. I mentioned the Oracle before. We needed somebody to do the estimate, so we set up the Oracle. What those revenues were going to be, in order to trigger your deflator. It turned out to be a deflatormaus. You may remember the '80-'82 period was a recession. State revenues did fall, so that in effect, the deflator would have been triggered, except that the legislature always uncoupled it and it never went into effect. But they made certain other types of reductions to local government. Finally the deflator was repealed, I think, in 1983.

HICKE: This deflator?

DOERR: The deflator, yes.

HICKE: Because in order to keep that from going into effect, they made other cuts instead? That's what you're saying?

DOERR: Yes. In those recession years.

HICKE: So they're obviously never going to let it take effect.

DOERR: They weren't going to let it go into effect. And the locals didn't like it hanging over their heads; so they repealed it. In other words, A.B. 8 was finally made permanent, I think, in '83. They repealed the deflator and said, "OK, it's your money."

HICKE: The whole plan was permanent, then.

DOERR: Yes, it was permanent, because the cities and counties had that revenue now as part of their base, and it was growing substantially.

HICKE: That's very interesting. I wonder if Gramm and Rudman read that at some point. I thought that was a pretty good idea.

DOERR: That reminds me. I did want to mention the museum factor.

HICKE: Yes, OK.

DOERR: The city of Oakland was having some real tough problems, as always. They spent all their money trying to save the Raiders [football team] and then they ran into fiscal problems. Anyway, so Bill Lockyer was a good friend, and he wanted to do something for Oakland. How are we going to do anything for Oakland? So I went through and found that Oakland was the only community with a museum funded by bonds.

HICKE: The only community in the state?

DOERR: Yes, it had a bond issued for a museum. I guess the other ones were funded by "pay as you go."

HICKE: This was the Oakland Museum, obviously.

DOERR: Yes. So we put a little provision in A.B. 8, providing that for cities with a museum, as described in the controller's annual report, they will get a larger amount of property tax shifted from schools, which became known as the museum factor. I forget how much it was. It



was significant. A significant additional amount of school taxes got shifted to the city of Oakland.

HICKE: And everybody went along with that?

DOERR: Yes, everyone went along with it. [Looks through documents] Here it is! One point one million.

HICKE: Oh, you've got a newspaper clipping. The Tribune, East Bay. Headlines: "Bailout. Oakland Gets a Big Break. Eleventh-Hour Maneuver Brings an Extra Million. The dollar-strapped city of Oakland is the beneficiary of a deft eleventh-hour maneuver that gives it \$1.1 million a year more than what other California cities can expect."

DOERR: That's the museum factor. So yes, that was always a joke for a number of years, how Lockyer got the museum factor and how we worked that out.

HICKE: It was amazing that you found that.

DOERR: So Oakland, thanks to our gruff little maneuvering, Oakland has been a better place than it would have been otherwise.

HICKE: It's a great museum. I'm delighted that they got that.

DOERR: That was fun. When you work on these programs, you have these little episodes that come up that are unusual and provide some interesting sidelights.

HICKE: I guess I'm still a little puzzled as to why nobody else wanted some special considerations then.

DOERR: Well, this was just done.

HICKE: Was done in the local thing?

DOERR: It was right at the very end. Nobody was paying much attention. It was a museum factor. It just happened that there was only one

that could qualify. You never saw the name "city of Oakland" in the bill.

HICKE: And nobody but the few people understood that this applied?

DOERR: Yes.

HICKE: I see. OK.

DOERR: There's been a lot written about A.B. 8. The folks have not been sitting on their hands in terms of writing up how we implemented 13 and how this A.B. 8 formula works. There are a lot of reports. We wrote reports. A.B. 8 was difficult to figure out, which was another story. Since we wrote it, we knew how it was going to work, but others had problems understanding it.

HICKE: You mean you knew how it worked, but nobody else knew, is that what you're saying?

DOERR: Yes. So it turned out, the fall after we finished A.B. 8, the legislative staff went down and had a meeting with Santa Clara County officials. The county had totally screwed it up. There were some long faces in the county.

HICKE: You mean they didn't understand it?

DOERR: They had made some mistakes. There's an elaborate worksheet of how to do this. But people didn't get it right. And to this day, to this very day, bills go through the legislature forgiving counties for the mistakes they made in the allocations of property tax, in effect validating what they'd done and saying, "We've got to do it right in the future."

L.A. County--and this was an issue in the '84-'85 budget, somewhere in there; maybe '83--didn't allocate enough property tax to the schools, and they ripped off from the state \$125 million the



state never got back. So there was some lag between what we said and how it actually got implemented out in the field. I think by now most of the places are doing it correctly. We had the Department of Finance go out and audit, and they found all this. Now the controller's supposed to do some permanent reviews of counties consistently, to make sure they do it right. As I say, you're still getting these bills forgiving these incorrect allocations that had gone on for a whole decade, almost. Because A.B. 8 was a complicated bill.

HICKE: Yes, sure.

DOERR: Now we come to the assessment part of the implementation program. I need to get another book. [Goes to get book]

HICKE: I'm sure glad you kept all these marvelous records. Must have taken some considerable time for you or somebody to keep all that material together.

DOERR: This is interesting. We set up, as I said, this task force to rewrite state law on how properties would be assessed. We had minority reports and everything else, but the recommendations were pretty much a consensus. The assessors didn't like some of the features. They grew to like them. By and large we had a good cross-section of support. There was a lot of work to do to define what the base-year value was going to be in 1975. Then we gave assessors until 1980 to revise '75 base year values, to bring them up. Then we exempted from Prop. 13 certain properties: nonprofit golf courses, timber land, open space land, government-owned property, et cetera. We had to deal with trees and vines and how they got a base year.

HICKE: Trees and vines?

DOERR: Yes.

HICKE: Is that for the wine industry or something?

DOERR: Under the constitution, trees are exempt for three years and vines for four years. It might be vice versa. But anyway, they have an initial exemption. So if you picked a base year when they were exempt, because they had that initial exemption, they'd be exempt forever. So we had to provide that their base year was not the year they were planted, but the year that they first became taxable.

HICKE: That's an interesting little nugget.

DOERR: Yes. Otherwise you would have had them exempt forever. There are all kinds of these little problems we had to work through with existing constitutional provisions to get this new property tax system going.

HICKE: That's a good example.

DOERR: The next thing was declines in value. Prop. 13 had nothing on a decline in value, which was incredible. Under Prop. 13, properties would have gone up every year whether they had increased in value or not. If you had a decline in value, it wasn't recognized. So we built in a decline-in-value system, and then we worked out a system where if market value falls below Prop. 13 base year value, properties are assessed at market value and stay on market value until they hit the 13 cap.

People don't realize structurally how we really did it. You still use a fair market value system to value property, as long as it doesn't exceed its Prop. 13 value. But 13 acts as a cap, so as soon as it reaches the Prop. 13 base year value, then it can't go any higher.



HICKE: I see. As long as it's under the cap, it can fluctuate?

DOERR: Yes. As long as it's under the cap, it can fluctuate. So if you're under the cap and your valuation is \$100,000 this year, it could go to \$130,000 next year. There's no 2 percent protection. Your only protection is you can't go above that cap (which is your acquisition value plus 2 percent per year). That's how we did it. In effect, we call that the declines-in-value provision. A lot of properties decline in value for a whole host of reasons. There can be economic declines in certain areas. You can have a fire. You have a decline in value. So we worked out that.

One of the big issues was to try and define what a change in ownership was. We worked out a basic definition. The present transfer of an interest in real property, including the beneficial use thereof, the value of which is substantially equivalent to the value of the fee interest, is a change of ownership.

Then we decided, what are we going to do with leases? The private sector folks on our task force said, "The leases are substantially equivalent to acquiring fee interest if they're for thirty-five years. The banks treat them that way in terms of loans." So we said, "OK, that sounds good." Any lease of property for thirty-five years is treated as a change of ownership, which will trigger a reassessment under Prop. 13.

HICKE: After the thirty-five years?

DOERR: No. When you make the lease.

HICKE: Oh, when you. . . . OK.

DOERR: The terms of your lease are for thirty-five years.

HICKE: I see. That's interesting.

DOERR: So that became reassessable. Then there were great many legal clarifications. You never realize how many different ways properties can transfer, that you have to deal with. Transfers into trust. Transfers of undivided interest. Joint tenancies. It was a course in law to go through all these various kinds of changes.

HICKE: Did you have a real estate attorney or . . . ?

DOERR: Yes, we had some of the best attorneys with us. That was why we needed this task force. We had the land title association people that could tell us how to do this. We had the bar property tax people that knew law.

HICKE: How many people on the task force?

DOERR: Maybe thirty.

HICKE: Did they split up, and each one kind of looked at their own area of expertise?

DOERR: No, we just had big meetings.

HICKE: Oh, you did everything all together?

DOERR: Yes. We started in the fall of 1978 and we met pretty intensively through the fall and winter, and came up with this package to present to the legislature in 1979. It's really quite remarkable in retrospect, that we were able to put this whole thing together. One of the main issues on this change of ownership was how to deal with corporations. Nobody was really quite sure how we should do that.

HICKE: What kind of property tax do you mean, corporations paying property tax on their buildings and that kind of thing? Corporations as owners?



DOERR: When there was a change, what was the change of ownership?

There are two theories. There's a legal entity theory and there was a change of control theory. We kept flip-flopping with those theories. We eventually got it settled.

HICKE: As, for instance, when a corporation is bought by another owner?

DOERR: Corporation, yes. It's had a change of ownership.

HICKE: Or is the corporation an entity unto itself?

DOERR: Yes. For example, you have a corporation, and it has all these subsidiary corporations. They're all legal entities, so the corporation who owns this owns 100 percent of "A" corporation and owns 100 percent of "B." Originally we thought, well, if "A" takes over "B" and just merges it into "A," that's a change of ownership, because it's one corporation. Each is a legal entity. The legal entity theory. But after a lot of discussion we said that didn't make sense. We went to the control theory, where there's a change of control.

HICKE: You mean the stock ownership?

DOERR: Yes. If you had more than 50 percent . . .

[End Tape 24, Side B]

[Begin Tape 25, Side A]

DOERR: . . . change in control, then you would get a change of ownership. The merger mania we had in the eighties produced lots of changes of ownership, because you had corporate raiders coming in taking over. That all triggered changes of ownership. So that was one of the difficult pieces of change of ownership to plan out. I think there are still court suits on it occasionally. But it's pretty well settled, how that works.

HICKE: What are the advantages or disadvantages to a corporation as to whether it's treated as a change of ownership or not?

DOERR: Well, they have a lot higher tax property tax. When there's change of ownership, all their property in California gets reassessed.

HICKE: Yes. OK.

DOERR: So it's important.

HICKE: A big thing?

DOERR: Yes. It's lots and lots of money. These provisions are to a certain extent technical, but they amounted to a lot of money in terms of ultimate decisions of how you were going to assess property.

Then we came to the question of what's new construction.

[Laughter] In terms of how did that add value to the property.

HICKE: Oh, I see, it could be not just new buildings but just an add-on or something.

DOERR: Yes. So we tried to set up a definition which dealt with the issue of remodeling. Many types of remodeling we didn't want to be new construction, even though it actually was. We didn't want to cover it under Prop. 13, so we said new construction is "the alteration which converts property to different use or which is a major rehabilitation." It has to be a major rehabilitation or convert the property to a different use before remodeling would be new construction. Obviously a new house or a new building is new construction. You had the whole gray area. If you redid your kitchen, that's not going to be new construction, although you're spending money.



HICKE: Adding on value, probably. Also, a lot of people I know that wanted larger houses--instead of moving, they would build on a room.

DOERR: Now, a room would be reassessed.

HICKE: A room would be?

DOERR: If you added a room, yes. Because that added new space. If you add any new space and you didn't change the use of the property, it wasn't what we call a major rehabilitation.

HICKE: A roof? Would that be a major . . . ?

DOERR: No. It's still not clearly defined. Most of the time they err on the side of not reassessing for remodeling. But a new room is reassessed or an additional swimming pool or those kinds of things which are add-ons. So that was a tough issue, and we spent a lot of time before we came to a conclusion.

Then we had to set up a system for people to report changes of ownership. That took a lot of time. Discussion with the real estate and land title companies and others to file the change of ownership reports with the assessor.

And then what I have here is something I'd forgotten about. We put the task force recommendations into a bill. It was a Willie Brown bill, A.B. 156.<sup>1</sup> Jerry Brown vetoed it. I'd forgotten all about that. But my notes clearly say that's what happened. This says here the task force met every ten to fourteen days for four months to assemble the findings and recommendations, which were presented to the committee on January 22. It was different than

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1. A.B. 156 (1979) was vetoed by Governor Edmund G. Brown, Jr.

most reports, because it wasn't a report that went on the shelf. So not only do we have our recommendations, we had the draft language. We got the task force to agree on the language as well as recommendations. So we had the language put before the committee along with our rationale of why we wanted this change.

HICKE: Is that for purposes of court decisions?

DOERR: No, it was just to make sure we got beyond a report and into implementation. Some of these tax studies never go anywhere because they're too big.

Then we took this to the committee--the assembly committee. Willie Brown is chair, and I am committee consultant. Also, I'm the chairman of this task force. So again, it's a different role for staff. You're not just up there on the dias advising the chairman. I'm down at the podium presenting a major property reassessment program as a lead advocate, being the chair of the task force. I'm presenting the task force's report and recommendations. I'm presenting it in terms of legislation.

Then we had four committee hearings on the report. The committee went through it line by line, and they adopted it generally intact. They made a few changes in the area that says "trust and joint tenancy transfers, declines in values, reconstruction evaluations."

HICKE: Were these public hearings?

DOERR: Yes.

HICKE: Were there any people who showed up who were. . . ?

DOERR: Yes, the assessors showed up to try and convince the committee to make some changes. They had certain differences with the task



force. As I said, we had some minority reports, particularly from Alex Pope. He was kind of a maverick. He had some ideas that the task force didn't support.

But the committee generally adopted our proposal. In effect, marked it up, and made a few changes, and passed the bill. It says here, "The full senate eventually approved the bill, but not before a controversial amendment was added which ultimately led to the downfall of A.B. 156. This amendment, which made the change of ownership provisions of the bill retroactive to the 1978-79 fiscal year in the same manner as did S.B. 17. . . ." In other words, they wanted our definition of change of ownership applied back to '78-'79.

HICKE: Who's "they"?

DOERR: The senators who pushed this amendment. I'm not quite sure who did it. I'd forgotten all about this.

HICKE: What would be the effect of this?

DOERR: It said the task force had been split on this issue and then recommended that the bill be retrospective in application, as opposed to retroactive. In effect, past reassessments would be recognized, but any reductions in value would be made in '79-'80, leaving the '78-'79 roll as it was. Because our new change of ownership definitions may have said, "OK, this transaction is really no longer a change of ownership." Because we had such a skimpy assessment language in S.B. 154, assessors might have gone ahead and assessed a transaction as a change of ownership, when it really, under the new criteria, didn't fit.

HICKE: But you finally decided to leave it alone?

DOERR: Well, we said for 1979, that's no longer change of ownership. But for 1978 you still had to pay the higher tax for that one year. The fight was whether or not to in effect roll back the '78 taxes.

[Senator] Marz Garcia wished to make the change in ownership provisions retroactive. On the senate floor they voted 19 to 13. The assembly concurred. Local governments and some assessors urged that A.B. 156 be vetoed by the governor because of the revenue losses that is represented as \$75 million. And the governor vetoed it.

So what happened then was that an effort was made to enact a substitute bill with the changes to secure a governor's signature. This was then added to A.B. 1488 by [Assemblyman Thomas] Hannigan. And it corrected the retroactivity of the change of ownership provision, so that it went back to the original recommendation; it revised the timberland evaluations; it deleted a provision precluding the Board of Equalization from adopting rules and regulations on the bill, and gave an additional thirty days to meet deadlines. It passed, in that form.

HICKE: And Brown vetoed it because of the . . .

DOERR: He vetoed 156. He signed A.B. 1488.<sup>1</sup>

HICKE: That's what happened. One fifty-six because of the loss of . . .

DOERR: Yes. That went directly to the . . . So people who really didn't have a change of ownership still had to pay higher taxes for that one year, even though it was subsequently determined that wasn't a

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1. A.B. 1488, 1979-80 Reg. Sess., Cal. Stat., ch. 242 (1979).



change of ownership. Some people thought that was unfair. Others thought we couldn't afford to be fair.

HICKE: We didn't have a surplus anymore by that time?

DOERR: It was a loss to the locals.

HICKE: Oh, it was the locals. Oh, OK.

DOERR: So that was kind of an interesting episode. I'd forgotten about that, but now it comes back to mind. It also has a discussion here of the dispute we talked about earlier, in terms of what the base-year value was. Was it what was on the roll, or did you bring everybody up? Quite a long discussion of that. I think we hit the highlights of it.

HICKE: What's the name of that binder you're reading?

DOERR: This is "Property Tax Assessment, 1979." A.B. 156, A.B. 1488, A.B. 1019,<sup>1</sup> S.B. 1260.<sup>2</sup>

HICKE: Is that part of the papers you're going to eventually deposit so somebody some day reading this oral history can go to that binder and get the rest of it?

DOERR: Yes. It's got all kinds of material in it on assessment, all these assessment problems. It's got the copies of the bills.

HICKE: That's marvelous. You have all that gathered together.

DOERR: Yes. Here's a private memo to Willie Brown and Bob Leland, who was my associate. He was the assistant consultant, kind of bringing everybody up to date. We have the usual clean-up bills. [Paging through binder] That assessment system has stood the test of time, at least for ten years.

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1. A.B. 1019, 1979-80 Reg. Sess., Cal. Stat., ch. 1161 (1979).

2. S.B. 1260, 1979-80 Reg. Sess., Cal. Stat., ch. 1081 (1980).

HICKE: Has there been any aftermath or discussion of problems?

DOERR: There's been, as I say, court cases. In fact, there were two that just came down. One was whether a transfer of development rights was a change of ownership. Transfer of air rights.

HICKE: Air rights?

DOERR: Yes, where you put a height limit on buildings. If you could buy somebody else's height limit and add theirs to yours, if their building is going to be less than permitted by the height limit. The court said that was a change of ownership. The other one was sale and lease backs. If you sell a building, lease it right back, is it a change of ownership?

HICKE: Sounds like it is. Is it?

DOERR: Yes, it is, although we didn't think it was. Because remember, the basic definition is that you have to transfer the beneficial use of the property. We thought if you're selling the building, then leasing it right back, you still have a beneficial use. The court said no, the buyer had the beneficial use, and he was then using that use to make money through a lease.

HICKE: You could argue for that either way.

DOERR: You could argue either way, yes. It was one of those that nobody knew for sure. So we still have a lot of little assessment issues that are unresolved. The only remaining bit issue is the basic issue that's presented by Prop. 13 of the question of having acquisition value assessments instead of the old system which reassessed property every year. There are people that don't like it. They are suing, alleging that this is inequitable, that one home pays less than a neighboring home of equal value. They say that's inequitable. But I



don't think that's the primary reason. In my own view, they want the system thrown out to get more money.

They're saying it's unfair for somebody who just buys a home to pay a lot more tax than their neighbor. That's what Prop. 13 does. But then you come and see what they're advocating.

HICKE: This is local officials you're talking about, that are saying this?

DOERR: Primarily, tax reform groups such as the California Tax Reform Association. They'll condemn Prop. 13's acquisition value assessments, because of unfairness. They're going around supporting increases in property transfer taxes. San Francisco's had this on the table for the last couple of months; it's been in the Chronicle. Some supervisor's proposing it. We think that is exactly the same thing. You're imposing a tax on this person who's buying this house, but they're going to pay more to government and this next-door house won't under a property transfer tax.

In fact, I suggested kind of flippantly at the meeting, "If you don't like Prop. 13's acquisition value system, we'll abolish the property tax altogether and impose a property transfer tax." It's curious how it works out. I had the Board of Equalization develop the statistics to essentially prove my point. It's still a viable option if some court throws it out. You just impose a sales tax on the sale of property. A 6 to 7 percent sales tax on the sale of property will produce roughly the equivalent of what you produce in the property tax.

HICKE: Is that right?

DOERR: Every year.

HICKE: Would that deter people from selling and buying property?

DOERR: Does the present system deter it? Doesn't look like it. But the revenue effect would be the same as the existing law.

So everybody says, "That's a crazy idea." I said, "Yes, but it shows you that this other idea, the fact that people are criticizing Prop. 13, its acquisition of value, and then going ahead and proposing this additional tax is inconsistent." They're really not upset about the disparities; they're upset about the revenues. That's what they want.

I've argued that at other times. I've argued a lot of things about the advantages of an acquisition value assessment. It's not as clear cut as it normally would be in terms of whether or not there's a disparity. You can argue economics, you can argue a various number of things. One, the most interesting thing, you hear all about these huge disparities. The average disparity is, I think--it's less than 2 to 1. The State Board of Equalization is required to put out a figure of what the full market value of business property is and what its value under Prop. 13 is. It said business property is assessed at 70 percent of full value, which is pretty close. And homes and businesses have been maintaining parity since the passage of Prop. 13. There hasn't been any shift one way or the other.

Prop. 13 stopped the shift of values to homes, interestingly enough. At the time it passed, we thought it would be exactly the opposite. We were convinced that Prop. 13 was going to shift a lot more of the taxes on homeowners, because of the change of ownerships. But it hasn't happened. We put through a provision that the Board of Equalization has to collect that information every



year. It's been as constant as could be. So there has been no more shifting of values.

Based on the statistics, the variation between somebody's who's at market--on the average, it's less than 2 to 1. Although there are obviously some that are larger. The average is the average of everybody, and there are some that are greater than that, could be substantially greater. But under the old ad valorem system, going all the way back to the assessors' scandal which we talked about, there were variations in the ratio of assessed value to market value that were just tremendous. Having a market value system instead of an acquisition value system doesn't mean you eliminate variations. The variations, instead of being by law, become variations by assessor practices. But they're still there, and every study that's been done by the U.S. Department of Commerce, any academic study will show you tremendous variations in property taxes on property with the same market value.

One of the things that opponents of Prop. 13 say is that Prop. 13 is inequitable. The old system used to be as inequitable as Prop. 13, so that's one answer. Two, instead of looking at inequity on a year by year basis, look at it over a longer period of time. The newcomer who is now higher than his or her neighbor, in three years may be lower, when the neighbor's house is sold and it's been reassessed.

HICKE: Oh, yes. Way above you now.

DOERR: Way above you, so it averages out. Average over six years, then maybe you're about the same. Since you have a movement in the real estate market, over time it averages out.

An economic aspect of this is the capitalization of income, which runs through all the economic literature in terms of taxes. When you buy property, those taxes have capitalized in the selling price. So if you're going to have to pay a higher tax, you're going to pay a lower price for acquiring the property than you would have if you didn't pay a higher tax. So to a certain extent, the price of the property has gone down because you're paying a higher tax. If you had equalization of taxes, then you should have paid more for the house.

Finally, I'm getting to the arguments that justify an acquisition value assessment system. So far we've had three. One, the other ad valorem system was equally inequitable. Two, this capitalization theory. And three, look at it a longer term. It's going to average out as property sells every seven years. Any given moment, you're going to have inequity. Over time, those smooth out.

The final point that a lot of people have made--and this is something that I'd like to see somebody do some work on, because I don't think it's ever been studied--it's the marginal cost theory. The new folks coming in should pay more, because they impose these added marginal costs onto the structure that forces everybody's taxes to go up.

HICKE: The local government, you mean? Like new water lines or something like that?

DOERR: Like the freeway. When I bought my house, I could come to town without any traffic. As soon as all these new people come in, the freeway's clogged, and we all have to pay more taxes to build another freeway or widen the freeway or whatever we're going to



do. Build a transit system. If those people hadn't come in, I wouldn't have had to pay those taxes. In effect, their acquisition, so to speak, of property, has created additional marginal costs, so maybe it's fair that they pay more because they've imposed these burdens that wouldn't be there if they hadn't been there in the first place.

I haven't seen much ever written and discussed about that kind of theory of government costs. As you think about it, you can see that there's a germ of something there that needs to be factored in. I don't know to what extent or how much, but you could say that. I don't think anybody's even using that in court briefs. But you can see that in effect, there's an added cost for that unit, but in addition, there's a spillover cost that other people have to pick up. The crowded freeways, and a crowded street. But there's a lot of other types of examples.

HICKE: Sure they might have enough people come in to say, "Let's build a new school" right there.

DOERR: Yes, you don't need. . . . Right now the community and schools are fine, and everybody's paying their taxes. If you had no more people coming in, your taxes won't change. If you had these new people come in, you have to have a new bond issue to build the school that everybody's paying; you wouldn't have had that if they hadn't been there, hadn't come in. That's the marginal cost argument of acquisition value assessments, that there's a justification for a higher value. Anyway, the courts are going to see that.

HICKE: It's probably about time to . . .

DOERR: What time is it? Yes, it's about a quarter to twelve. I think we've gone through Prop. 13. We've described the implementation of Prop. 13.

As you said, I have much material in binders. I'm trying to think of little things that I never put into the binders, like a little more of the flavor of what we did--the intensity of the time, and how people were so ready to stab somebody else in the back. Everybody was battling over fixed pie. It's the zero-sum game that if there's not enough for everybody, then they start cannibalizing each other.

HICKE: Can you think of any particular anecdotes?

DOERR: Well, the one I mentioned with Jim Mills, with the three years versus one year. It's a classic example, because whoever wanted three years figures they'd get a larger share than if they had the one year, so they were ready to stab whoever had the one year in the back, and they had more political power, and they were able to do it, even though the staff had recommended a one-year program, and we got beat up in the process for even suggesting it.

[End Tape 25, Side A]

[Begin Tape 25, Side B]

HICKE: You said you had written a paper on it. Was that one of the things you were reading from, originally?

DOERR: Actually, I found two papers. They were speeches. That anecdote, I don't think, is in either one. It's just something that sticks in my mind. Let's see what I have.



This one, the first one, is the California revenue limit proposal. It was presented to the National Association of Tax Administrators on June 21, 1978, but I never did that. I wrote this, but we were still in session. We had passed the first bill by that time, but we had the clean-up bill, which was the Gregorio bill, which was resolving a lot of the little problems I haven't even bothered to talk about. I have a binder here somewhere that's that thick, just on the Gregorio bill. Martin Huff gave this speech for me. He went back there, and he gave it in my stead. This speech has some of the factors going into what caused 13 and kind of the impact of 13, what it does, who benefits, what are some of the problems we're wrestling with at the time.

Then the next one, which I did give, was to a conference sponsored by the Lincoln Institute in Cambridge, 1979. This was reprinted in the Southern California Law Review. It's the California legislature's response to Proposition 13. It talks about the way we implemented it, and it talks about A.B. 8, talks about other bills. It doesn't have the anecdotes. If you're going to speak to the public, you have to be careful what you say.

[Discussions deleted]

HICKE: We've covered the politics, the economics, and the background, and the impact of Proposition 13. I'm sure you could talk about it for another couple of hours.

DOERR: Yes, there's a lot of material here. I was trying to figure out how to cover it and not gloss over it, but not get bogged down in minutiae.

HICKE: Do you think we've done pretty well here? I think so.

DOERR: Yes, I think so. I guess the next thing that comes now is our friend Mr. Gann. Right? Because now we've gone through the '78 session and the '79 session. Now, in the fall of '79, Mr. Gann has on the ballot a spending limit proposal, which is the next big thing. It's almost like waves. You just finish dealing with one, the next one hits. So there's a little bit of preamble, because this was also an issue before the legislature.

The question was whether the legislature could pass an alternative, and there were a couple of alternatives. One was Deukmejian's, and Willie said he would never pass it. This was after we implemented 13, during the later part of the session. Deukmejian was running for attorney general, and had won the Republican primary.

HICKE: Do you want to tell this story now, or do you want to . . .

DOERR: I just want to set the . . .

HICKE: OK, set the scene. All right.

DOERR: Willie said he would never pass Deukmejian's bill, so the word was passed back that he wasn't going to consider his proposal, because he was the Republican candidate for attorney general. I think that really made him mad. And [Assemblyman John R.] Garamendi had another competing one, which the committee tried to put out, which was a lot looser. It's interesting, because Garamendi just carried the bill to loosen the Gann limit (which became Proposition 111, in June of 1990), and maintained that he never liked limits, although I knew that he'd proposed one twelve years earlier. Garamendi's wasn't as severe as Deukmejian's, which was similar to Gann's.



After Gann's initiative passes, the implementation is another little story, because they put out a book on how it was supposed to be implemented, the so-called drafters, the five organizations that drafted it. And we just ignored it and decided to put together our own implementation.

Although in the end, I think we implemented it fairly. At the time, the drafters just wanted to get an extra pound of flesh. We implemented it so fairly, that in 1988 Cal-Tax begins to say that it's too Draconian, even the way we implemented it. But at the time, we were looked at as being softies. It was Fred Silva, Martin Helmke, and I, were doing the implementation of the Gann spending limit.

HICKE: OK. Shall we turn it off?

DOERR: So that brings us to lunchtime, doesn't it?

[Session 10, February 15, 1991]

[Begin Tape 26, Side A]

HICKE: You said you have collected some material?

DOERR: I found some material here.

[Interruption]

I culled a few things from my files that illustrate what a legislative staff does that's often not seen by the public. The first one here--they're not in any particular order--is a memo that I drafted.<sup>1</sup> I was asked to do just revenue estimates.

HICKE: When was this?

DOERR: This was 1971. It happens to be on the candy exemption, and I basically came to the conclusion the Board of Equalization estimate was incorrect, so one of the functions was to keep the administration honest and critique estimates. Another was to work with the various members of the committee in terms of reviewing their legislation, kind of setting up a briefing and pointing out problems, et cetera. Here's a memo as an example of that to Assemblyman Pete Wilson.<sup>2</sup>

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1. See following pages.

2. See following pages.



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VICE CHAIRMAN  
ROBERT E. BADHAM  
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JOHN V. BRIGGS  
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# California Legislature

## Assembly Committee on Revenue and Taxation

ROOM 4016  
STATE CAPITOL  
445-7575

JOE A. GONSALVES  
CHAIRMAN

530a  
LANI TTES  
COMMITTEE SECRETARY  
DAVID R. DOERR  
COMMITTEE COORDINATOR  
WILLIAM PRICE  
COMMITTEE CONSULTANT  
PAMELA PECARICH  
ASSISTANT CONSULTANT

### MEMO

TO: Assemblyman William T. Bagley

FROM: Dave Doerr, Committee Coordinator, Assembly Revenue  
and Taxation Committee

DATE: September 9, 1971

RE: AB 2109

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You have requested that I review and comment on a revised estimate, made by the Board of Equalization, of the revenue loss if candy is exempted from the sales tax. As you recall, I furnished you with the original estimate that the exemption would reduce revenues by \$15 million (\$12 million state loss and \$3 million local loss).

I believe that my original estimate is a better estimate of the loss than the revised estimate of the Board of Equalization. Our \$15 million revenue loss was based on data furnished by the U.S. Department of Commerce on their estimate of the value of retail sales of candy in California and our adjustments based on the value of the candy already tax exempt and the value of candy which will remain taxable under AB 2109.

The Board of Equalization's revised estimate is deficient in the following respects:

1. Mark-up: The Board assumes a 100% mark-up in candy to its retail selling price. There is not adequate substantiation of this assumption.

As mentioned above, we are using Department of Commerce estimates of retail value, rather than using wholesale price and using assumed mark-ups.

2. Allocation of National Total to California: The Board allocates national candy sales value to California on the basis of income. I believe that a per capita allocation would produce a more realistic picture of candy consumption. By using a per capita approach, less of the national total would be allocated to California.

3. Failure to Make Other Adjustments: The Board only adjusts their figures to give credit for the fact that candy selling for 15¢ or less through vending machines is taxed at the wholesale rather than retail price.

Their estimate does not include the following adjustments which need to be made:

- a. Sales to commissaries and military installations which are now exempt.
- b. Sales of candy (such as 7 oz. bars, etc.) which are now exempt.
- c. Sales of candy in places where admission is charged (theaters, sporting events) which would continue to be taxable.



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### MEMO

TO: Assemblyman Pete Wilson

FROM: Dave Doerr, Coordinator

DATE: April 15, 1971

RE: Proposed disaster relief bills

On the analysis of the first Constitutional Amendment to provide property tax relief for property damaged in a disaster, we pointed out that a homeowner who lost his home by fire would get relief if he was in a county declared a disaster, but a homeowner who had the same damage from fire in the same day in a county outside a disaster area would get no relief.

The loss is exactly the same as far as each individual is concerned -- but one gets relief and one does not.

Your bills attempt to redress this inequity.

In the proposed bill, I would remove subsection (a)(2) and let the provision apply in all areas. Otherwise, the taxpayers in non-damaged areas are automatically entitled to apply for relief, while those under 1551.1 may apply only if the Supervisors "trigger" the relief.

You will run into the following problems:

1. Loss of revenue to local government.
2. Extra administrative costs to assessors to make the reassessments as provided.
3. Whether or not insurance should be considered in determining loss (ie., insurance is cash which is not subject to tax but property is).

- HICKE: Are you going to give these to me? We can just put them as extra pages.
- DOERR: Yes, I'm giving them to you.
- HICKE: Great. OK.
- DOERR: Here's a big article that was in the L.A. Times in 1971 which described what we do and goes into the whole issue of the battle over tax reform in the process of describing what we do.<sup>1</sup> This is the senate. We were fighting: the assembly and the senate; Winkler and I.
- HICKE: That's good. That's really good. That's great.
- DOERR: It's funny. Reading it now, it says. . . . I just go on and on. [Laughter] After that, for eighteen years.
- HICKE: I'm just going to quote this first paragraph. "Tax reform programs come and tax reform programs go, and so do the governors, senators, and assemblymen who propose and oppose them, but David Doerr just goes on and on."
- DOERR: That was 1971.
- HICKE: That was just the beginning.
- DOERR: This is an article I think I mentioned before in connection with the story about when Jesse swore at me on the floor of the assembly, about the school finance bill, how we thought that there was an error in it, so we brought it to a showdown.<sup>2</sup> Well, here is the follow-up article that came about six months later, kind of the wrap-

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1. See following pages.

2. See following pages.



## Experts Match Their Wits on Tax Measures

Continued from First Page  
tions generated by the personal and ideological struggles that swirl around them.

But they also realize that politics is a volatile business and that the losers of today may win control of the Legislature—and its payroll—tomorrow. Thus, consultants who care about job security try to remain impartial.

They also try to remain in the background, realizing not only that their bosses carry the weight of responsibility for final results but that the bosses must also be elected every few years and therefore need public exposure more than any consultant.

In fact, Doerr and Winkler were reluctant to have their names appear in this story and insisted that the project be cleared with their legislative superiors.

Doerr, 37, began his legislative career in 1959, shortly after winning a master's degree in political science at San Jose State College.

Originally hired as a legislative "intern," Doerr was promoted four years later to the Revenue and Taxation Committee job he holds today.

### Crammed with Books

A portly man of middle height and cherubic features, Doerr works in a small office crammed with bookcases, budget documents, an adding machine and a straight-backed chair for the occasional legislator, lobbyist or newsman who stops by with a question.

On a wall opposite the chair there is a blackboard (about a yard square) upon which Doerr sometimes illustrates his answers with diagrams and numbers.

Although tax reform has been his major project, it is not Doerr's only job. He and his staff of four (two consultants and two secretaries) must also prepare a written analysis for each of the more than 200 bills submitted to the committee for a vote every year.

Doerr is fascinated by tax systems, believing that they—perhaps more than anything else—define our society's values. And, when analyzing a bill, he attempts to describe the social values that may be involved.

For instance, a measure changing timber taxes could affect the environment by encouraging or discouraging the premature cutting of trees.

### Beginning of Survey

When Doerr joined the Revenue and Taxation Committee in 1963, it was just beginning a major survey of California's tax system. The survey report, which Doerr drafted, concluded that proper property taxes—levied by local governments—are regressive, unfair and in some cases have driven business from the state.

The report recommended that property taxes be reduced and that replacement revenues be provided by the state, primarily from boosts in the income and sales tax.

Most elected officials



Harold Winkler



David Doerr

should be increased most—rich individuals, poor, big business or small?

And, should local government be restrained from raising taxes after the state finances a reduction?

Doerr drafted his first tax reform bill in 1965. In general it raised state taxes by about \$1 billion per year with about \$750 million to be dispersed as property tax relief. The surplus was to help finance state operations.

The bill's principal sponsor then was former Assembly Speaker Jess Unruh, last year's unsuccessful Democratic candidate for governor. It was opposed by the governor in 1965, Democrat Edmund G. Brown.

Last year's bill, which Reagan sponsored, was similar in some respects to the first measure. However, the state tax increase and property tax reductions were balanced; there was no tax surplus to cover state operations.

Winkler joined the fray in 1967 as a consultant to the Senate Finance Committee, then headed by the late Sen. George Miller Jr., a Democrat from Martinez.

### Statistics Given

Miller, one of the most powerful men in the upper house, had opposed tax reform from the start, largely because he saw no way to prevent cities, counties, school districts and other forms of local government from raising their tax rates to offset effects of any state reduction.

Winkler added to Miller's arsenal of arguments by developing statistics to show that business would receive 70% of the benefit from property tax relief, but would pay only 30% of the cost.

(Doerr has since produced statistics to show that business would pay a fair share.)

Winkler, 56, is a former professor of government at UC Berkeley who became a consultant largely because of his dissatisfaction with the quality of education in California public schools.

Winkler began as a Finance Committee consultant on education and is proudest of having drafted a bill that eventually became the Miller-Unruh Basic Reading Act. The measure requires testing of students to determine their reading ability and provides special instruction for those who need it.

### Total Tax Reform

But Winkler soon realized that education reform is often a matter of money. Thus, he moved to the area of school taxation and from there to the broader issues of total tax

sign a controversial loyalty oath. From then until 1962, he was president of Pacifica Foundation, the owner of three radio stations known for their willingness to broadcast controversial views.

Last year, some Republican conservatives in the Senate—citing Winkler's past—forced his transfer from the Senate's general consultant staff to the staff of Senate Democrats. (Both parties in both houses have state-supported staffs of their own.)

But the action proved temporary. Earlier this year, the Senate's new Democratic leaders returned Winkler to the Senate's general staff.

## Tax Reforms: Battle of Wits by Two Experts

BY ROBERT FAIRBANKS  
Times Staff Writer

SACRAMENTO—Tax reform programs come and tax reform programs go. And so do the government senators and assemblymen who propose and oppose them.

But David Doerr just goes on and on.

Doerr is the State Assembly expert who has drafted nearly every legislative tax reform package since 1963, the year in which tax reform itself became a major state issue.

During these years, Doerr has drafted a tax reform package at the start of nearly every legislative session. And in nearly every session, political disagreements have sent the package down the drain.

Doerr, of course, will tell you that none of this bothers him. He will say that he is merely the professional who carries out orders from the elected officials who make the final decisions and bear the final responsibilities.

And he is correct. But after six years, who can blame him for having an occasional twinge of disappointment, unprofessional as that might be?

### Understandable Glare

And who cannot understand that baleful glare he sometimes casts at Harold Winkler, the Senate tax specialist who, among other things, drafts the arguments used against Doerr's programs?

Last year, for instance, most people thought the tax reform battle was fought between Gov. Reagan and those 13 state senators who blocked the governor's tax bill on the Senate floor.

For the most part, it was. But who rushed in with fresh supporting arguments each time the other side bombarded the old ones?

Who checked and double-checked all the revenue estimates and other statistics when the enemy said they were wrong?

Who answered all those press releases to answer the enemy's public pronouncements?

In short, who kept long hours and did most of the work?

Doerr and Winkler, that's who. None of this means that Doerr and Winkler are particularly unique. In fact, they are fairly typical of any 50 consultants hired by the Legislature to make studies, draft bills and analyze bills already introduced.

(This group does not include legislative Analyst A. Alan Post and his staff of about 30 specialists, who are primarily concerned with costs and efficiencies more than with the policies particular bills.)

Most of the consultants work for various Senate or Assembly committees. Doerr, for instance, is general consultant to the Assembly Committee on Revenue and Taxation. But a few, like Winkler, work for an entire house.

The consultants exercise considerable power and bring home the fact that they are not immune to the

do today. The problem has been to find a politically acceptable formula for accomplishing the goal.

For instance, whose property taxes should be reduced most—poor homeowners, rich homeowners, big business or small?

Or, whose state taxes

the Finance Committee until Miller's death in 1969 then joined a staff of consultants who work—each with his own specialty—for the entire house.

Winkler left Berkeley in the early 1950s during a well-publicized dispute involving him and other professors who refused to



# THE VOICE WARNED OF BLUNDER

## Legislators Ignored Portent

By BILL STALL

MEMORANDUM TO — California probably wouldn't be a new \$152 million fiscal year today if legislators had heeded the solemn warnings of an assemblyman who said last August.

Assemblyman John G. Veneman stood up on the floor of the lower house that night and challenged the state's top experts on education finance.

The story of that night is related in cryptic form in the official Assembly Daily Journal for Aug. 3, 1967, augmented by Veneman's recollections during an interview in his office Tuesday.

At issue was a bill to give the state's 1,227 school districts \$145 million in new state aid. Veneman stubbornly warned the bill could wind up costing the state much more than the \$145 million that was available.

But the lawmakers were weary on the 27th calendar day of the regular 1967 session and wanted to go home. The education bill, sponsored by Democratic Speaker Jesse M. Unruh of Inglewood, was one of the last obstacles.

Veneman finally relented and the measure went through unchanged and was signed into law by Gov. Reagan 10 days later.

This Monday, Finance Director Gordon P. Smith announced

that a "glaring blunder" in the Unruh bill would cost the state nearly \$70 more than expected this year and another \$2 million in the coming fiscal year.

Since Monday, there's been a sort of inquest into just what happened.

The school bill, AB 272, came to the Assembly and Senate late that August night after drastic revision in a two-house conference committee composed of four Democrats and two Republicans.

Final passage of the bill had been held up until Reagan's \$1 billion tax increase measure had cleared the legislature. Several education measures sponsored by Sen. George Miller, Jr., D-Martinez, the Senate Finance Committee chairman, had been incorporated. In all, there were 68 changes drafted in the conference committee.

The bill also revised some of the complex maze of formulas used to determine how state aid is parceled out to school districts. One of them is known as the "Collier factor."

Veneman recalls the events which happened that August night after he returned to his office from supper.

David Doerr, consultant to Veneman's Revenue and Taxation Committee, had been checking over the conference committee's version of the Unruh bill.

"There are problems in here," Doerr told Veneman. Veneman said they went through the measure and decided the committee, and its expert advisers, hadn't set aside

enough money to provide for changes made in the Collier factor.

And it seemed, Veneman said, the bill counted on two sources of revenue that already had been "spent" in putting together Reagan's tax program. One was about \$20 million the school districts would get from higher property tax assessments.

The other was about \$20 million set aside as bonus money for school districts which unified with other districts, but not used.

Veneman knew that those sources of revenue already had been used up in working out the tax bill.

He brought up these points minutes later when the final form of the bill reached the Assembly floor.

So incident was he on checking them, Unruh took the unusual move of forming the Assembly into a "committee of the whole." He called up Ronald W. Cox, chief of public school administration for the Education Department, to answer questions.

Doerr moved up next to Veneman's Assembly seat to confer.

"I asked Cox about the Collier factor," Veneman said. "He said it wouldn't cost more than about \$1 million. I thought it would be much more, probably about \$10 million."

"Then I simply asked Jesse if he was sure he was saving that we used when we passed the tax bill. He said no, they were not spending the \$20 million."

Veneman held up passage for about an hour as he probed for answers to his questions.

"The group was getting a little irritated," Veneman said.

Cox and Unruh insisted all the money was available for financing the \$1.15 billion school aid, he added.

Finally, Veneman relented and accepted the figures. The Journal relates simply: "On motion of Mr. Unruh the committee did arise and report back to the Assembly."

The Assembly then passed the bill, 61-10, with Veneman recording one of the 61 yeas.

The Senate gave final passage and the session adjourned. When the bill was questioned in January by the California Taxpayers Association, Unruh replied:

## Rep. Powell Denied Challenge to Ouster in Federal Courts

### Court of Appeals Ruling Implies Use May Have Erred in Action

NGTON (UPI)—The U.S. Court of Appeals ruled today that former Clayton Powell cannot challenge his ouster in the federal courts, upholding a district court ruling, was unanimous and announced setback for the beleaguered Negro Democrat. Powell was excluded with Congress March 1, 1967, by vote of his former colleagues. His congressional seat has remained vacant pending his effort to overthrow the ap-  
Today it could  
m. While rul-

While ruling on Powell's appeal, the court said it was not necessary to decide whether Powell's ouster was unconstitutional.

While ruling on Powell's appeal, the court said it was not necessary to decide whether Powell's ouster was unconstitutional.

## The Bakersfield Californian

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"I believe that the representations of all senators concerned with the bill that it provided \$145 million in new state money for schools, within the framework of the present law, was founded in fact. The bill will not, therefore, add to California's fiscal problems."

Unruh said this week he would stand by his letter to the group.

Veneman contends now, "The bill was misrepresented that (August) night." But he said he did not think it was deliberate.

In the Senate Finance Committee Tuesday, Sen. Howard Way, R-Exeter, a member of last year's conference committee on Unruh's bill, said "we really spent a lot of time" on it.

But he expressed the dismay of all legislators in coping with education finance.

He said it "has become so complicated that no one understands it. It's gotten beyond us and we can't handle it."



up of the fact that the truth then came to light, and the whole story about it.

HICKE: How excellent. OK.

DOERR: I was hoping I'd still have that, because that was important.

HICKE: You must have a wonderful filing system.

DOERR: Yes. That kind of enhanced my reputation, when you put your reputation on the line to go down on the floor and make these charges against the speaker's bill, then have it come true, and having a story written about it. It then tends to add to your credibility.

HICKE: That's good. I'm glad you have that.

DOERR: I think that when we're talking about our first tax reform program and Governor Pat Brown, and how he didn't particularly like the legislative staff. . . . It's talking about legislative consultants here.<sup>1</sup> I think this is good. Governor Brown is asked, "How do you feel about the legislature trying to propose its own program?" Then it goes on, "I think that there's a tendency to get too many consultants and too many cooks in the job of government. . . . Then you have the senatorial consultants," et cetera. "Sometimes these consultants are very brilliant young men and they can assist. But they've had no experience with the actual operation of government, and I think they can frustrate some good legislation by thinking they know more about it than we do." This is part of a transcript from Governor Brown's press conference. It's basically the top of the last page.

HICKE: This is Governor Brown speaking, that you were quoting?

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1. See following pages.

PRESS CONFERENCE - GOVERNOR E. LUND G. BROWN

JULY 6, 1965

Reported by:

Alex C. Kaempfer, CSR

GOVERNOR BROWN: Good morning. I hope you all had a nice weekend.

I want to make two announcements this morning. First on the weekend deaths: 53 persons were killed on the July 4th holiday, which compared with 84 last year for the same period.

I don't think you can specify any cause for this breakdown in highway safety because it seems to take on a continuing pattern. But I do hope that the bill that I intend to sign probably some day this week <sup>that</sup> will eventually lead to the doubling of the Highway Patrol will cut down these terrible deaths on the highway.

I think you'll observe that a great many of these fatalities were single-car accidents which indicates either intoxication or people going to sleep at the wheel or just carelessness, and these are awfully hard to really prevent.

I do hope that one of these days the Legislature will pass this alcoholic test for drunk drivers. I really think that would be a deterrent.

Now, I haven't seen the figures but if you take a look at the deaths that have occurred this year I think you'll find out that alcohol played a great part in it.

Now, if there are no questions, why, I'll move on to number two.

Q Governor, did you say there were 53 killed this weekend compared to 84 last year?

A For the same time span, in -- 54 over a three-day Memorial holiday this year, yes, so we had a much better record than we had last July 4th. But it's awfully hard to boast about 54 deaths in a period of three days. You can compare it with the number of Americans killed in Viet Nam and you find out right here in California we kill more



he and you or the Legislature or does he just go ahead and operate independently on reapportionment?

A I have an idea that any special master appointed by the court will probably take some evidence. He'll probably have hearings and will probably listen to everybody under the criteria laid down by the court.

Q Governor, could we get back to a topic you touched on briefly here with regard to the pocket veto, you say you think the strength of the executive branch must be maintained. Do you feel that as time goes along the legislative branch is trying to intrude upon the duties of the executive?

A Well, I feel that where the Legislature makes appointments to executive commissions that the Governor is responsible for carrying out that there has been a trespass upon the functions of the executive.

I think the Legislature's duty is to be able to look at all of these boards and commissions very objectively and if they're getting patronage out of it, even though it's honorary positions, they may have a tendency not to look at it as closely and as objectively as they should.

And I think when the Legislature starts putting people on fair boards and other executive commissions such as the Bay fill, that they're not fulfilling their function of setting policy and looking closely at what we're doing in the executive branch of government.

So I do think that there's been a tendency in that direction at this session of the Legislature.

Q There also seems to be a tendency on the part of this Legislature, at least it has attracted some attention in political science journals, and so forth, of attempting to propose its own program independently of the executive which is sort of tradition of the State government.

How do you feel about this? Do you think this is a dangerous tendency?

A I think generally that the Legislature having its own consultants is a good thing. I think that they can do a good job of assisting and aiding the executive branch of

government and do their own function of legislating much better.

But I think there's a tendency to get too many consultants and too many cooks in this job of government. We now have the Alan Post group up there that do a fine job of analyzing the budget and pointing out areas that can be cut down. I don't think they make any policy decisions.

Then you have the senatorial consultants and you have the assembly consultants and then you have the executive branch of government that's working and dealing with these things on a day-to-day basis, and sometimes these consultants are very brilliant young men, and they can assist.

But they've had no experience with the actual operation of government, and I think they can frustrate some good legislation by thinking that they know more about it than we do.

I think in the tax situation this year the fact that the Legislature failed to follow my recommendation of a joint Senate-Assembly-executive study group played a part in our inability to come to grips with the tax reform at this session.

The Assembly had one idea; the Senate had another. And the executive branch was trying to find an area of agreement between the two of them. And as a result nothing came out of it. And I think this hurt quality government in the State of California.

Q Governor, isn't it a fact that traditionally it's always been a struggle between the legislative and executive branches of government in this country?

A I think that's generally true, but I think the best government comes when you have cooperation from the executive, the executive working with the legislative branch of government.

I think in '59 and '60 and then when I was re-elected those years where there was great consultation between the executive and the Legislature, that we made real progress and both gave in. This time there was not the dialog between us that I would have liked to have seen, although at the end



DOERR: Yes. And this in response to the work we had been doing on the tax reform proposal for the assembly; that was frustrating him and had become an issue.

Another thing that we used to do, as an example, was to write speeches for the speaker. This is a copy of the speech I wrote for Jesse Unruh.<sup>1</sup> I re-read this speech and I found this is still pretty relevant today. This was for 1964, which makes it almost twenty-five years old, and it would be really a good speech to give today. There would be a few little changes, but. . . . [Pause]

HICKE: Can you quote some of the more relevant parts?

DOERR: This was a speech to the assessors association. He's talking about tax climate, and what is the tax climate. It's taxes, but it's government services, and you have to look at both of the things together. How we're trying to improve the tax climate. The problems with the property tax. Then we go on to. . . . We need to improve the structure of property tax, we need to improve the structure of government.

There are 3,000 special districts. They have lots of disadvantages; there's little public awareness of these districts, et cetera. Turnout is low when district directors are elected. They spend a lot of money just talking about the city and the relation of the city with history and how cities developed. I think it would be hard to justify the assertion that any of the small cities, and that includes small cities in large metropolitan areas, are efficient and economical. The state's taxpayers are paying dearly for the privilege

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1. See following pages.

DISTRICT OFFICE  
417 SOUTH HILL, SUITE 403  
LOS ANGELES 13, CALIFORNIA  
TEL: 626-7343

SACRAMENTO ADDRESS  
ASSEMBLY BOX 65  
STATE CAPITOL  
ZONE 14  
ROOM 3164  
TEL.: Hickory 5-4711  
EXT. 3134

# Assembly California Legislature

MEMBER CALIFORNIA LEGISLATURE  
SIXTY-FIFTH ASSEMBLY DISTRICT  
LOS ANGELES COUNTY

MEMBER:  
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University of California  
BOARD OF TRUSTEES  
California State Colleges  
CALIFORNIA STATE DISASTER  
COUNCIL

JESSE M. UNRUH  
SPEAKER OF THE ASSEMBLY

Dear Sam,

I wanted to tell you, even  
the blottedly, how much I  
appreciated your help on my speech  
before the State Assoc. of County  
Assessors. It was a solid  
piece of work and very well  
received.

I do appreciate it and all  
of the rest of your help and  
advice as well.

Sincerely,  
Jesse



## TAX CLIMATE IN CALIFORNIA

62nd Annual State Association of County  
Assessors

September 22, 1964

by  
Jesse M. Unruh

First let me pay tribute to a group of officials who surely get less public praise and more vituperation than any other. Judging by the comments I hear, I am amazed that any of you are ever able to be re-elected. I want to give particular recognition to my own county's assessor, Phil Watson.

Phil has done a remarkable job -- in the short period of time he has been assessor -- in improving the administration of the property tax in Los Angeles County. In addition, he has been forthright in pointing out weaknesses in the tax structure and active in making suggestions for improvement. We are grateful for these suggestions.

We in the Legislature need the advice and help of those of you at the local level -- those of you closest to these problems -- if we are to make any meaningful changes in the tax structure.

According to your program, I am here to tell you about the tax climate in California. I am not an expert in economic

meteorology. I do feel, however, that the term "tax climate" has been overused and misused. Whenever I hear the word tax climate it is usually in conjunction with an effort to play California's tax structure off against that of another State such as Mississippi or Alabama. The startling conclusion usually reached is that taxes in California are higher than those in other states and therefore the tax climate is bad -- particularly for business.

My interpretation of the term "tax climate" is different. To me, California's tax climate is good if the revenue structure can support the services which the people demand and need. To me the tax climate is good if the tax burden is equitably shared by all. To me, the tax climate is good if the tax structure is able to meet the pressing demands of urbanization and growth.

Conceding that taxes are higher in California, we must not lose sight of the fact that California provides the highest quality of public services, that low utility costs more than compensate for higher taxes, and that we have the climate, the markets, the natural resources and the people upon which we are building our great society.

We must not lose sight of the fact that industrial expansion is continuing at a rapid pace, that personal income in



the State is at an all-time high, and that the average take-home pay of our workers in terms of "real wages" is also at an all-time high.

This is not to say that we should not bend every effort to improve our tax climate. The Legislature has gone on record, and I am proud to say I am a co-author of the resolution, to fund future State capital improvements from current revenues rather than bonds.

Although initial costs will be greater under this plan, in the long run the taxpayers of California will save millions of dollars that would otherwise be spent as interest on State obligations.

Through our Committee on Revenue and Taxation, we are studying the entire State tax structure this year. When the findings of this work are in, we hope to be able to make significant changes which will prepare our tax structure for the future. I understand that Assemblyman Nick Petris, the Committee Chairman, has already discussed this study with you.

Such being the case, I will confine the balance of my remarks to that festering sore in our revenue structure -- the property tax. As this tax represents approximately one-half of all revenue collected by State and local government, it has a profound influence on our revenue structure and our tax climate.

Of primary concern are:

1. The soundness of the property tax as a revenue source, and
2. The increasing pressure of the property tax on the income of our citizens.

One writer has stated that the property tax has only two faults. First, it is wrong in theory; and second, it doesn't work in practice. We all know that the property tax, although proportional in rate, is often regressive when related to the income of the property owners.

This is because a considerable portion of the tax falls on housing and housing expenditure tends to decline as income rises. In addition, the use of an ad valorem base for tax purposes places a heavy burden on persons with small current cash incomes. We also know that value of property is a poor index of benefits received.

Further, the property tax is cumbersome and fails to adjust adequately to the changing economic conditions of an industrialized society. Property tax yields tend to lag behind overall changes in economic activity and thus accentuate inflationary pressures in periods of prosperity and deflationary pressures during recessions.



In practice we find the property tax has several weaknesses. Due to differing economic conditions in our communities and due to the differing judgments of assessors, we may find similar pieces of property in different areas with greatly varying assessed valuations.

Another area where the weakness of the property tax is most evident -- and one which touches every household, is the taxation of household personalty. We recognize the difficulty of satisfactorily assessing grandma's knick-knacks and dad's old suits, but there is much personal property which can easily be hidden from the assessor.

Art, jewelery, personal collections of valuable books, coins, and other small but expensive property often goes unassessed. It may be that the Legislative Committee studying our tax structure will find the answer to the personal property question -- they may even find it more practical to eliminate this property from the ad valorem tax rolls.

All taxpayers are seriously concerned about the increasing property tax burden in this State. In the last ten years -- the population of this State has increased 46%, the assessed valuation of this State has increased 101.6%, the personal income of this State has increased 96.37%, but property tax collections

have increased 175%.

Property tax collections have increased almost twice as fast as personal income. We must reduce this burden on our citizens.

What also concerns me is that much of this mounting property tax burden is used to support wasteful duplication of local government services. To improve upon the tax climate in this State we not only need to improve the structure of the property tax, we need to improve the structure of local government.

This State has 3,342 special districts that we know about. In the last 10 years their expenditures have increased over 1330%.

In complex urban communities special districts have a number of disadvantages. There is little public awareness of their existence. Many do not even have regular elections because there is frequently no contest for seats on the district board.

When elections are held, voter turnout is woefully low, rarely reaching thirty percent of the eligible voters. Board meetings are infrequently attended by the public. And actions of district boards are seldom reported in the press.



Last year special districts raised and spent over \$160 million from property taxes and an additional \$260 million from fees and service charges. The existence of these districts has a marked effect on our tax climate in each of your counties.

An unwise or short-sighted decision by a district board, uneconomic administration of district functions, or an unnecessarily high district tax rate can alter the entire fabric of the community. In short, it changes the environment in which your county is free to grow, to extend its tax base, and to provide space for homes, apartments, and businesses.

The city in history was a walled or otherwise sharply defined geographical situation which dominated the rural countryside halfway to the next town. The distance between towns was normally a day's journey by foot and therefore a uniform space.

The city was the cultural, technologic center for the area - the place from which emanated both civil and religious administration. The Industrial Revolution changed all this and today the "city" has been replaced by "metropolitan areas" as the form to distinguish urban from rural use.

"City" now means only that territory encompassed by artificial boundaries - often unidentifiable even to natives. Urban communities have spread and joined; the general services offered by each are similar with differences measured only by postal address and tax bill.

I think it would be hard to justify the assertion that many of the small cities -- and that includes small cities in large metropolitan areas -- are efficient and economical. This State's taxpayers are paying dearly for the privilege of living in small, suburban enclaves. As we consider structural reforms in local government we must carefully weigh the services provided by various local governments to see if they can be more efficiently provided by one level rather than the other.

In this connection I would like to commend you in your efforts to eliminate one of these areas of costly and wasteful duplication -- that of duplicate assessment of property by cities.

Over 384 cities have now transferred their assessment function to you the county assessor. Fifty-two cities are still doing their own assessing, however, and I think that's fifty-two too many. We estimate that over one million dollars can be saved if these fifty-two cities transfer their assessing responsi-



bilities to the county.

Some other duplication has already been eliminated; public health service is one of them. We need to review every activity of local government to see at what level or levels they can be most effectively and economically administered.

I know what I'm saying touches on the concept of home rule and I'm an advocate of home rule -- effective, efficient home rule. But I believe we ought to be able to better define what home rule really is.

I personally think that home rule is not a megaphone with the principal purpose of magnifying the discordant voices of a few nearly self-appointed leaders.

It should be instead a concept of involving as many people into governmental decision-making as is possible. A 12% to 30% turnout of registered voters is hardly a fulfillment of this belief.

Assemblyman Leroy Greene of Sacramento has suggested that local elections be consolidated for the twin purpose of achieving economics in the costs of elections and encouraging a larger turnout of voters in these local elections.

Under this plan, for the first time taxpayers would be confronted by all these districts at once. As a result, I believe most residents and taxpayers will choose a course of action toward a reduction in the number of governmental agencies serving them and a reduction in the tax rate. They must first be aware of this option, however.

Piercing through the emotionalism on this issue I feel confident that you will agree with me when I say that needed structural reforms will actually strengthen home rule and local government.

In conclusion, gentlemen, I am certain that no citizen objects to paying his fair share of any tax, but we want our money used efficiently and effectively. With the continuing growth of our State we must have a revenue structure **which will** match our needs.

**If we act wisely now we will be in a position to meet** the coming challenge.

**If we think boldly now we will have the tools to match** this future society.



And if we work together now we will have proved  
worthy of the public trust we share.

Thank you.

of living in small suburban enclaves. As we consider structural forms of local government, we must carefully weigh the services provided by various local governments to see if they can be more efficiently provided by one level than another.

HICKE: It sounds very familiar.

DOERR: Yes. I mean, it's talking about home rule, et cetera, et cetera, so a lot of it is still pretty germane.

And then there's a nice letter from Jesse thanking me for the speech.

HICKE: "I want to tell you how much I appreciated your help on my speech before the Senate Association of County Assessors. A solid piece of work, and very well received."

Retype it and submit it to the speaker. [Laughter]

DOERR: Yes. Here's a memo that I gave Ken Cory on tax anticipation notes versus registered warrants, which was the big issue of 1971.<sup>1</sup>  
[Interruption]

This was a big issue in 1971 when it was thought the state was running out of money might have to go to registered warrants. Ken Cory wanted a memo on what this was about, the differences between various approaches, et cetera. That's another example of a different kind of activity we got involved in.

HICKE: What are registered warrants? I guess it tells in here, but . . .

DOERR: Those are IOUs.

HICKE: Notes are IOUs too, so you go over here to . . .

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1. See followibg pages.



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# California Legislature

## Assembly Committee on Revenue and Taxation

ROOM 4016  
STATE CAPITOL  
445-7575

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CHAIRMAN

534a LANI STITES  
COMMITTEE SECRETARY  
DAVID R. DOERR  
COMMITTEE COORDINATOR  
WILLIAM PRICE  
COMMITTEE CONSULTANT  
PAMELA PECARICH  
ASSISTANT CONSULTANT

### MEMO

TO: Assemblyman Ken Cory

FROM: Dave Doerr, Coordinator, Assembly Revenue and  
Taxation Committee

DATE: May 7, 1971

RE: Tax Anticipation Notes  
(SB 734 - Grunsky)

#### I. Tax Anticipation Notes vs. Registered Warrants

It appears that the major differences between the two are:

1. Maturity date -- Tax anticipation notes have a fixed maturity date; warrants are redeemed when funds are available.

(However, Kirk West thought the Controller might be able to put a fixed due date on the warrants - this needs to be checked further.)

2. Interest -- Warrants have a 5% maximum rate. SB 734 provides an interest limit to be determined by the Pooled Money Investment Board.
3. Image -- Apparently, warrants are a psychological hang-up for some people in the investment community, particularly in the secondary markets.

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## II. Costs

It is alleged by the proponents of SB 734 that tax anticipation notes can be sold at a lower interest rate than warrants because of a going market for such notes.

We are informed that the going rate for revenue anticipation notes is a little over 3%. Warrants would be expected to be marketable at slightly less than 4%. However, this is primarily due to the maturity date problems. Even if warrants were to be issued with a fixed maturity date, we are informed they will still go at a higher rate -- perhaps as much as 1/2%.

(Note: These are present short term rates. It is expected that, partly due to the European situation, the short term rates will be higher in the Fall.)

\*Option -- You might consider amending SB 734 to require the Pooled Money Investment Board to ask for bids on both tax anticipation notes and registered warrants, at the same time, in the same amounts, and with the same conditions and require the Board to issue whichever has the lower interest bid.

## III. Constitutionality

As you recall, the tax anticipation note bill last year (AB 296, Milias) was dependent on the passage of a Constitutional amendment. It is not clear why SB 734 is not faced with the same requirement. We have asked for a Legislative Counsel's opinion to clarify this issue.

## IV. Use of Notes for Borrowing When Internal Borrowing is Adequate

SB 734 is written to allow the issuance of tax anticipation notes, even when there are ample resources through internal borrowing. Apparently this is why the banks are such strong supporters (prime movers?) of this bill.

This use of tax anticipation notes merits very careful study. There are interest cost ramifications (when we borrow from ourself, we pay interest to ourself -- Legislative Analyst.



on a preliminary basis, indicates that notes may be more costly than internal borrowing). Other questions which are raised by the issuance of such notes, when internal borrowing is available are:

- will there be pressure to issue such notes as float to insure bids on state bonds?
- recalling the problems of the 1950's, is there a danger that tax anticipation notes will be issued as a political I. O. U. ?

\*Option -- Amend SB 734 to provide that such notes can be issued after someone (Controller? Director of Finance?) determines that internal sources of borrowing are exhausted.

#### V. Arbitrage Problems

Would these notes be permitted for arbitrage? It appears that these notes can be issued whenever the Board wishes to do so.

If so, the state could conceivably enter the private money market? (can we borrow german measles?)

In fact, it will be difficult to avoid some minor arbitrage, unless the notes are only for the dry period and repaid as soon as internal borrowing is available.

#### VI. 15% Limit

SB 734 limits the amount of tax anticipation notes to 15% of the prior year's general fund revenue. (Last year's bill had a 10% limit.)

A 15% limit would permit the issuance of \$692 million in notes -- this is far in excess of the reported difference between borrowing needs and internal borrowing capacity.

The cash flow chart in the Governor's Budget (Vol. I, p. 261) shows:

- \$48,200,000 in September
- 28,600,000 in October
- 19,100,000 in March, 1971  
(The budget is not predicated on the passage of withholding.)

We are informed that these are month-end figures and that there is a greater but unreported deficit in the middle of the months above.

\*Option -- The limit could be reduced to 5%. This would allow borrowing of \$230 million.

## VII. Other Options

\* Lapse the program on June 30, 1971 so we can evaluate the costs and effectiveness.

\* Put two legislators on the Pooled Money Investment Board.

As this bill increases the Board's power, it may be advisable to have legislative participation -- to watch what's going on and evaluate the effectiveness of the program. (Present members: Controller, Treasurer, and Director of Finance.)

\* Change the name of the notes to revenue anticipation notes. (Truth in borrowing.) The euphemism for the notes in the bill now is "State of California Notes."



DOERR: Yes, I just calculate the differences and what the policy options for the [Inaudible].

HICKE: It looks like there's a psychological approach to the difference between the two.

DOERR: Yes. Sometimes you're dealing with perceptions rather than reality. We would be asked by senators to do things, too. This is a little memo to Senator Rodda.<sup>1</sup> This was a really old tax issue that has been a tax issue for decades. In fact, in the twenties, I think it was on the ballot by the initiative five or six times. This is the so-called Henry George single tax. Tax land only.

Senator Rodda was very interested in this and asked us to give him a very brief memo on it. We analyzed it in terms of what would happen in terms of tax burden, how the taxes would shift if you just taxed land only, who would pay more and who would pay less. It shows that there's a slight increase in taxes for residences and major reductions for industrial and utility properties. He kind of lost interest in it after that.

HICKE: There's at least one amazing thing about this. You got all that into two paragraphs.

DOERR: Yes. I think you only needed two paragraphs to graphically show what was going to happen, and that's all that you needed to discover that he wasn't as interested in it as he originally thought.

This was around 1970, '71, during that period, when revenue sharing was a big issue with the federal government. That was particularly something that Nixon was interested in. We were never

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1. See following page.

MEMBERS

MEMBERS

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# California Legislature

## Assembly Committee on Revenue and Taxation

ROOM 4016  
STATE CAPITOL  
445-8492

CHAIRMAN

WILLIAM T. BAGLEY  
(MARIN-SONOMA COUNTIES)

December 3, 1970

535a

JOEY FAZIO  
COMMITTEE SECRETARY  
DAVID R. DOERR  
COMMITTEE COORDINATOR  
ARTHUR AZEVEDO  
COMMITTEE CONSULTANT  
PAMELA PECARICH  
ASSISTANT CONSULTANT

*file in  
Dane's folder*

### MEMORANDUM

To: Senator Albert S. Rodda  
From: Staff, Assembly Committee on Revenue and Taxation  
Re: Land Taxation

Noting your earlier interest in the subject of land value taxation, we are enclosing a copy of a study on this subject by the Center for Real Estate and Urban Economics, University of California at Berkeley.

This study collaborates earlier findings that land taxation is not a good proposal for residential homes and that it would in fact shift the property tax burden from high-income to low-income groups. Although this study fails to account for the shift in tax on public utilities, the other findings are similar to ours:

<u>Type of Property</u>	<u>% Change in Burden</u>
Residential	+ 2.6
Vacant	+184.2
Rural	+112.4
Commercial	- 1.4
Industrial	- 55.0
Timber	+180.4
Mineral	+131.5
Other	- 82.3
State-assessed utilities	- 77.9

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too keen on it, frankly, although ostensibly it looked like it was going to benefit the state, because somebody's proposing to hand you money. We took the joint committee to Washington to tell them we didn't like it. This was unheard of, a state delegation going to Washington.

HICKE: To turn down the . . .

DOERR: Yes, to trash their proposal.

HICKE: Because of control?

DOERR: For a variety of reasons. One, we didn't think they had revenue to share. It was kind of debt sharing. You would get weaned onto some money that would then disappear, which is what happened.

I did a little memo--again, this one is to Ken Cory--on one of the features of the bill.<sup>1</sup> I termed the program anti-free enterprise because the revenue-sharing formula was predicated on the more revenue that's collected, the more revenue-sharing money you get; so you had incentive to raise as much money as possible, and the definition included enterprise activities, so that the more enterprise activities the government would get into, the more money they would get from revenue sharing.

I put that in kind of a memo to Ken, who then was going to give it to Dick Hanna, who was a congressman, to use. I guess the upshot of this was to illustrate not only were we involved in state issues, but we'd get involved in federal issues and indirectly try and help congressmen develop arguments on issues that related to taxation.

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1. See following pages.

MEMBERS

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# California Legislature

## Assembly Committee on Revenue and Taxation

ROOM 4016  
STATE CAPITOL  
445-7575

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CHAIRMAN

536a  
LANI STITES  
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PAMELA PECARICH  
ASSISTANT CONSULTANT

### MEMO

TO: ASSEMBLYMAN KEN CORY

FROM: DAVE DOERR, COORDINATOR, ASSEMBLY COMMITTEE ON  
REVENUE AND TAXATION

DATE: MARCH 15, 1971

RE: ORANGE COUNTY ARGUMENT AGAINST REVENUE SHARING

In talking with Renee this week, she indicated that Dick Hanna had taken a hard line against revenue sharing and would need good arguments suited to Orange County.

In reading through the Baker bill, S 680, I find that the formulas used in determining how much aid each jurisdiction receives put a premium on getting the government into as many businesses as possible. It would not be distorting the proposal to say it is anti "free enterprise."

Under the President's plan, revenue is distributed to states and localities based on three factors: state personal income, population, and revenue collections. The more revenue that is collected, the more revenue sharing money will be forthcoming.

The crucial test then is the definition of revenue. The bill adopts by reference a Census Bureau definition: "all revenue, except utility revenue, liquor store revenue and insurance trust revenue. . ."

Based on this definition, all gross receipts from "enterprise" activities, except utilities and liquor stores are in the formula. States can generate more revenue from the federal revenue sharing plan by getting into more enterprise activities. It is to their advantage to buy and lease property, to sell as many types of commodities as possible, etc.

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An instant example of last session comes to mind. You remember the "Hazlett Warehouse" fight. The state is now leasing this property to its former owners after finding it can not be used as a museum. Of course, they would like to get the property back. Under revenue sharing, it would be advantageous to continue leasing and generating revenue to be counted in the state's formula.

You can create many hypothetical examples along the same line. If you think there is any merit to this line and that it might be useful, you might pass it along.

HICKE: It sounds like you also got into semantics a lot. Phrasing this as anti-free enterprise.

DOERR: I think that's the term I used in the letter.

HICKE: You obviously did that with the audience in mind. I mean, you thought that that would be a more approachable way.

DOERR: This was an Orange County audience, so that seemed to be a hot button that could be used. That's the way the program was structured. It encouraged the government to get into as many business activities as possible, because it would get more revenue-sharing money. That again, we didn't think was a particularly good way to structure a thing, so we had a lot of problems with the revenue-sharing proposal.

As I say, Bagley took a joint committee back to Washington for a number of reasons. We met with congressmen, we met with Senator [George] Murphy, we met with Murray Wiedenbaum [chair of Nixon's council of economic advisors]. At the meeting with Murray Wiedenbaum we told him we didn't like his revenue-sharing proposal, and they about fell off their chairs. They were thinking, "Boy, here comes another group of supporters in to see us and we're going to get all these states to put pressure on Congress," and here comes a delegation from the biggest state saying the proposal's no good. It took a lot of people by surprise.

HICKE: What was their response? How did the surprise . . .

DOERR: Surprise, and then they argued that, "This is part of fiscal federalism and we think the states are more capable of running programs than the federal government," et cetera, et cetera. We made our points



and then we departed. I don't know if we ever convinced anybody. I think the fact that we were there was a surprise.

HICKE: Was there a certain amount of control that would come with this? Was that a problem too?

DOERR: I don't recall how much was tied up with strings. That's one of the things they're trying to emphasize--they're trying to use money without strings. But if you looked at the proposal and the way it was structured, the economics of it didn't seem to make too much sense.

HICKE: Thank you very much for pulling out those files. We'll put those in the transcript.

DOERR: I thought those might be interesting as illustrative of what the various kinds of activities the committee consultant is engaged in. We just don't sit there and analyze the bills that come into the committee. That's what people generally think we do, and that's in the current Prop. 140 situation; that's kind of what's being described. "We're losing our staff; now we don't have anybody to analyze the bills," and stuff. It looks more one-dimensional, although I don't know how much. . . . I think it varies from staff person to staff person in terms of what they get involved in. In my experience, we got involved in lots of different things and did a lot of different things other than just analyze the bills and write legislation.

HICKE: Not just responding to something that came in, but actually going out and looking ahead.

We want to get back to 1979, I think, but before we do that, or at some point, I wanted to ask you to update our discussion on

the unitary system in view of the recent court order that came down.

DOERR: Right. That's the Barclay's Bank vs. FTB [Franchise Tax Board] case. An appellate court, which is a court of record, decided that the California unitary apportionment system was unconstitutional as it related to businesses that were subsidiaries of foreign-owned businesses.

HICKE: Like Barclay's.

DOERR: Barclay's is basically a subsidiary of the Barclay's consortium of Great Britain, and the decision was very strong. Reading it, I thought it was very well reasoned. They basically took the point that this was preposterous, that Barclay's had something like 1 percent of their business activity in California, and for that 1 percent they had something like 250 different subsidiaries operating in 60 other countries that had no relation to California, that California was bringing in as part of their formula.

They had to take these 250 subsidiaries and convert everything--they're operating in all these countries--convert it all to California accounting standards and currency conversions and all this, and submit all that to the FTB because they happen to have 1 percent of their income in California. The court just thought that this was kind of a ludicrous situation.

The second point was that the U.S. government was speaking and saying this was interfering with the nation's conduct of foreign commerce. The justice department was represented in the case; it testified before the appeal court, before they made the decision. They appeared saying that the U.S. government had a problem with



this, so they relied on basically the statements of the federal government and just the facts in the case, which were not good facts.

I knew they weren't good facts from the beginning, because I talked to FTD attorneys way back in 1987, and they were bemoaning the fact that this was the case that was going up, because they knew that the facts were not good facts, from their standpoint, and it was going to make it harder to win.

They've asked the Supreme Court to take the case. Whether they will or not, I don't know. It looked like it was a very well-done opinion, so that if the Supreme Court takes it, I'll be surprised, because I don't see how they could modify it too much. Maybe they will. That's the status of it. And then depending what the Supreme Court does, if they take it, it will go on for a while. If they don't, I suspect the Franchise Tax Board will take it to the U.S. Supreme Court.

HICKE: It's in a California court system now?

DOERR: Yes. It was decided by the California Third District Court of Appeal here in Sacramento.

HICKE: What will be the impact if this holds?

DOERR: Not a big impact. The state is trying to overblow the impact: "We're going to lose millions and billions." I don't see it that way, because retroactively, there are some refunds that are due, of some amount. That amount is in dispute, so you have those monies, but prospectively, most of the corporations would be electing water's edge apportionment anyway, through the 1986 water's edge election, so the only thing that would be changed by the decision

would be they probably wouldn't have to pay the election fee. That's about \$40 million a year.

That would change, plus some of the other procedural requirements that they very much don't like, that were put in S.B. 85.<sup>1</sup> They wouldn't have to do those. If they wouldn't have to file the domestic disclosure spreadsheets, the Franchise Tax Board couldn't threaten them by saying, "We're going to revert you back to a worldwide combination if we don't like what you're doing." So some of those peripheral issues would disappear too, but in terms of the basic issue, they should be on water's edge. The big revenue loss has already been absorbed when the legislature passed S.B. 85 for future tax reporting.

HICKE: Was that what permitted the water's edge choice?

DOERR: Yes, so in a sense that was kind of a preemptive medicine that reduced the pain of an adverse decision against the state. Now we have another big fiscal battle shaping up this year.

HICKE: What do you think about that?

DOERR: Everybody was reacting with almost a sense of hopelessness. "Oh, \$7 billion, \$10 billion. How can we possibly get through this? It's not do-able." I've been trying to advise members and staff that it's a problem that has to be solved. It's not any bigger than the problem we had in '67, in terms of magnitude.

HICKE: That's where a historical viewpoint is helpful, isn't it?

DOERR: Well, look at it this way. The sales tax now brings in about \$3 billion for every percent. There was a 1 percent increase in the

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1. S.B. 85, 1985-86 Reg. Sess., Cal. Stat., ch. 660 (1986).



Reagan bill, and I think it was. . . . I don't have the figures with me, but it was, well, maybe \$450 million. Some much smaller figure, just to illustrate the difference in magnitude. If you replicated Reagan's package today, it would fill up the size of the deficit, without question. Nobody wants to. . . . I don't think there's anybody that wants to raise that much in taxes this time. Reagan was unique. I think he'll go down that way.

The governor's suggesting \$2 billion in taxes. The Democrats, of course, want more. We're [California Taxpayers Association] not particularly pleased with part of what the governor has advocated. In fact, I've gone over to the legislature. I said, "What I'm telling you now on behalf of Cal-Tax is what I used to tell you. I'd tell you the same thing when I was on staff: that this is not good tax policy. This is why we never did it, because you basically took my advice." This is the proposal to tax snack foods that the governor suggested.

I'd just list basically four reasons--that in terms of tax policy, it's regressive. It turns a reasonable tax into a bad tax, and as a result it will make it much harder to pass local sales tax overrides for the various purposes that they've been authorized, because you'll have more opposition, because the tax is more regressive. You'll have new players involved who won't like the tax, that might go along with the tax now. They're not passing by big majorities now, so I said, "You're shooting yourself in the foot."

Point number two was the principles of tax equity that go back as far as Adam Smith regarding when you take very similar-type products and you put 7 percent more on one, and none on the

competing product, there's inequity. You can tax pretzels but not peanuts, for example. There's just a host of things like that. You can tax certain desserts, not ice cream. Even chocolate-covered ice cream bars. A box of chocolate. There's very little difference between that and the candy, so that was the problem.

And the administrative problems, most of which were small, are legion because the board won't accept the cash-register tape. They're going beyond that in their audits, so you're going to have to prove. . . . For example, the federal government says you can't impose sales tax on things bought by food stamps, so the merchants are going to have some way of proving that the food stamp purchased a cupcake and not a banana, when you ring up the sale.

You have all those problems, plus it taxes some crackers and it doesn't tax others. There's no way of knowing which crackers you're going to have to collect the tax on. Armenian cracker bread; is that going to be defined as crackers, which are taxable, or bread, that's exempt? It goes on and on, so the administrative problems are severe. One of the principles of tax administration is that a tax needs to be administered relatively easily.

Finally, the final principle of good tax policy is that you shouldn't put on a tax that's easily avoided. This one, of course, is easily avoided. If you don't want to pay a sales tax on cookies, you can just bake them yourself. It's kind of a form of bootlegging. Bootlegging is making illegal liquor to avoid the tax on liquor. That's much more difficult, but people do it. Here it's very easy to make your cookies that will be nontaxable.



There's just a whole host of reasons why we think that this proposal is bad. I've always thought that this doesn't make any sense. No state has ever tried to do this--separate out snack foods and tax them differently than other foods. It's either food is exempt, or food is taxable. When a food is taxable, it makes the sales tax much more regressive, but at least you don't have all these administrative problems and equity problems. To try and single out certain food products, they're not based on nutritional value, so. . .

HICKE: Now that I'm convinced of that, what are the reasons they're going to try and do this?

DOERR: Revenue. Initially it must have looked like an easy thing to try and do. "We don't want to raise taxes in general. Let's just raise them on products."

HICKE: Sort of a moral superiority?

DOERR: I think that's part of it.

[End Tape 26, Side A]

[Begin Tape 26, Side B]

HICKE: You were just saying that's part of it?

DOERR: I think that there's a certain feeling that, "These things are bad for you, so we're going to decide what's best for you." Again, I didn't even raise this argument, because it tends to antagonize the legislators. Better not to do that, but again, the legislators are deciding what's best for their people. "We think you ought to eat one food rather than another," which really goes beyond where the government ought to be, in terms of dictating to people what they ought to be doing.

HICKE: Nineteen eighty-four is here. Big Brother.

DOERR: That's, I think, part of it.

Anyway, that's not a big part of the whole package. It's probably less than \$400 million of a \$2 billion package. This was the first bill out of the box in terms of the package presented by the governor, all these recommendations he's proposed to bring the budget into balance. The first one to go to hearings is the one we have to oppose. The bill also includes the proposal to repeal the sales tax exemption for newspapers and magazines. They're all on the same bill.

Legislators were generally surprised how many witness came forward and the breadth of the opposition. We had all the business organizations, but we also had organized labor coming up; we had, of course, the newspapers. We had the library association, for example. "This tax on newspapers and magazines is bad, we just can't absorb this in our budgets," because of the fact that the libraries have been kind of the low entity on the totem pole for a long time, in terms of local government cutbacks.

HICKE: That's a large increase for them too.

DOERR: Yes, 7 percent on a lot of publications that they purchase. So anyway, there was a broader coalition than anybody expected. We'll just have to wait and see. I don't think the battle, by any means, is over.

HICKE: It brings up sort of a general question. There seems to be a feeling around that a users' tax is easier to apply than, say, an across-the-board income tax or some other more general tax.



- DOERR: I think that they're thinking it's more politically acceptable. It's not easier to do.
- HICKE: I guess you're right. I didn't mean easier from the administrative view, but easier to enact.
- DOERR: Sell to the public.
- HICKE: Yes.
- DOERR: Yes, I think there is that feeling, that those kinds of taxes will be easier to sell, and that's one of the reasons it's structured that way.
- HICKE: But do you think that's right? Do you think people will sit still for a tax increase across the board? I've heard people tell me it wouldn't be any difficulty, that legislators shouldn't be afraid of raising taxes because . . .
- DOERR: I think there's some difficulty, as illustrated by the election, where all the tax measures are voted down, all the bond measures are voted down. During hard times, it's hard to get people to cough up more money out of their own pockets. They're either saying, "Gosh, I just lost my job; I can't afford to pay more taxes," or they're worried: "I might lose my job so I don't want to pay more taxes." So you have that kind of feeling out in the public, that "I'm suffering, and I just can't afford. . . ."
- HICKE: Of course, if they lose their job, they wouldn't have to pay more income tax, obviously.
- DOERR: No, that's right. You were talking about the sales tax.
- HICKE: So I guess you're agreeing that users' taxes are politically more acceptable?
- DOERR: I think they are politically more acceptable.

HICKE: Well, California voted to tax itself for highways and freeways and so forth, so I guess that's a good example.

DOERR: We'll see how this plays out. It will be another interesting year.

HICKE: Yes. You and I may be here next year still talking. [Laughter]  
OK, back to 1979.

DOERR: We were talking about the Gann limit, which was put on the ballot by an initiative.<sup>1</sup> It was voted on in the fall of '79. It's hard to remember what we have covered in the interview.

HICKE: Oh, I know.

DOERR: I may have described what the Gann limit was.

HICKE: No, I don't think so. We really talked most about Prop. 13 last time.

DOERR: I think I talked about the fact that Garamendi had a Gann limit proposal and Deukmejian had one in the legislature. We killed the Deukmejian proposal and we passed the Garamendi proposal, but that failed on the senate side on concurrence, because we had killed the Deukmejian proposal and it got involved in politics, so the legislature was trying to put some kind of a spending limit on in response to this pressure from the outside.

The Gann initiative--the legislature tended to think of this crazy Paul Gann who's promoting this. That's really not the case, because he's just a front. They needed a name that they could use to promote this, and of course, Jarvis-Gann was Prop. 13, and that was still fresh in everybody's mind, so he's a convenient front. I don't mean to say he didn't support it and didn't go around making

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1. Proposition 4 (November 1979).



speeches, but it was basically the drafters that wrote and funded the initiative.

Cal-Tax was involved, the Chamber of Commerce, the California Association of Realtors, Craig Stubblebine from Claremont College, who was representing an organization for tax limitations and a balanced federal budget, et cetera, a loose network that he is involved in. You had these powerful groups that were interested in seeing some kind of limitation on government spending that were involved.

As I think I mentioned before, too, the Speaker of the Assembly, Leo McCarthy, was interested in some kind of a spending limit. Bill Hamm, who was then the legislative analyst, was egging him on, saying that "This is a good idea and we need to do this," et cetera, et cetera. Even Jerry Brown, who had by that time become "Jerry Jarvis" in response to Prop. 13 and the politics of Prop. 13, was interested and accommodating to facilitate the passage.

There was little opposition. There was almost no campaign against the proposal. Leo McCarthy signed the ballot argument in favor of it, with Paul Gann. It was kind of a bipartisan "Let's do it, good idea, put a spending limit on." Essentially, it limited spending of government to what it spent last year plus inflation and workload. In other words, "We'll index it by CPI or growth of personal income, whichever is less, plus growth in population or growth in school attendance."

There's lots of fine-tuning. Certain kinds of expenditures were not included: redemption of bonds and this and that. The basic

thrust was, "There's a limit on what you can spend. It's the amount you spent last year. We'll let it grow by inflation and workload."

HICKE: What was the motivation for this?

DOERR: To put a further limit on government spending.

HICKE: Yes, right, but I mean, did these business groups primarily, I take it, that were sponsoring it, feel that their taxes were too high, or . . .

DOERR: With Prop. 13 in effect, they wanted to make sure that growth in government stayed. . . . It didn't expand. The concept was, "We'll fund the government for what it's doing now, in terms of paying for the inflation costs, paying for the workload growth, so we'll keep government constant. Anything new that government wants to do, they ought to go to a vote of the people." You can override this with a vote. The whole idea was, "Let government run as it is. If they want to do something new, let's ask the people on it, get a vote."

HICKE: It was sort of antigovernment?

DOERR: Yes. It fit in with the idea to keep spending ratcheted down. It was almost taken for granted that it was going to pass. There was no campaign. And it passed easily. I forget the margin. It was overwhelming.

HICKE: How did you feel about it?

DOERR: I had mixed feelings. It didn't bother me a whole lot. I thought it was drafted incorrectly. I would have drafted it differently, and we did in the prior year. We drafted one for Garamendi which we thought made sense. We didn't particularly like this version of it, but the idea that there might need to be some restraints on



spending didn't particularly bother me. It was something that could be lived with, and it was lived with.

We modified it with Prop. 111.<sup>1</sup> That puts it into a position which makes it much more defensible, but it really didn't look back at the history of it. It hasn't done any harm. It was rarely important. It was only exceeded at the state level in one year in the whole history of the limit. The state had more revenue than we could spend.

In retrospect, it's a good thing we didn't spend that excess, because then the current deficit, instead of being \$7 to \$10 billion, would be \$13 billion, because you would have built on a higher base from which your expenditures would grow. The limit took off the peak of an abnormal fluctuation of revenue at that point, which conceivably should have been put to better use by capital outlay or using it for some one-time purpose; but if it had been built into the spending base, which was what people wanted to do, according to the debate at that time, then it would have been built into a higher level of expenditure, which would have compounded the problem we have now.

And in local government I haven't really heard of any jurisdictions that have ever had any big problems, so I don't think it's been the problem that some people thought it was going to be. It sounds like something that's bad to a lot of people, but it never was a factor. It was kind of a guideline. Really, the revenues weren't there to exceed the limit except for one year.

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1. Proposition 111 (June, 1990).

Anyway, that didn't mean we didn't have an interesting battle the next year, because after the initiative passed, then, of course, we needed to implement it. It fell to Fred Silva, Martin Helmke, and I to develop implementing legislation. We had a fight with Gann and his minions over how this should be implemented. The implementation bill was S.B. 1352 (Marks).<sup>1</sup>

HICKE: What year?

DOERR: Nineteen eighty.

We got this letter from Gann: "I urge you to oppose the bill unless it's substantially amended. When I wrote this, I looked forward to legislative implementation of the measure to carry out its intent. Instead, the bills following its intent have been defeated, and S.B. 1352 is contrary to the intent of Prop. 4 in several important respects."

This issue was Proposition 4's definition of revenue. What Mr. Gann wanted to do, or what he thought he wanted to do, was that revenues collected from whatever source which exceeded the appropriations should be returned to the taxpayers. We defined it to mean only proceeds of taxes, so that other kinds of revenues didn't have to be returned, which is the way we thought it read. They were just trying to expand the tax reduction aspect beyond what they said.

HICKE: Post ipso facto?

DOERR: Yes.

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1. S.B. 1352, 1979-80 Reg. Sess., Cal. Stat., ch. 1205 (1980).



The second problem was, under Prop. 4, when a service is paid for by taxes one year and shifted to a fee the next, then you have to reduce the spending limit so you shift spending to fees. I took the position that we didn't undermine that principle because we followed the literal intent of Prop. 4, which said if you replace a tax with a fee, then you have to reduce the limit: we added you could fund the inflationary growth of something with a fee, and that didn't reduce the limit. In other words, you weren't replacing the basic fee which was raising ten dollars for this. If you put a fee on top of it, you still paid the ten dollars in taxes, but the fee picked up the inflationary cost. They didn't like that a bit. They thought that was inconsistent with the intent of the initiative. But it was a reasonable thing to do.

Then they said the bill was silent on whether proceeds of taxes includes fees. They were objecting to the way that the state was calculating certain taxes as fees, because this is what the Department of Finance did, and we didn't stop them. They put into the base of revenue a lot of fees.

HICKE: Is there an amorphous line that you can draw between calling something a fee and a . . .

DOERR: Yes. Because what that did (calling fees taxes) was balloon up the base to start with, but the fees grow slowly, so that gave room for faster-growing tax revenues, if you follow me. It gave you more capacity so that you were able . . .

HICKE: Bigger based?

DOERR: That was the problem. We said, "We're not dealing with it. We won't define it one way or the other." They wanted a statement.

The fourth one is really funny. The initiative called for using ADA, but as we read it, it only called for it at the local school level, in lieu of population.

HICKE: ADA?

DOERR: Average daily attendance of schoolchildren. They were saying that that portion of money at the state's base that goes to schools should be indexed to ADA rather than the growth in the state population, which we didn't do. School enrollment was growing slower than state population at that time. We used ADA for the school limit but not the state limit. Paul Gann says, "It's nothing more than an arbitrary and clever device for increasing the state spending limit beyond what was intended by Prop. 4."

Now, we come back eleven years later with Prop. 111, and we do exactly this. We provide that ADA is the measure for that portion of the state's base that's going to schools, and the same people are upset about that. Because now school enrollment is growing faster than population. [Laughter]

HICKE: Very interesting.

DOERR: There was a big fight, but if you look at these points, they're so insignificant that they pale in the cosmic view of the issue. It was a huge issue with floor fights and amendments and this and that and the other thing. We prevailed, and that's the way it was implemented.

HICKE: Are you saying they were kind of grasping at straws?

DOERR: Yes. Those were not big issues. In fact, one turned out to be more conservative than they thought, because we used population rather than ADA.



HICKE: So what was their point?

DOERR: They just thought we were trying to undermine their initiative and we were not following the intent of the drafters. They thought we were trying some kind of coup to undo what they did. This wasn't true. We implemented it, I thought, pretty straightforwardly and fairly. When you look at those issues now in retrospect, they're so insignificant and picayune that they don't amount to anything.

HICKE: That's an interesting question: what happens if the legislature doesn't implement the initiative?

DOERR: The way the drafters want?

HICKE: Yes. Or the way that the public thought, or whatever.

DOERR: Someone can always go to court.

[Interruption]

HICKE: All right, so that puts us up to 1980, as you just said.

DOERR: Yes. I think we covered the other things of '79 before, such as the bill to finally abolish the business inventory tax. [Looks through documents] Are we ready to go?

HICKE: Yes. Right.

DOERR: The first 1980 issue I think we'll talk about is Proposition 9, which is better known as Jarvis II.<sup>1</sup> This was an attempt by Howard Jarvis to cash in on the notoriety of Prop. 13 by proposing to cut the income tax in half. Initially, it looked like the bill was going to pass. This was an interesting, behind-the-scenes effort, because when it qualified, the legislature was in an absolute panic. "They're cutting the income tax in half; what are we going to do?" By that

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1. Proposition 9 was defeated June 1980.

time the surplus had been pretty much spent on implementing Prop. 13 by giving the money to local government, so there wasn't the cushion there was before. People were very concerned, very concerned about this. Initially, the polls showed it was going to pass, so that created an interesting discussion.

This is what I would call the classic example of trying to put good amendments in a bad bill. It's an old principle around the legislature: you never put good amendments in a bad bill, because it makes it easier for the bad bill to pass. That's kind of a high-rolling, risky strategy, because it could pass without your amendments, and then it's even worse, so you have to kind of evaluate that; but I think the general rule of thumb that people operate on is you don't put good amendments in a bad bill. You go for the kill.

This was what we were dealing here with the Jarvis. I had been a long-time advocate of the strategy. I don't think I could take credit for formulating it, but I'd been promoting it for many years.

HICKE: The amendment?

DOERR: The idea that you shouldn't put good amendments in bad bills.

HICKE: Yes, right.

DOERR: I'd been through a lot of little scrapes. This was the biggest fight on that issue we ever had, because once this qualified, there was panic. Of course, what we had was then some legislators saying, "This is going to cost us. . . ." I probably can dig out a figure here. "We can reduce the tax relief by enacting some bills right now, so that the deficit that the thing will create won't be as large." My



position was, "No. That will make it less likely that you'll be able to defeat it."

Those we had to fight on this were the two leading fiscal people in the assembly: John Vasconcellos and [Assemblyman Charles R.] Chuck Imbrecht. They had two bills: A.B. 3020<sup>1</sup> by Imbrecht and A.B. 2050<sup>2</sup> by Vasconcellos. What they proposed was kind of a two-return system, because again, we're dealing with the middle of the year. This was on the June ballot, 1980. They're going to say the income you earned up to June will be taxed at the old rate. It's only the income you earned after June that would be, in effect, taxed at half of what it otherwise would have been. I have a number here that would, I think, reduce the revenue loss by something like \$1.4 billion in that one year.

HICKE: The state's income?

DOERR: No, no. Reduce the size of the loss.

HICKE: Oh, I see.

DOERR: It made it \$1.4 million less egregious in terms of the revenue loss, but it would have been just as bad in the future years.

HICKE: Yes, the next year would have been . . .

DOERR: Yes, it would have been. . . . But they were strictly focusing on year one. Because at the same time they had to get the budget out, and the 1980 income year would be balancing the '81 budget, which you would be collecting the next March and April. I thought this was really a bad idea.

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1. A.B. 3020, 1979-80 Reg. Sess. (1980).

2. A.B. 2050, 1979-80 Reg. Sess. (1980).

[End Tape 26, Side B]

[Begin Tape 27, Side A]

DOERR: I don't think John Vasconcellos has ever liked me since that time, although it turned out that I was absolutely correct. I had to go to the speaker--Leo McCarthy was still speaker at that time--and convince him, which I did. There were strong camps that said this would be bad, we shouldn't do it. Bill Hamm was supporting my views on it. He was the legislative analyst.

HICKE: If it was such a major, major fight, there must have been . . .

DOERR: They were talking about a \$4.9 billion revenue loss, if that had passed at that time.

HICKE: For the year?

DOERR: Yes. They were, in effect, saying, "Let's make the loss only \$3.5 billion," which was still a difficult thing. It would have been horrendous for the state to absorb that kind of a loss.

Anyway, after a great deal of behind-the-scenes infighting, the bills were killed because the legislature refused to soften the impact, which made it easier, then, to go out on the campaign trail and work against this initiative, because there would be this huge revenue loss.

Now, there was a very serious problem, still, in campaigning against this initiative because of the Prop. 13 campaign. People campaigned against Proposition 13 by saying, "The sky is going to fall if it passes. After all these cuts and there's blood in the streets, things will be horrible." None of that happened, after all this rhetoric.



So, here's the next one. Opponents were saying the same thing.

HICKE: Cry wolf again.

DOERR: So Jarvis would just pooh-pooh it. "Yes, I heard that two years ago, and it didn't happen. They just cut the fat out of the government, and you'll get all your services." So people were feeling it was going to be very difficult to make that argument, even with the size of the cut, although I think the opponents still had some credibility.

HICKE: Who else was lined up on your side?

DOERR: In terms of what? In this infighting?

HICKE: Yes.

DOERR: Willie was on our side.

HICKE: Willie Brown?

DOERR: The speaker, as I recall. Roberti. Roberti said the legislature should not exonerate Mr. Jarvis for having goofed. He said, "If you vote no, you run the risk of bankrupting the state of California, because the author didn't know you were doing it in the first place. If you vote yes, you could tie up the state in endless litigation that would be unfair to some taxpayers, who would get a smaller tax break than others, because they earn income seasonally rather than equally throughout the year, because, of course, if you'd earned all your income seasonally in the first half, you'd be at the maximum rate of what you earned over the year."

Nobody had ever proposed to separate a year in terms of an income tax return. These are two distinct parts. It's the income for the year.

Anyway, we convinced them to kill the bills, which was done. It was a very difficult time, because the members were very troubled. Whatever they thought they were going to do was going to be wrong.

HICKE: Why was there so much emphasis on this, I mean, people very strongly opposed to it?

DOERR: Opposed to what?

HICKE: To your stance.

DOERR: Because they thought it was going to pass and the revenue loss would be greater.

HICKE: They were really afraid that they were going to lose all that money?

DOERR: Yes. It was conventional wisdom that this was going to pass. The only person who didn't think it was going to pass was me [Laughter], just about, to start with. Fortunately, I put it on record, because we had a conference at USC; the law school had a conference in February. Interestingly enough, I was the critiquer on a panel at which the then-San Diego mayor was making a speech.

HICKE: Mr. [Pete] Wilson?

DOERR: Yes. On taxes and government spending, which was a very good speech on how he'd been efficiently administering the city up to then. We got into a discussion of the initiative, of course, and I flatly predicted it was going to lose. Everybody thought I was out of my mind, because all the conventional wisdom was that it was going to pass. They thought the opponents would have no credibility left because of the 13 campaign. They thought people wanted more tax reductions. They'd tasted blood and they wanted more. Nobody thought it was going to be defeated, so I put that on



the record. I said, "No, I think this goes down." It did eventually, I think, go down by a 2 to 1 margin, as I recall. Maybe it wasn't that big, but it was a much bigger defeat than anybody ever thought.

HICKE: Are you going to tell me about that campaign?

DOERR: Yes, because the campaign was. . . . I was fortunate enough to be involved in some of the early discussions on how the campaign should be handled.

HICKE: I would think so.

DOERR: I remember making the statement in the speaker's office. It went over really well. There was a little group there. I said, "There needs to be a basic campaign. The campaign should use one basic human emotion to defeat another. Opponents should campaign against greed by using jealousy."

HICKE: [Laughter] Wonderful.

DOERR: Basically that's what was done, and it worked, and the initiative was defeated. There was no need to go back to cutting government services. We did the research and analyzed the impact of the proposal, which, of course, because of the way the income tax is structured, a reduction of the income tax has exactly the same distributional effect. If you have a progressive income tax and the top 5 percent pay maybe 50 percent of the taxes, a reduction means the top 5 percent of people are going to get 50 percent of the relief.

HICKE: The most reduction.

DOERR: So that was my point, that the opposition just hammered that home over and over again, that this is unfair. Opponents did use the government service a little bit. Voters were told, "You're going to

lose the services. You're not going to get much relief. All the relief is going to all these other people." Opponents used the impact charts, and they worked like a charm.

HICKE: Those people, though, who were going to have to pay full tax for the first half. . . . I guess migrant workers would tend to be making more of their money in the second half, wouldn't they, for instance? And they don't vote, so that wouldn't be a . . .

DOERR: They weren't a factor.

HICKE: That's what I mean. They wouldn't be a factor.

DOERR: I'll give you an example. In terms of people with a lot of money, one example would be a professional basketball player who most of the season is playing. Or a movie star who does one movie this year, one big blockbuster that's filmed from January to May and then takes the rest of the year off, that would have high tax liabilities that would be phony.

HICKE: I see. Did this split along partisan lines?

DOERR: I don't recall. [Looks through papers] I'm trying to see if I have a good illustration.

HICKE: Who ran the campaign? What group ran the campaign?

DOERR: I forget who ran the campaign. Maybe I have it here. I've still got some of the campaign clippings. An initial poll was done. It showed 48 percent in favor against 21 percent opposed, so some people looked at the poll and panicked: "You can't win," they said. "No, you've got to understand that you can win, and here's how you do it."

HICKE: This is your spiral binder called Proposition 9 that you're looking through now, is that right?



DOERR: Yes. This is one document I have here. It illustrates what the campaign was going to do. "How Prop. 9 will be defeated."

HICKE: This is FACCCTS? A little newsletter?

DOERR: A little newsletter. I'm going to list some of the reasons why it will be defeated.

One: the major one is that the measure is a genuine windfall for the wealthy. For example, someone earning \$200,000 could receive a cut of \$9,000. In contrast, a family of four with an income of \$20,000 would receive only \$250.

Then the second argument was that it will increase federal income taxes, because you don't have as large a deduction for state taxes.

The third was that voters recently passed two amendments to cut government spending, Proposition 13 to Proposition 4. Let's learn the full effects of those and make them work.

The main one was to campaign on this unfairness issue.

HICKE: That was your psychology at work again.

DOERR: It seemed to work.

HICKE: This FACCCTS is the Faculty Association of California Community Colleges.

DOERR: That was a little newsletter they put out for the members explaining to them what the campaign strategy would be.

HICKE: Did you write some of their paragraphs or something?

DOERR: No. After the campaign decided what it was going to do, there were meetings with all the groups to say, "Here's the strategy." The campaign had to coordinate a large group. I didn't put down the

election results, but I know it was defeated by a larger margin than anybody thought it would.

HICKE: That's pretty interesting in lieu of the fact that you just said it's very difficult to raise taxes, so you'd think that people would really go for lowering them, but I think you hit the right button on that.

DOERR: Yes, it seemed to be.

Some of the other things that we were doing in 1980: we began to look at the inheritance tax, because there was a feeling that inheritance taxes were too high. They were unfair. They were gruesome; they were taxing death, et cetera, et cetera.

HICKE: When you say there was a feeling, what do you mean by that? Among the legislators or public interest groups?

DOERR: It just kind of all of a sudden became an issue. If I could put my finger on it. . . . I might as well cover the whole inheritance tax issue. I was going to split it into two pieces, the legislative piece and the initiatives that were circulated in 1981, I believe, to abolish it. Those went on the 1982 ballot and passed, so there was a feeling. It was a grassroots protest. I'm not sure to this day I know exactly where it came from, how they managed to get all the signatures, and how they carried the day.

HICKE: Who was "they"?

DOERR: Its proponents.

HICKE: That's what I mean: who were they?

DOERR: It was led by [Donald] Don Rogers, who was then an assemblyman. He's now a state senator from Kern County, a conservative Republican. He had introduced bills earlier. That's why we started



to look at this issue. He put in some bills, so we said, "We'll start looking at it."

We began to see there was a problem; so we held a big hearing on the issue down in Orange County to get feedback from all the interested parties. We saw the problem was in terms of the interspousal problem. At that time, inheritance taxes were imposed on amounts you got from your spouse, and that could work a hardship on you. Somewhat the same argument that was used later when we amended Prop. 13 to eliminate transfers between parents and children. This was a family issue. Anyway, we thought that if we could exempt spouses from inheritance taxes, that would defuse the issue.

This was really tough, to get Governor Brown to accept the bill to exempt spousal transfers from the inheritance tax. We worked day and night trying to convince him. We argued, "Look, you've got to do this. This is good tax policy. The present tax, we have these studies, it's a working hardship." We published two books on the inheritance tax--two big, fat, reports. Finally we got them to accept the idea, so [Assemblyman] Wadie P. Deddeh carried the bill and put it through, to eliminate the inheritance tax on spouses.

We thought the issue was solved. Then along come these initiatives that eliminate the entire tax.

HICKE: Who sponsored the initiative?

DOERR: Mr. Rogers.

HICKE: Oh. He wasn't happy with . . .

DOERR: He was happy that we did exempt spouses. He said, "It doesn't do enough. This is a terrible tax. It's a tax on misfortune, it's a tax on death. It's the worst possible time to impose a tax." There was broad public sentiment.

At this time there wasn't a lot of money at stake, because of the spousal exemption--\$300 or \$400 million at the most. It wasn't a big tax source for the state, so you weren't arguing over a big, significant impact on government in terms of financing services. You were basically arguing over tax philosophy: should you tax inheritances? Since the federal government's estate tax was all that was needed to prevent accumulation of wealth that's beyond the pale, did the state need to have a separate tax on top of that?

I think where the legislature probably missed the boat, and I think we recognized years later that a tax on other family transfers--particularly related to business properties--created this feeling of real hardship. The legislature recognized that when it fixed Prop. 13. Not only the spouses, but the parents of the child were exempted from Prop. 13 reassessments, because of this strong public sentiment. That basically was what caused, in my view, those inheritance tax initiatives to pass--the legislature exempted the spousal transfers but didn't exempt the transfers from parents to children.

Where that was particularly a big issue, a working hardship, actually, I would have to say in retrospect, is in the farm community. The son would inherit the farm from the father, and he would have a huge inheritance tax that he couldn't pay. He would



have to sell off part of the farm to pay the tax. How would you pay it otherwise?

HICKE: No cash accumulation.

DOERR: No. So it was extremely disruptive for the entire agricultural community of California and for a lot of other small businesses. If you have a little, tiny, small business that when you die, you leave to your son to run, this was subject to inheritance tax. Those to whom the property would pass would ask, "Where am I going to get the money to pay for the tax? I don't have anything. I have an asset that used to belong to my father, but the income hasn't changed. It's generating X amount of dollars."

In retrospect, that was the problem that the legislature didn't see. They thought originally it was the spousal problem. The spouse would inherit some property and didn't have any money to pay the tax. Farms and small businesses were the driving force behind this initiative. Though there was some opposition, I don't think that the opposition raised a big campaign war chest because the dollars involved weren't as large. It didn't seem to be as big a threat in terms of the state's budget. We'd just gone through Prop. 13, where you had \$7 billion on the line, and then Prop. 9, Jarvis II, and that was \$5 billion as a cut. So now, this is peanuts. Those two initiatives passed like gangbusters, so California repealed its inheritance tax as a result of that problem.

I'd add one more thing, too, which is another thing we didn't fully see but we should have seen. This was probably as much stupidity on our part, because we just weren't paying attention. There were all these other issues, and it kind of crept up on us. It

was the same phenomenon as Prop. 13, in the sense that it was kind of a property-related issue: whether the values had accelerated very quickly during that period of time, so that somebody who inherited a farm which used to be worth \$100,000 was now worth half a million.

This ballooning of value had a second impact. The tax was even that much greater, because you were going to keep these unrealized gains (i.e., not sell the property), and your income was predicated on the fact it was a \$100,000-value property, not a \$500,000 value. If you look at the value of the income from the property and not at the market value, which would be the speculation value for houses and things like that, the inheritance tax didn't recognize that.

HICKE: The enormous growth or inflation of real estate property is the key thing?

DOERR: It was part of that too.

HICKE: That's what you were saying.

DOERR: People had big estates now that never had big estates before.

HICKE: But all the value was tied up in capital or land, and they didn't have any more income than they had before, or not much, probably.

DOERR: Yes. From 1980 to 1982, that whole process happened; that just exploded as a political issue.

Another issue that started in 1980, we had legislative hearings on it and it wasn't solved until 1988, was a leftover issue from implementing Prop. 13. We called it the "no-property-tax cities" issue. Prior to the passage of Prop. 13, a lot of cities incorporated for one of two reasons that almost goes back to that speech I gave



you that Jesse gave, that they weren't really viable cities in a sense, but they incorporated because they had a big shopping center or industrial facility that generated a lot of sales tax money, so they'd incorporate to capture that money. Or they were defensive incorporations. They wanted to keep the big city away. "We don't want any government services. We just want our little enclave where we can control land use and keep out the city."

A large number of both of those kinds of cities didn't impose property tax prior to passage of Prop. 13; one, because they had enough sales tax money; two, because they didn't want to provide any services. They just wanted to stay where they were. When the legislature implemented 13, the formula was: you got what you got last year. Because they had not levied a property tax, these cities weren't eligible to get any of the distribution of the property tax from the formula that we set up to implement 13. In other words, the 1 percent property tax revenue was divided up among jurisdictions levying property taxes, so there were about thirty to forty cities that received no property tax money after 13.

Notwithstanding, they didn't get it before 13, but suddenly they felt aggrieved because they were paying the same amount of taxes as the person next door. Everybody was paying the 1 percent. They were saying, "Our people are paying this property tax. It's the same as people in the city of Los Angeles or the same as Long Beach or whatever. They're not getting any of the money back for their city. It's all going elsewhere."

This began a huge fight. The no-property-tax cities said, "We want a piece of the money." It really was joining the basic issue.

They were also being greedy in a sense. They wanted the money, although they didn't have any loss. Prop. 13 didn't hurt them. They lost no money at all because they never levied a property tax. They actually wanted to get more money than they had before, when everybody else had less.

That was the theory of implementing 13, on a need basis. It raised a fundamental issue: the other way you could have implemented 13 was not so much on need as on everybody pays the same tax gets back equivalent services. They get the money that they pay in, in kind of equitable distribution. If I'm paying a tax, I want to get the benefit of that tax. That joined that issue for the first time, that there were some areas that were paying but not getting any money back.

HICKE: Did this come out of the League of California Cities?

DOERR: No, there was a separate organization formed. The League of Cities supported it, but Joe Gonsalves was the lobbyist for the organization. I forget what it's called.

HICKE: It was formed specifically for this issue?

DOERR: Yes. Every year, in would come the bill. A big fight ensued, because the counties would oppose it strenuously. Again, now it was a zero-sum game. All the property tax was allocated. The state wasn't keeping any of it. If you gave it to these cities, you had to take it away from somebody else.

[End Tape 27, Side A]

[Begin Tape 27, Side B]



DOERR: And so you'd have the bills introduced and these huge fights ensued. That's one of the things Prop. 13 did by setting up the zero-sum game. It got government fighting government in this internecine warfare. The cities were hating the counties and the counties were hating the cities. Everybody's beating everybody else up. The bills couldn't pass without an external factor being inserted.

I think it was by 1988 that the state decided to set up a trial court funding program for counties to help them pay for the cost of running the courts. At that point, the cities said, "OK, if the counties are getting more money for this, then they can afford to lose some of their property tax money to us." That was plugged in at the last moment as a quid pro quo, and these "no and low property tax" cities got a share of the property tax.

This issue was not going to wait, because this was a little bit bigger problem. How do you fairly allocate the property tax? As I said, we did it on the basis of need, based on what you were levying before. We assumed that's what you needed, so that's the share you got, but it worked against this other principle of equitable distribution. Now we've got what you might call low-property-tax counties agitating for a larger share of the property tax, because some counties got a huge amount and some got very little--20 percent to 85 percent, as I recall it. That was one of the problems in Butte County, that they got a smaller share. San Diego County. There are suits now in court. They're trying to overturn the allocation formula, and also by legislation.

The issue was initially focused on these city areas, but it's a broad issue that I think is going to be discussed for some time to

come, of how to fairly apportion that 1 percent among local governments. One can make the argument that it's not fair, that it doesn't make any sense the way it's been done.

HICKE: The trial court funding was supposed to be relief for the counties, wasn't it?

DOERR: Yes.

HICKE: And if they got part of their tax taken away from them . . .

DOERR: . . . they didn't get as much relief.

HICKE: Yes.

DOERR: In fact, some counties said they weren't going to. . . . Some counties actually refused to implement the trial court funding program because they were going to lose too much property tax revenue to the cities. In Santa Clara County, they absolutely refused to do it.

Finally they came in with another bill, a separate bill. Santa Clara County finally convinced its cities to take fifty-five cents on the dollar. I believe that was the figure, but it was some percentage of what they would have been entitled to. They put through a special bill for Santa Clara County. After passage, they went ahead and implemented the trial court funding, because it pencilled out to a positive number. After the bill passed, there were these little flare-ups, county by county, over the ability to fund this allocation.

I think that concludes 1980. We'll go into '81-'82. Is that OK?

HICKE: Sure.

DOERR: There's a number of new issues to discuss. We have the deflator issue. This goes back to the property tax, the Prop. 13 implementation bill, where the legislature in effect gave the schools



less of the property tax so that cities and counties would be whole on the bailout. The state bailed out the cities and counties with state money, and they in effect made the bailout permanent by giving them part of the school property tax, and the state assumed a much higher level of school aid. That was A.B. 8. They put in there the deflator, which said that if the state ran short of cash, then the state could get the money back from local governments.

Well, they did run short of cash in 1981 and 1982. That's kind of a summary. For those two years, these were huge battles between the states and the local governments. The '81-82 budget was the first one to have this problem. The deflator worked something like Gramm-Rudman, not in concept, but in philosophy. It was so Draconian that you couldn't let it happen. It was taking so much money. It was estimated in '81-82 the reductions would amount to \$2.8 billion, which was. . . .

HICKE: So it would bankrupt the local government?

DOERR: Yes. But what it did was it softened them up. They said, "OK, we will settle for an alternative to the deflator."

HICKE: Something hanging over their heads?

DOERR: Yes. This allowed passage of a more reasonable program where local governments have to give back some revenue in return for a suspension of the deflator for the year. What the legislature did was it reduced state assistance to cities and counties by \$275 million. It repealed three subventions, which we termed "the three little pigs," that the state had been subvening to counties and cities: the liquor license fee, the highway carriers uniform business tax, and the what we called financial aid to local agencies fund--the FALA

fund. It was named after President [Franklin D.] Roosevelt's dog. [Laughter] The fund was comprised of a portion of the money the state got from the bank tax. It was distributed on an AFDC formula. It was a very special fund. It was enacted as part of the inventory relief bill.<sup>1</sup>

And then the legislature made a one-time reduction in the vehicle license fee subventions in cities and counties, totaling \$659 million, with various features. Then there were some givebacks where the state recognized some hardship problems in terms of the other subventions.

HICKE: This is all part of this package for the local governments?

DOERR: Yes. And there were health and welfare program changes.

HICKE: How did you pick out these things?

DOERR: Legislative staff just got together and developed them. We just looked at all kinds of things. For Oakland we added a little deal that said although they were going to lose this much, we decided to give them \$2 million to offset the losses they were going to have from the formula. It was amazing how that was put together. That was based on the museum factor, I believe, again.

HICKE: Yes, you told me that.

DOERR: It worked again in this package to prevent them from getting a larger cutback as a result of the deflator.

HICKE: Were all these little bits and pieces results of what somebody wanted, or that one person or another person requested?

DOERR: Yes. This came with a variety of different suggestions. We waived their match for drug abuse money, so they didn't have to put up their 10 percent. There was a variety of takeaways and givebacks

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1. A.B. 66, 1979-1980 Reg. Sess., Cal. Stat., ch. 1150.



to make the package. I'm trying to see if I can give you a bottom-line figure.

HICKE: Yes, I was going to say: each local government, then, would have to figure out how much they would gain and lose by all this in order to know whether they would support it or not, or did it make any difference if they supported it or not?

DOERR: I think the total cut came to about \$230 million after you did all these changes.

I'll never forget the entire Los Angeles County Board of Supervisors; they were really upset. They'd been profligate in their budgeting for a long time, but anyway, they were taking what they thought was a heavy hit. They all marched up and came into the back of the assembly chambers. At that time, the temporary facilities were out on the east side of the Capitol, on the lawn, the portables. They marched down the aisle behind the chamber into the little ante area before the Democratic caucus room.

Willie got into this big shouting match with [Supervisor and former assemblyman Peter] Pete Schabarum. I'm thinking now that nine years later, Schabarum gets his revenge. [Laughter] Maybe this is when it started, this was the episode that was the shot heard around the world, or whatever. I'd never seen anything like this. Here was this one body of supervisors who were very politically powerful. Some members want to leave the legislature to be a supervisor. That's considered a step up in your political career. Senator [Art] Torres is now running for that open seat. Schabarum ran from the legislature, and [ ] Mike Antonovich left the legislature to become a supervisor. [Senator James A.] Jim Hays, as

I recall, did too. It's always been considered a step up, and they're considered politically powerful.

Here they are in the ante area, as the Democratic caucus is caucusing on this, and then the caucus breaks up and Willie comes out. They get into this awful, awful tirade, shouting match against each other, with Schabarum leading the charge.

HICKE: What were they saying?

DOERR: That the state can't run its own program. It was off-color stuff, such as, "You stupid idiots. Unconscionable. You're going to do this. You're going to hurt the poor. We can't fund our emergency services." Partly programmatic, partly political. I'm thinking back now, thinking, that's interesting. Those two had such a big collision then. Then this other collision comes in 1990 when Schabarum puts the term limits on the legislature.

Anyway, whether that came from that deflator battle, it was just hard feelings, I mean, really hard feelings from local government across the board--cities, counties, they just hated it, they just hated it. So eventually the legislature repealed the deflator. Before it was repealed, this happened again the next year. The legislature went through the same drill.

HICKE: What happened to this first package?

DOERR: It passed. This was during that recession when Reagan first became president. California was in a recession, so state revenues were down. They just couldn't afford not to do it.

That was '81-'82. In '82 to '83, the deflator would have cut in and knocked \$2.4 million out. The legislature responded by suspending the deflator and enacting a statutory plan of one-year-



only reductions in assistance to cities, counties, and special districts. Following the same approach of the year before, '81-'82, the VLF was reduced again. Vehicle license fee subventions were reduced.

HICKE: Did you again yourself have to go hunting around for these . . .

DOERR: Yes, except we'd had one year of experience. Maybe I ought to explain, because it was involved in both years, and then I'll get to another issue here.

The vehicle license fee is a state-collected-and-administered tax on vehicles. It's in lieu of the property tax. Vehicles are not subject to property taxation, but in lieu of that, there is a state vehicle license fee, which was initially intended to be a surrogate for the property tax based on the value of the vehicle at roughly property tax rates. It was at 2 percent, which was thought to be generally comparable.

However, after 13, local property tax rate went to 1 percent. Nobody ever bothered to adjust the vehicle license fee down. The money was then given by statute back to local governments--cities and counties--because it was thought to be in lieu of property tax. It's just property tax money given back to the local governments, but it still was a state-levied tax and the legislature could control where the money went, by superseding the statutory subvention with another statute saying, "Notwithstanding that, this happens this year."

It raises a lot of money. It's the biggest ticket item in terms of subventions that the state gives local governments on a no-strings basis. It's a lot of money. It's big money. It's obviously sitting there, and it's the easiest one to deal with. If you're going to put

together a program that's going to take back some money from local government, you can say, "We'll just not give you all the money from the VLF."

The legislature did that again. That was a \$259 million reduction in local subventions. Subventions were reduced in '81-'82, '82-'83, and in '83-'84. This is now building up into a major issue between the state and local government.

HICKE: This is another deflator?

DOERR: Yes. What the locals decided to do was initiate a constitutional amendment preventing the state from withholding the vehicle license fee monies. They called it fiscal independence from the state. That passes, and then they also push legislation to repeal the deflator, and that passes. The deflator's repealed, they've taken the vehicle license fees so that the state can't withhold them, and they think they've solved their problem, except that they're really stupid because there's so many different ways the state could get at them.

That's what I pointed out. People would say, "Isn't this awful that they're going ahead and saying you can't reduce the VLF?" I said, "It's silly because if the state can't hit them with a VLF, it can hit them in a dozen other ways. It can take their property tax money and give it back to the schools, and the state reduces its school support." There are so many different ways to get around that, that this is just symbolic. They're doing this for symbolic reasons. It won't stop the state from changing formulas if it needs to rip off local government.

And periodically they did. They did this last budget. Cities were just furious because the state said the counties can charge the



cities for administering the property tax for booking prisoners, because the state balanced its budget on the back of the counties by withholding its program monies, so the counties get monies from the cities. They find they're not helped. There's a million ways to skin a cat. Somehow they thought this constitutional amendment, which is now law, restricting the VLF subvention was going to save them. It didn't.

That's the history of the little deflator and the big political battles that we had during those three years, and the implications for Prop. 140.

HICKE: Let me ask one more thing about the deflator. It never did work, right?

DOERR: No, it never went into effect. It was too Draconian. As I was saying, it was like Gramm-Rudman--they couldn't let it trigger.

HICKE: OK. I didn't see what you were saying there. I see what you're saying now.

DOERR: The result was such an overkill that it served a useful purpose, like the Gramm-Rudman, in that it forced the legislature to do something and brought the parties to the table. It changed the balance of negotiating power.

HICKE: I'm glad you pointed that out.

DOERR: It had a useful purpose.

Another big issue, and I'm not taking these in any particular chronological order--these are just '81-'82 issues--was the indexing of personal income tax. Personal income tax for a long time was not indexed, so as you earned more money due to inflation, you moved into higher tax brackets, so that although your real income hadn't

increased, your taxes were increasing. It had different names; it most commonly was just called bracket creep. The philosophy became, "We ought to index the income tax to inflation." That means every year, depending on the increase in the consumer price index, the tax bracket is widened, so that if your income growth is equal to CPI, you stay in the same tax bracket.

HICKE: CPI is Consumer's Price Index?

DOERR: Yes. This became an issue. I don't know when we first started talking about it, but it became a big issue after Prop. 13 passed. We could see a lot of theoretical justifications for indexing. The legislature passed a partial indexing bill. Income tax brackets were indexed for CPI growth above 3 percent.

HICKE: Just as a one-time . . .

DOERR: No, it was set to be permanent, but it was inadequate.

Howard Jarvis now needs an initiative to recoup from his losses in 1980, where he lost on Jarvis II. Now we have Jarvis III.<sup>1</sup> Jarvis III is full income tax indexing, which again costs the state some revenue losses.

HICKE: That's an initiative?

DOERR: Yes, it's an initiative, and it's on the June ballot again. He always put his initiatives on the June ballot. I think for the smaller turnout, he felt he had a better chance in June. They were always designed to go on a June ballot because of the demographics of the electorate in terms of June and November. Everybody was conceding that indexing was fair. It was an awkward position

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1. Proposition 7 (June 1982).



because we'd been promoting the idea but didn't feel like the state could go to full indexing because of the revenue lost, but philosophically not being able to argue against the concept. We just let that initiative go.

HICKE: You didn't take a stand on it?

DOERR: No, we just decided you couldn't oppose it and it wasn't worthy of fighting over. That passed in June of '82.

So now we have full indexing by initiative. That's one thing the legislature can't tamper with. You look at all these menus of revenue solutions to the budget crisis. Repeal of indexing is not on anybody's list, although it would produce a sizeable revenue increase. The revenue estimates are amazing.

HICKE: You mean the loss of revenue?

DOERR: How much revenue we would have now if we didn't have indexing, versus what we actually collect. It's close to \$15 billion. I think that is the last figure I saw, but it could be even more than that. It's just very substantial because it's cumulative, you see. It's geometric, almost, because the base is lower each year. Then you're starting from a lower base in the second year and index again, and this grows and grows. The cap in the second year is twice as large as a result. In the third year, three times as large.

HICKE: Did the Chamber of Commerce and so forth promote that?

DOERR: Yes. I think all elements of the business community did. And it made sense, from a tax theory standpoint. Eventually, the federal government adopted this. Originally the federal income tax wasn't indexed, but the federal government did it. . . . I suspect without indexing, our federal deficit would be much smaller, maybe even no

deficit at all. Congress did indexing when they couldn't afford it. California in effect could afford it, and did afford it. I mean, for all the years until we got to this crisis this year, there's been adequate revenue.

HICKE: Does that affect different groups differently? Is there a regressive or a progressive effect?

DOERR: Yes. The distributional effects are very interesting, because I used to do those distributional tables. The relief goes basically to the middle class.

HICKE: Really?

DOERR: Yes. They're the ones that get the biggest percentage benefit. Everybody gets a tax reduction, and everybody pays less than they would have, except if you're in the 1 percent bracket, you probably don't get anything because you're not . . .

HICKE: The lowest 1 percent?

DOERR: Yes, because you always are in the 1 percent bracket.

HICKE: Yes, so there's nowhere to drop down to.

DOERR: At the top of that 1 percent bracket you may have gone into the 2 percent bracket if you didn't have indexing. At the very bottom, you don't have much of a change. At the very top, you get some benefit, but if you're in the top bracket to start with, you're not being prevented from going into the next bracket, so all you get is the incremental benefit of not going from the 2 to the 3 to the 4 as quickly as you otherwise would. There's some savings to the top bracket, but not as much, so that the distributional benefits are to the middle income taxpayers, basically.

HICKE: Everybody always says the middle class never gets any . . .



DOERR: . . . anything. Well, indexing is the classic pro-middle class tax policy. The folks on the two ends are the ones that really don't see the benefits as much.

HICKE: That's interesting.

DOERR: I'd say the '81-'82 year is the beginning of a debate that has gone on since then, really came to fruition in '87. It's the issue of conforming personal income tax with federal income tax.

HICKE: How do groups line up on that?

DOERR: How do groups line up?

HICKE: Yes, pro and con.

DOERR: It depends on whose ox is being gored.

HICKE: Yes, on the specific . . .

DOERR: Yes. If you've got a tax benefit in California law that the feds don't have, you don't like it. If there's a benefit in federal law that California doesn't have, conformity is a great idea.

HICKE: So do you have to go piece by piece?

[End Tape 27, Side B]

[Begin Tape 28, Side A]

DOERR: Yes. This will be another issue where I think maybe it will be easier if I don't segment it into two-year bits, but start here and then walk it all the way through.

Conformity has been a lingering little issue for years. When the feds make changes, the state always looked at the issues. Conformity developed into a big issue starting in '81-'82 because of the activities of Jim Mills, who was the president pro tempore of the senate; he sponsored a constitutional amendment calling for

automatic conformity to federal law. It provided that whatever you owe the federal government, you take a percentage of that and pay it to the state--a real extreme position on conformity, which is the simplest for the taxpayer, most extreme in terms of changing state tax policy, and doesn't work.

HICKE: There would hardly be a state tax policy.

DOERR: There would be no state tax policy. That's one of the issues, but it mechanically can't work anyway, and I'll explain why. Members, you'll hear them say today, "Let's just take a percentage of the federal tax. That's simple. We can abolish the Franchise Tax Board. Great. Make it easier on taxpayers; they don't have to fill out two returns," et cetera, et cetera, et cetera. The Mills proposal was the real big opening thrust of this.

There were two problems at the time. One is trying to make the income tax simple. Two, federal tax policies are beginning to change with dramatic frequency. A long time ago when I talked about Reagan, I said he loved to change taxes. Every year he'd have a tax bill, so the federal and the state laws were drawing further and further apart just because it was not the policy of the state really to conform. It was done if somebody wanted to put in a bill, but it wasn't a big deal.

Here was this constitutional amendment providing automatic conformity. It was killed in the assembly with the idea it would be given a full and fair interim hearing; so there were hearings around the state to work on this problem. As a result of the hearings, we concluded pretty much that this wouldn't work and shouldn't work. It was a bad tax policy, because tax interests of other states would



be driving California tax policy. California is big enough to have its own tax policy. Because some congressman from Texas got a tax break for his constituents, that didn't necessarily mean that California just automatically adopted that. And of course, politically, it neutered the legislators. They didn't want to give up their power to give somebody a benefit through the California tax structure, which is one of the good arguments for doing conformity, in my view.

HICKE: Yes. They wouldn't have anything much left to do.

DOERR: They wouldn't have these special-interest tax credit bills for all these narrow, political, giveaway-type purposes that consistently we see every year across the street. They liked to do that, and they recognized that conformity was going to take that away from them, so they didn't want to do that. You can argue broadly that California should set its own tax policy, and that's included in that generic argument. Maybe that's one of the reasons why we shouldn't. On the other hand, we can argue that the federal government does the same thing. It's who's giving away the special-interest tax breaks. It's not the fact they're there; it's just who's giving them away. Do you want to let the feds do it or California do it? That's one of the arguments.

The committee concluded that California shouldn't have an automatic conformity. The other reason why it doesn't work is because of legal limits on the states and problems of double taxation. It is absolutely impossible and inequitable for you to do that, because there's income that's taxed at the federal level the states can't tax, such as interest on federal obligations.

HICKE: Inheritance taxes?

DOERR: Income tax.

HICKE: Oh, income tax.

DOERR: There are things the federal government taxes that states are legally prohibited from taxing, such as the interest on federal obligations. Then there are certain provisions that will result in severe inequities.

The illustration I usually write to get people to understand this is that years ago we used to have IRAs where people could put money away in a tax-free savings account. That was a federal program. So you put that money away and reduced federal income by the amount deposited in the IRA. When you take it out, that's going to be subject to federal tax. California never fully went into the IRA program. It had a partial one. A great many Californians who put their money into these IRAs got the federal exclusion. It wasn't taxed federally, but it came out of taxable California income.

When you pull that money out of an IRA, you are going to pay a federal tax on that money. You will not pay state tax. State tax has already been paid when it went in, so there's no state tax on that when it comes out. It's like money in your savings account. You take money out of your savings account. You do not have to pay a tax, because your money went in there after tax. It was after-tax income that went in.

Now, if we switch to this idea of the state tax is a percentage of federal tax, you're just going to pay a tax on what you pay the federal. That's going to include that IRA deposit when it's withdrawn. If you are paying a percentage of a federal tax, you're going to be paying twice the state tax on that IRA money, because



you paid it when it comes in, and now you'll be paying it when it comes out, because the feds are taxing it. You can't conform. You can't structure the California law to conform without a number of these specific little problems.

HICKE: I guess that's again the whole theory of double taxation.

DOERR: Yes. Double taxation. As a practical matter, it precludes this idea. There are other examples, but this is the one people understand, because a lot of people have IRAs and they can see the result.

After this big study, the committee concluded that there was a need for greater conformity, conformity in bringing the California law closer together with the federal law to minimize as much of the difference as we can, and only leave these critical areas where there's a difference.

In the next two years, after doing the first study of the overall issue, then a task force was established, of which I was chair, similar to the way we implemented Prop. 13. I believe in these broad ecumenical groups. Bring in the Franchise Tax Board, the administration, outside business interests. Everybody's working together. The [California] State Bar [Association] was there, accounting societies, CPA firms. Their representatives were on my task force.

HICKE: What's your theory behind that?

DOERR: We want to get a broad consensus. We get everybody to buy into what we're doing.

HICKE: So you give them all input?

DOERR: Yes. I want a product that I can take in and sell and say, "I've got everybody on my team, and you don't have anybody on your team."

My bill's going to go through." Boom. It always does. It always worked that way. It always was successful.

They don't do it anymore. It irritates me. Legislators have asked me, "How are we going to deal with this budget crisis? How are we going to do it? What's your solution? You were over there." I'm not going to tell him what taxes to raise, because that's not my job anymore. I will say, "I'll tell you two things that always work for me." I've told this to a number of legislators.

"First of all, you've got to sit down and start building a consensus by bringing everybody in under the tent. It's worked for every tax bill I ever worked on. I developed all the tax bills for the state for twenty-five years. We did this, and they got through, and there was not a lot of opposition. The legislature is not doing that now. People dream these current proposals up in the middle of the night which have substantial opposition, and they come out and say, 'We're going to force it down your throat.'" I said, "This doesn't work, and we're having lots of conflicts. You've got to do it the other way."

Point two, in my tax bills there always was the Mary Poppins theory of taxation, which was, a little bit of sugar helps the medicine go down. The tax bills always had some things that people wanted, and so legislators didn't have to vote for the bill; they wanted to vote for the bill. Primarily they were generally property tax provisions. We were somehow improving the structure and equity of the property tax as well, so while you were voting to increase state taxes, you were voting to reform property taxes. To the question, "Why did you vote for that bill? Why did you vote for



tax increase?" legislators could answer, "Well, there was some property tax reform." That was a cover, so that they could vote for tax increase politically and not get hammered. They had no other reasons to vote for it.

HICKE: Very astute.

DOERR: I said, "You need to do those two things, and then you can work out a successful program." From what I've seen in the last three years, they want to circle the wagons. In speculation on why, sometimes I think it's insecurity in terms of knowing the subject. Sometimes it's just "I've got the political power and I'm going to keep it." They're not comfortable enough to try and share that power. Particularly if you're brand new, there is less of an interest in a teamwork approach. "Hey, I'm here, I get to do it. It's my turn. I don't want others to have a say." For whatever reason, the legislature is not using task forces of all interested parties to work out problems. They've forgotten how to put together a package that's attractive. That's my observation.

HICKE: That's really interesting.

DOERR: We're diverting from the . . .

HICKE: No, this is really important, I think, to find out how you were able to do these things.

DOERR: The task force process worked, and it always worked, and we always did it the same way.

HICKE: I wonder if one reason it worked is because you were able to deal with these many diverse groups. For instance, you pointed out that a lot of people don't have enough expertise, maybe, but also, I think

handling so many different points of view itself must have been a challenge. Not everybody can do that.

DOERR: You have to try and do that: work it out; recognize that people have different views and their different interests, try and reconcile everybody's interest and work for a broader consensus. It did work, and I know it worked because I worked it time and time again--just broadened the circle to bring everybody in. And they haven't had a task force since.

HICKE: That's too bad.

DOERR: It's too bad. And they need one this year, the worst time of all. That brings us back to this conformity task force. We formed this big task force, and we got together. We told the task force, "We're going to go through every single section of the personal income tax law and review it to see if it parallels federal law, and if it doesn't we will ask why can't we parallel federal law?"

We began this process, and it took just weeks and months. We reviewed the tax code by subject matter. "This week we're going to deal with deductions; so let's look at all the state deductions and all the federal deductions, see if we can't match them up together so they're the same. While taxpayers have two returns, they could use the same figures, so they don't have to figure each out separately. They could just transpose the numbers."

We went through all the code sections and found many stupid differences. "Why is that different?" "I don't know why that's different. It's always been that way."

HICKE: Standard.



DOERR: Yes. The task force got into the simplification mood. People caught the spirit of the effort.

As we worked our way through it, we finally came to this secondary idea, because we were dealing with the past in a sense. We were dealing with all the accumulated differences. Either California didn't pay attention when the federal changed its law, which was primarily the case--the federal law changed, and California, for one reason or another, didn't pick it up; just inertia--or there was a reason. Somebody introduced a bill that did something different in California.

Those are all past issues. We were trying to bring the two existing laws closer together. Then we began talking about the concern, "Are we going to do this every year? We've got to have a mechanism to deal with federal changes in the future." Out of that came a forcing function. The task force recommended that California adopts federal law except for one, two, three, or whatever exceptions it thought should remain.

And it proposed to reference the Internal Revenue code, so that California law is going to automatically be current unless an exception is made. Then the task force recommended, "The reference to the Internal Revenue code is as of 1986." Every year, the legislature then changes the date, changing '86 to '87, for example. That automatically picks up all the federal changes except the ones that are specifically mentioned. It flipped the whole conformity issue. Instead of saying, "Here's what we're going to pick up," now California law picks up everything except what legislators specifically do not want to pick up.

HICKE: That sounds like a major reform.

DOERR: Yes, it was an absolutely major change. This was 1983 that this bill is passed, because we're working in '82-'83 on the task force.

HICKE: Do you know what the bill was?

DOERR: It's a Hannigan bill.<sup>1</sup> I'm sure I have the number downstairs to give it to you.

In 1983 the whole task force is all behind the bill, so it zips through. It's almost a consent item. Members said, "This is a great idea." The Third House liked it. The members said, "Yes, this will really help to simplify the tax."

We undo and reverse the whole structure of the income tax in 1983, and it's kind of a sight unseen, fundamental, major tax policy change that doesn't get a lot of discussion, doesn't get a lot of press coverage, because they only cover things that are controversial. The legislature revised the entire income tax. Then the Franchise Tax Board starts reworking their forms, so now taxpayers plug in the federal numbers. I don't know if you've followed this lately.

The '87 bill, which came four years later, involved major changes. Each year you had to change the date. In '87, the date change was major, because the federal '86 act was the big federal act, so the legislature changed the date in '87 to pick up all these provisions. That's a big, big conformity bill in terms of doing that. In the process, the legislature says to the Franchise Tax Board, "We want you to start the income tax forms with a federal number, your federal adjusted gross income."

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1. A.B. 36, 1983-84 Reg. Sess., Cal. Stat., ch. 488 (1983).



HICKE: My husband does the taxes, so I don't know.

DOERR: Before, you used to have to fill in the state forms. Now you transpose the federal adjusted gross income number across and say, "This is what I report on my federal return." Then there's a little line that says, "California adjustments," and you have one for ups and one for downs. The returns tell you which things are California adjustments and how to make those adjustments if you have that kind of income. Then you fill in your California adjustments. Those adjustments, again, I think, go to the point, they help people understand why you can't do this automatic conformity; so when they see the adjustments they realize you can't take the total federal figure.

One of the most common ones: the IRA difference is an adjustment, but I think a lot of people have not yet been affected. I think that's still to come. I don't know how many people are cashing in their IRAs. If you get a state income tax refund, that's taxable on the federal return. That's taxable income. That's another adjustment.

HICKE: It is?

DOERR: Yes, because you've deducted that amount in the year before.

HICKE: Right.

DOERR: In other words, you deducted the amount withheld from your paycheck as a California deduction, so you really deducted more than you were entitled to.

HICKE: Yes.

DOERR: When you get the refund, it goes back in as income for federal purposes. The state doesn't tax that, because that's not state taxable

income; so that's pulled out. That's one of these adjustments. So you go through the adjustments and then you come to adjusted gross income. Continuing you have the same conformity principle for itemized deductions. The big difference on the itemized deductions is that federal law allows you to deduct state income taxes from federal taxable income, so you get a deduction for your state income tax paid. You don't have that on a state tax return. It's kind of silly to deduct state income taxes from state income taxes. It's circular. So you pull that out, and then you go on from there.

As a result of the '87 act, you don't quite use a percentage of the federal; you just plug in the federal numbers and make a few adjustments and that's it. It takes fifteen minutes. It's just much, much simpler than filling out your California tax return used to be.

HICKE: Has the federal income tax been simplified too?

DOERR: I think for certain individuals, the federal tax changes have made the tax return less complicated. I know for my federal return, it's less complicated for a number of reasons.

One major one for us: we used to be able to deduct a whole bunch of quasi-business expenses, particularly for my wife, who's a teacher. She could deduct a book she'd bought for this and that and the other thing. She had all these deductions to keep track of, and that used to be a headache. Now they put a 2 percent floor on that, so the amount you spend for business expenses has to be more than 2 percent of your income. If it isn't, you just forget about it; you can't deduct any more, so I don't have to keep track of all those expenses.



The same with the interest deduction; it's being wiped out so it's not worth worrying about. All you have to worry about is your mortgage interest. You won't have to check all your credit cards and this and that and the other thing to keep track of your interest payments.

There's a number of similar provisions. And then they lowered the tax rates to compensate for the fact that you were losing these various types of deductions. It makes it, for a lot of taxpayers, simpler. It's not as simple as everybody would like, but it's still simpler. And then the state working off the federal is very simple. The conformity project has been a major, major improvement that's happened that we did in the eighties without much notoriety, because it wasn't a big political issue.

HICKE: I wanted to ask you, was there any opposition at all? Were any groups or anybody opposed to this?

DOERR: No.

HICKE: You had everybody already in on . . .

DOERR: Everybody was in, yes. Everybody who was a player was in.

HICKE: Was there a lot of discussion within the group, or waffling?

DOERR: Yes. During the sessions.

HICKE: They worked it all out then?

DOERR: Yes. We had a lot of spirited debate on specific items, on whether we ought to conform or not. Maybe the nonconformity argument was strong enough that that was one of the exceptions we set aside. We didn't conform lock, stock, and barrel. So several provisions stayed outside the conformity tent. They're the California exceptions.

HICKE: That's an incredible piece of work.

DOERR: Yes, it was. I feel really good about that.

I have two more issues here, kind of '81-'82 issues. If we're ready, we can go a little bit longer.

HICKE: It's up to you.

DOERR: Yes. We may as well finish '81-'82.

HICKE: If you can, that's great.

DOERR: These aren't biggies, but I think they're kind of important. One is Project Independence, and the other is some Prop. 13 issues where Prop. 13 begins to become unravelled.

Project Independence was an effort started by Cal-Tax to see if we couldn't restore some independent fiscal autonomy to local governments in light of Prop. 13, and how could we structure this whole system? It was really a far-reaching, ambitious program. Again, as they set it up, I thought correctly, they tried to bring some of the key players into the discussion. I was still with the legislature, but I was brought in. They invited me to come in and participate. Cliff Allenby, with the Department of Finance, was brought in to participate. The cities and the counties and the school districts were all brought in to participate. Then you have the business side represented by Cal-Tax.

You have this ecumenical group trying to figure out, "How are we going to structure local finance? How can we give them back some decision-making authority?" There's a lot of discussion about this. Because initially under Prop. 13, many local governments did not have any real revenue-raising authority because Prop. 13 required a two-thirds popular vote to raise revenues, and the



property tax, you still can't increase. There was a lot of discussion, a lot of work. I have a whole file full of papers. Nothing happened, so it was an idea whose time had not come. I could kind of go through this quickly.

The counties were going to get the authority to levy an income tax with a majority vote, so they were going to get a countywide income tax. The cities would get sales tax authority, which they could increase by a majority vote of the people: this was a practical recommendation. Cities couldn't levy an income tax, but the sales tax could be imposed on a city-by-city basis. The schools would have received authority to increase the property tax, but they are not structured to impose a sales tax because they're too small. This was the broad direction, but it fell apart . . .

[End Tape 28, Side A]

[Begin Tape 28, Side B]

DOERR: It fell apart for two reasons: one, at the critical point in the discussion, the supreme court came out with the Farrell<sup>1</sup> decision, which said that Prop. 13 didn't affect general taxes. The decision said a special tax meant only those taxes that were earmarked, so cities had the authority to levy general taxes on their own. The cities didn't see any need to cooperate with this group now and take the sales tax to the majority vote when they now again were free to raise specified taxes by council action. They in a sense bailed out. Two, the school districts were getting too greedy, because not only

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1. City and County of San Francisco v. Farrell, 32 Cal. 3d 47 (1982).

did they want the authority to levy the property tax, they wanted in effect a share of state tax revenues. It was an early effort to get Prop. 98.<sup>1</sup> They argued, "We want a guaranteed amount of money from the state. We want to fix our share." People couldn't agree to that.

Because of those two things, the effort just fell apart, but it was a very creative and interesting effort to set up specific taxes so you could hold people responsible. The idea was accountability and responsibility. You could have this tax authority and you could do it, but people would know who was responsible. They'll know what your jurisdiction is, so there won't be a lot of overlapping duplication.

HICKE: That seems like a good idea.

DOERR: Yes. The project lasted almost a year and a half, as I recall, but it just fell apart at the end. It was almost finished, too. Tom Hannigan was ready to introduce the bill. I talked to him about it and said, "This is really working well. This is going to be a big improvement." I kept him apprised of what was going on. It was almost there. You almost could touch it, and then these things happened and it fell apart.

Then I mentioned the Farrell decision. That was one of the big three. During this period there were three big court decisions, which tended to gut significant portions of Prop. 13. The court initially had upheld 13 in the Amador decision. Then they came

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1. Proposition 98 (November 1988).



down with these three decisions which tended to carve major loopholes into provisions of 13.

The first one was the Richmond decision. The Richmond decision said if the local jurisdiction hadn't been levying a property tax, then it was not covered from the provisions on imposing the voter approval requirements on other taxes, so that they could go ahead and impose a sales tax or whatever, as long as they hadn't been levying a property tax. Prop. 13 was meant to control property taxes, and Mr. Jarvis was afraid that local government would backfill the property tax loss with other taxes. That was the reason for the voter approval requirement for other local taxes. The Richmond decision was considered to be the first major hole in 13.

That's how the transportation sales tax came about, because transit agencies that were set up never had the authority to levy property taxes, so they could levy a sales tax for transportation purposes with a majority vote. They're not covered by this special tax provision of Prop. 13. The whole growth of the entire county sales taxes for transportation all stems from this court decision.

Those have grown immensely since then. If you look at the sales tax before and after, now what most of the population pays today I think is 7 percent. Before that they were 6. It's been the growth of transit taxes. In effect, Richmond permitted sales taxes, none of which would have passed had that decision not come down.

HICKE: And they wouldn't have made it?

DOERR: I don't think anybody's gotten a two-thirds vote for a sales tax.

The next big decision was called the Carman decision.

HICKE: These are all state supreme court?

DOERR: Yes. State supreme court.

At issue was what was considered debt under Prop. 13. Prop. 13 said the tax rate was 1 percent plus any voter-approved indebtedness. It uses the word "indebtedness," not "bonds." It says "indebtedness." The question is, "What is indebtedness?" Mr. Jarvis said, "What we meant is bonds that have been voted by the people." The court says in the Carman decision, "This includes retirement plans." When the voters have approved a retirement program for its employees, that's indebtedness. You can levy a property tax rate of whatever amount above 13 to pay the cost of your pension obligations. This decision just put everybody in an uproar. "You're just undermining 13. Oh, terrible."

HICKE: Business, you mean?

DOERR: All taxpayers. The associations. Homeowners.

This issue comes to the legislature, and becomes a big issue. Mike Roos takes the lead on this, but he's getting cooperation from the Republicans, too. Mr. Roos argued, "This decision is terrible; it opens the floodgates. There will be billions more higher property taxes." The legislature first enacts a temporary bill and then comes back the next session for a permanent bill, which is about the same, saying in effect, "OK, the jurisdictions that have done this are not going to be required to roll back tax rates, but nobody else can do it."<sup>1</sup>

The legislature has the power to do this because of a little change put in the constitutional revision package a long time ago,

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1. A.B. 13, [years?] Reg. Sess. [?], Cal. Stat., ch. 112 (1985).



which authorized the legislature to put on tax rate limits. A.B. 13 said to local governments, you cannot levy a pension override any higher than what has been levied as of 1983. And that limit has stood since that time. There haven't been any changes. The legislature did close the loophole created by the Carman decision.

The Farrell decision was the third one, the one we discussed a minute ago. At issue was a two-thirds vote for a special tax. Everybody thought Prop. 13 meant that all local tax increases would require a two-thirds vote. San Francisco put on the ballot a proposal to increase its business license tax, and it passed by a majority vote, but not two-thirds. They decided to implement it anyway, and went to court. Farrell was the controller of San Francisco.

The court said, "A special tax is a tax for a special purpose; therefore, general taxes, which just go into the general fund, which are used for all purposes, are not covered by Prop. 13." If a government otherwise has the authority to levy a tax, then it can levy a general tax without a vote. There's no vote requirement. As a practical matter, this affects basically chartered cities, because they're the only ones that have the authority to levy these taxes. From the Farrell decision on, chartered cities can levy their local utility user taxes or the various taxes you see them levying without a vote.

In 1986 there was an initiative<sup>1</sup> on the ballot to stop that, which passed. It was a statutory initiative that passed, but again

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1. Proposition 62 (November 1986).

you've had litigation. Chartered cities have argued, "We have the constitutional authority to levy these taxes, so we can go ahead and continue to levy them." Opponents said, "No, this is a statewide interest. The state can preempt such taxes."

This issue is still not fully settled. In City of Woodside v. Logan, Prop. 62 is struck down. But it is not a supreme court decision. A concurring supreme court opinion in Rider suggested Prop. 62 may still be applicable. I think that's pretty much the way it comes down. Chartered cities believe they are again exempt from Prop. 13's vote requirements, which then led again to the measure that was on the ballot just this year, which was 136.<sup>1</sup> The measure was a constitutional amendment, to reach out and pull the chartered cities back in to have their taxes approved by a majority vote. Stemming from the Farrell decision was this ability of chartered cities to impose the various types of taxes they can impose.

HICKE: Aren't there only about seven or eight chartered cities?

DOERR: There are tons of them. All the major cities are chartered cities. Most of the population of California lives in a chartered city.

Those three court decisions changed the dynamics of Prop. 13 quite a bit, as you can see, because you have this gaggle of sales taxes for transportation coming out of the Richmond case, you have these overrides in a number of counties that are still there that grandfathered in under the Carman case, and you have the Farrell case, where a chartered city can do pretty much what they want to. Those all came during that period.

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1. Proposition 136 (November 1990) did not pass.



That brings us through '82.

[End Tape 28, Side B]

[Session 11, March 8, 1991]

[Begin Tape 29, Side A]

HICKE: We were just talking about where we were, and you suggested that we were at 1983 and you wanted to short-circuit the budget crisis.

DOERR: I think the big issue in 1983 was the budget crisis, which, looking back on it, has similarities to the 1991 budget crisis, only the Democrats, I think going into that budget crisis, got more than it looks like they're going to get going under this one. Now, I don't need to talk a lot about it because I prepared a paper which I think is pretty good that I gave down in Berkeley at a seminar that was being held in the Faculty Club that at the time everybody thought was really well done, so I think it covers that.

HICKE: Can we just put that in, in an appendix to the oral history?

DOERR: Yes, as an appendix.<sup>1</sup> So I don't need to go into it a whole lot, just a couple of things that I remember. This was when I first met Tom Hayden, who was involved in this, because he was just elected and the Democratic leadership wanted to give him a piece of the action, so he began to work with them on one of the pieces of the bill.

HICKE: Why? Were they interested in promoting him?

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1. See Appendix A.



DOERR: Yes, and I think that's what he wanted, too. They wanted to show that he was not a radical. They wanted to rehabilitate his image, show that he was a team player, a problem solver, working for the interest of the state. He's carrying one of these Iraq war resolutions in this session. He's trying to erase his past image. So that was the first step in that. But he was generally easy to work with, fairly bright, so he was given one of the budget-implementation bills.

Another thing was that the Democrats pretty much expected that the problem would be solved with tax increases without any significant budget cuts, which shows you how far we've come, because now they don't expect that anymore. Now, there were some budget cuts that came about, but part of the problem was solved by carrying the deficit over. In 1983 we were just coming out of the recession, so to a certain extent the problem cured itself, because the revenues started to grow. Nobody expected that initially, when we were beginning in 1983, but it worked out that way.

But there was a significant tax package that was passed, that Governor Deukmejian always said was not a tax package. "I haven't raised the general taxes around here. We never had a tax increase." It was about \$800 million.

HICKE: What did he call it, if not a tax?

DOERR: One of the things he said was that he was closing loopholes. What they did was put on a supplemental property tax roll; that was one of the big features. That meant when you had a change of ownership, you paid the higher property tax because of the higher assessment from the date of the change rather than from the next

lien date, so you picked up money for that interim period. It was quite a large amount of money, but the assessors hated it. It was very difficult for them to administer.

HICKE: The paperwork involved, and the calculating?

DOERR: Going out and getting these things on a timely basis. The governor argued that since assessors had to make the assessment sometime to get it on the roll, why not do it right away? Assessors said, "Oh, we can't." Now it's working fine. They've managed to do it, but it was traumatic for them to make that change. That had been something that the Department of Finance had been suggesting for a couple years without success until 1983, when the revenue was needed.

You almost see the similarities from '83 to '91. Another big component was not to let the vehicle license fee depreciate as fast. The fee you're paying for your car goes down every year as the car gets older. Legislation was passed that provided this year [1983] it won't drop. They argued it's not a tax increase; it just didn't go down as fast, you see. In fact it was a tax increase, but they could say it wasn't a tax increase, so that was useful. That's in this program. Other similarities: there is some acceleration of collections which we have this year. The vehicle license fee--they're doing that again this year. "Let's just not let the thing depreciate as fast. It's not a tax increase."

Then they tried to close loopholes, so the Democrats thought, "Wow, this governor is proposing to close these loopholes." They all knew that that was political dynamite.

HICKE: Why?



DOERR: Because it offends so many people.

HICKE: The Republicans, especially?

DOERR: Whoever is affected. It's exceedingly difficult. Close to impossible.

HICKE: You said it offends so many people? Are they that prevalent, the loopholes? Are there that many people who actually slide through?

DOERR: Yes. It depends who you think of as the payees. Like candy. Everybody eats candy.

HICKE: Is that a loophole?

DOERR: Well, they put it on the loophole list. I never thought it was a loophole. With the closing of a loophole, it is not incremental. If you raised the sales tax a half cent, it's not very visible. Everyone says, "It's just a half cent." But if you raise it seven cents on a bar of candy, 7 percent, that's more visible. "Wow, this price has gone up so much; this is a tax increase." So it's a difference in magnitude of going from zero to a half or zero to seven when you make it subject to sales tax.

So anyway, he had this laundry list of loopholes that he suggested be closed, so that Willie called me into his office and said, "I want you to take charge of this. What we're going to do, we're going to put this through without so much as a comma change. That way it's going to be the governor's." So they called a special session of the assembly.

HICKE: The idea was to let the governor take the entire blame or whatever for this?

DOERR: Yes. It was to be the governor's package, not the Democrats'. The legislature was just being cooperative.

I described to you that assembly meeting of the whole when we debated that education bill with Jesse. Well, the assembly held another one for this, so instead of having a committee hearing, there was the entire assembly having a hearing to get the maximum amount of publicity. This time I had to sit up at the front, at the desk, as the resource person to answer questions about the proposal.

HICKE: Was it televised?

DOERR: It wasn't televised. I don't think it was. And then people would come in and testify. Then after that, they had a Democratic caucus, and that's what really got dicey, because some members really were upset. I was supposed to defend the governor's plan. It was the governor's plan, and I was in Willie's Democratic caucus, and I was supposed to sit there. A lot of members were grumpy; they were mad: "I don't like this." "Why are you doing this?"

Why am I doing it? I'm not doing it. But I'd try and give the reason why the governor was doing it, because that's what the speaker wanted me to do. It was a very awkward position.

I remember Art Agnos, because he became mayor of San Francisco, was particularly upset with the piece that somehow adversely affected the horse-racing industry. He just went right after me on how outrageous this was, and "Why are you trying to do this?" Even after that, even when I went back to my office, he came up to my office with some of his friends and continued to bang away at how outrageous, unfair. . . . I forget the details. We could go back and try and resurrect what that piece was, but I remember clearly that . . .



HICKE: Are there three tracks? Well, there aren't any in San Francisco, but there are three around the Bay Area. Or maybe there were only two by then.

DOERR: Golden Gate Fields and Bay Meadows, I think.

HICKE: Yes. Tanforan is closed. And that was the reason?

DOERR: No. Of all the features in the proposal, that was, from my standpoint, the most unpleasant in terms of getting heat, and he was the one that was providing most of the heat.

HICKE: And Willie Brown was not willing to say that he wanted to just sort of let it go and let the governor take his lumps? Nobody else understood that except you?

DOERR: Well, I understood it, and I was taking the heat for it.

HICKE: But Agnew couldn't understand that.

DOERR: Yes. I don't know how much Willie talked to other people privately. He may have told some of them, maybe he didn't. I don't have any information. But I was there to defend the program. "This is the program that the governor is suggesting, and Mr. Doerr here will tell you why we're doing it."

Then it was sent to the senate, and of course, then the senate had a field day, because then they start pulling it apart. Some of the things passed; they're outlined in the paper. Others did not. I don't think the horse racing piece passed. I think that got taken out in the end. Then a final compromise bill was approved. So some of those provisions were part of the \$800 million as well as the supplemental roll and the VLF changes.

HICKE: Would you say that was a successful strategy on Brown's part?

DOERR: Yes, it was pretty successful. The crisis was resolved. Now, the governor did make some changes. He blue-pencilled quite a number of things from the budget to cut expenditures, but on the whole it was resolved fairly favorably without a lot of pain, as I recall.

The Democrats were holding out for a huge school finance package, which they got most of, in exchange. And that's partly, I think, due to the fact that people began to see that this country was coming out of recession; revenues were picking up. So you had a number of things and the taxes working together. It was successful. It was a successful program. People knew there was a tax increase because supplemental roll hit new home buyers, but it wasn't a big deal in terms of, "Hey, there's this big tax increase. We're mad." Few were upset. We didn't get many letters.

So that is my recollection of the '83 package, supplementing the paper on this subject. I think most of it's in the paper.

HICKE: Would you say that was a pretty unusual year for a budget question?

DOERR: In terms of the tax component, it was the most unusual one, because it was fairly invisible.

HICKE: But they apparently learned from it when they . . .

DOERR: Wilson initially tried the same thing this year. His program began as almost a carbon copy of what they did in '83, because he saw that there was no political fall-out for Deukmejian. (Note: budget gap increase and 1991 package got much larger.) Deukmejian had taken a "no new taxes" pledge before the election. When he was elected governor in 1982, he had committed not to raise taxes. "Well, these aren't general tax increases." Of course they were.



Everybody who had a car had a tax increase, but they managed to convince people it wasn't.

HICKE: It sounds like a real sleight of hand.

DOERR: Yes, because they were very effective. I'll take my cap off to them.

HICKE: I was just going to ask you, how do you assess that kind of plan?

DOERR: You had two people with different interests working in the same direction politically. The governor didn't want to have a tax increase. The Democrats wanted to get more money for all the programs; so the way to get more money was to have a tax increase and not call it a tax increase, not make a fuss about it. They could go along with that; their objective was to get the revenue. So they could play along with the governor's strategy, saying, "We're closing a few loopholes. It's not a general tax increase." So they wouldn't hammer the governor. They just kept it quiet.

HICKE: How do you consider this from the taxpayer's point of view? Is this a fair way of going about it, do you think?

DOERR: There wasn't a lot of tax philosophy involved. The idea was to get money. So it wasn't like the earlier tax programs that we'd put through, particularly during the Pat Brown-Reagan years, that were structured to make the tax structure better and work so it would be more elastic, more equitable, all the criteria we plugged in. This was just "Get the money the easiest way we can get it with the least amount of political fall-out," things that we could do so that we wouldn't have to say it was a tax increase.

HICKE: It strikes me, for instance, that the tax on vehicle use was not a bad thing. Probably the older a car is, the more it should be taxed, because the more it pollutes.

DOERR: On the other hand, it's probably taxing the poor more heavily.

HICKE: I see. OK. Yes, that's the other side of that. So it's a very regressive sort of thing.

DOERR: Yes. The change in the depreciation schedules. The guy that buys a new car every year doesn't have any change. It's just how fast it's going to depreciate. Taxpayers over time then will pay more tax if they're buying used cars. That's the tax philosophy part, but that didn't really enter into it because it produced a lot of money. There's a lot of money in that particular tax.

I jotted down some notes here on some of the other things that happened from '83 to '86. Some of them we've talked about. This is an interesting period, because there were a few major things happening, but not a whole lot. It was a quiet time for taxes. The economy--in '83, we were coming out of a recession. Everybody knows what happened after that.

HICKE: Straight on up.

DOERR: So there wasn't a revenue problem in any of these years after '83. So there wasn't a whole lot to do. I'd say there were two trends during '83 to '86, after we solved the budget problem. One was to fix some tax problems, and two was the beginning of the proliferation of tax credits. I think before '83 you rarely saw tax credits. After '83, I mean, we got tax credits on tax credits. The system has gone bonkers with tax credits.

HICKE: Why did that happen?

DOERR: Two reasons. One is that the revenues were growing enough that they could afford to give a tax credit and the state would still be OK. Two, it was easy. A tax credit, in most cases, is a tax



expenditure. What they're trying to do is generate money for a program. They want to start a program of some kind or another and give money to some special group. They thought they could do it easier politically by doing a tax credit for two reasons: one, with tax credits, you can reduce taxes by a majority vote. If you tried to appropriate the same money for the same purpose, you'd need to have a two-thirds vote. Two, tax credits kind of give you more room under the Gann limit.

Appropriations put you further towards the Gann limit, so that's actually counter-cyclical to the Gann limit. So tax credit was clearly the option of choice during the consideration of the Gann limit in those years, because the state was reasonably close to the limit. Everybody was somewhat concerned.

HICKE: Is it easier to revoke a tax credit, too, than to take an appropriation out of the budget?

DOERR: No, it's just the opposite. It would require a two-thirds vote to eliminate a tax credit, and the appropriation can be stopped because you just don't reauthorize it. In other words, one-third plus one of the legislature can stop the appropriation, so it's easier to pass the tax credit, much harder to get rid of it. So the legislature passed tax credits for a variety of purposes: solar installations, waste disposal expenses . . .

HICKE: . . . windmills.

DOERR: Windmills and you name it, there were tax credits, and we still have a number of tax credits that clog up the tax form. Legislators think, "This is great." They're trying to give somebody a tax benefit to do something they want to see done.

HICKE: So, policy. They're for policy reasons.

DOERR: Yes, they're for policies and not for tax reasons, as a rule. There are dependent credits, which are for tax reasons because they're equivalent to exemptions, but by and large they're for some kind of policy reason.

Then during this period we also saw another phenomenon which we'd never seen before. This is the third thing. It's not a big deal, but the state became the collector for charities, which is really weird. They started this thing called the income tax check-off, so that if you wanted your money to go to this cause or that cause or this cause, you'd check and say how much of your income tax refund should be allocated to the named charity.

[Interruption]

. . . We're on these check-offs. So all the charities say, "Hey, we're going to get in on the gravy train. We'll let the state collect the money instead of us having to collect it." Pretty soon it got to be unmanageable; so the governor finally said, "This is enough. I'm not going to approve any more." Those who got their foot in the door first were getting the money through the check-off system. A minor little thing, but kind of an interesting thing, because we'd never seen that before in the whole history of California up until the mid-eighties.

HICKE: Where did it come from?

DOERR: I don't know. It just kind of came. I don't even remember which one was the first. Of course, once you had one, everyone said, "Hey, I'm going to jump on the bandwagon."



HICKE: How about tax credits? Do you know who was responsible for that idea?

DOERR: That just kind of started too, as people became aware of the easy way to get programs passed. There was talk informally after the Gann limit passed, "Hey, whoever had a problem with the Gann limit? The legislature can pass tax expenditures. It can just convert programs into tax expenditures. The end result will be exactly the same."

There is a low-income housing tax credit that actually came a little bit later, in 1987. The state wanted to get some more low-income housing built so they allocate \$35 million in tax credits. You have to apply to the Department of Housing and Urban Development to get an allocation of a tax credit. You're applying to get a grant for the construction, only instead of money they give you a little certificate to claim the tax credit.

We had a staff saying during the early days of the Gann limit which was if it ever becomes a problem, the legislature will just make appropriations into tax credits. Then they started doing it. We didn't propose it; we just kind of laughed about it. It was an inside joke.

HICKE: Somehow it leaked out. [Laughter]

DOERR: But that's the way to do it. So during this period there was a great proliferation of tax credits. You can see that when you read your tax form, there's just a whole slew of them that are available for various purposes. This is the time most credits came in.

I'm basically talking about the '83 to '86 period. This is the first term of Governor Deukmejian. I don't know if I talked about him or not.

HICKE: No, I don't think you have.

DOERR: From the legislators' standpoint, they had great hopes when he came in, but then they quickly turned to disappointment.

HICKE: They had great hopes for what?

DOERR: Because they had just been through eight years of Jerry Brown, who was antilegislature.

HICKE: Oh, of working with him.

DOERR: Yes. Few legislators could work well with Jerry Brown. They thought he was a flake, they did not know what he was doing, and they thought he had these inexperienced people running the departments. After the election they thought, "Here's this man [Deukmejian] who's spent most of his years in the legislature as an assemblyman, a senator, a senate minority leader." He was one of them. They could strike deals with him. He would agree to appoint their people to judgeships in return for legislative favors, all those things; it was going to be a totally different atmosphere, you see.

But when Governor Deukmejian became governor, he wasn't about to play any of those political games. "I'm governor, I'm going to do what I think is right, and essentially I'm not interested in striking a lot of deals with you, the legislature." Everyone went, "Oh." And from everybody you'd hear the comments that he never could work with the legislature.

HICKE: Sort of rose above it all?



DOERR: Yes. Basically, I would tell people and they would think about it and tend to agree--that of all the people that I've observed, he had more integrity than most. "We're not going to do these kinds of things. If something's good, I'm going to support it. If something's bad, I'm not going to support it."

Then he was accused of not having a vision of California. That's really subjective. People that accuse him of not having vision are really accusing him of not having their vision.

HICKE: Good point.

DOERR: His vision was a different vision of what was needed and how the state should go about organizing. One of the things he did: he put more money into education than I think any of the governors that I'm familiar with. He spent a lot of the state's resources there, particularly on the university. Not as much at the K-12 level, I think. I've never gone back to the budget, but this is just a perception, that he tried to pump money into education.

The other thing is he was very tough-minded with respect to criminal justice. A lot of people disagreed with him, but that was a policy difference. It was his vision.

So the legislative-executive relationships were just basically correct. There wasn't a lot of interaction. His style was to tell the legislature, "This is my program; these are the things I think are necessary," but not actually to do a lot of lobbying to get them passed. He wouldn't trade something for a vote or things like that. He'd send it up; if it came back, fine. If it didn't, fine. "The guys don't agree with me, OK. This is what I think we should do . . . "

[End Tape 29, Side A]

[Begin Tape 29, Side B]

DOERR: Another chief executive would be more proactive in terms of trying to get a program through, in my experience. And he vetoed a lot more bills than other governors. A lot of governors felt that they should give the legislature the benefit of the doubt in terms of vetoes. If Governor Deukmejian didn't like the bill, he'd veto it. He didn't care if it made the member mad. The members get mad when their bills are vetoed. They look at it as a slap in the face.

HICKE: Personal insult?

DOERR: It's an insult. "I worked hard to get this bill through. It's my creation. He vetoed it." Vetoing bills always tends to antagonize legislators; so to a certain extent governors don't like to do that, because they want the legislators to be friendly for their other proposals. This governor didn't really think that way. If he didn't think the bill was correct, he'd veto it. This is going to get to a tax point in a minute. This is kind of a general point.

HICKE: OK. Let me just interrupt and ask, wouldn't the legislators go to him before they started this bill through?

DOERR: For most of the time, no. A lot of times he'd just let the legislature do their thing. "They're independent, they do what they want, and I have the constitutional responsibility of either signing or vetoing it. I'm going to look at it on its merits. If it's no good, bam, I'll veto it." I'd say that was one of the significant trends of the administration--the real separation of powers, you might say, in the vetoing of lots of legislation.



What is interesting, particularly from a tax standpoint, in watching this, is that during this period I mentioned that revenues were relatively good, and I mentioned the tax credits. Well, you also saw all kinds of tax goodies being passed out, too: exemption bills, this, that, and the other thing. All fairly small, so I'm not spending any time talking about them.

But the surprising thing was, when they'd get to the governor, he'd veto them. This is the governor who pledged, "No new taxes," and had a real tough time increasing taxes. On the other hand, he didn't like these little special-interest tax bills for the most part. He signed some of them, but he vetoed more than he signed, I dare say. After every session, legislative staff would be depressed, because some special-interest tax bills would be passed. Then the governor would veto them and it would cheer us up. [Laughter] It would be so unexpected, from that standpoint.

HICKE: None of the other governors that you observed followed anything like this philosophy?

DOERR: No, this was different than other governors. Even Reagan was different in terms of trying to go along with them. They'd have some fights, but this was really a difference, a major difference. If you wanted to characterize the Deukmejian period, it was this separation, really, the true separation of powers. He's going to do what he thinks is right. "Legislators, you can do what you want and you have the authority." So there wasn't a lot of working together. That's one of the things he's being criticized for too.

So there are two views. You can look at it and say he was trying to stay independent and stop the things the legislature was

doing that were bad, from his standpoint, that otherwise would have passed; or that maybe he wasn't working to solve some of the state's problems because he didn't get in there and push hard. So that's a little bit about Governor Deukmejian.

HICKE: That's fascinating, actually, to see the change in the philosophy.

DOERR: Now, this governor started differently. Again, in 1991 it was back to the old mold: "I want to work with the legislature. I'm going to stroke them." This changed in 1992. In a sense, theoretically the Deukmejian way is the way things should work, if you look at the textbooks.

HICKE: Theoretically, yes.

DOERR: These people are intelligent and smart, they have the best interests of the state at heart; they should be able to put together things that are worthy and good, et cetera, et cetera. Now, you know it doesn't work like that, but that's how it should.

The other approach is to say, "These guys are not so hot. You're going to have to stroke them, feed their egos, and make deals with them to get them to do what they should do anyway." That's the way it usually works. It works that way in Congress and it works that way here, because they have to be stroked and cajoled and this, that, and the other thing, to get them to come to grips with things.

So we have that system. I don't know which system produces better results.

HICKE: I was going to ask in terms of good government . . .

DOERR: . . . which system works best. We know that the cajoling system gets things done in terms of trying to solve problems, but it also



ends up in perhaps acquiescing to things that shouldn't be acquiesced to.

HICKE: Would the Deukmejian philosophy be partly responsible for a proliferation of initiatives?

DOERR: Possibly.

HICKE: He vetoed, and the legislators couldn't work with him, so it just got left and dropped in the laps of people who weren't . . .

DOERR: That may be peripheral, but in my view, the initiatives are totally different. The initiatives are a creation by and large of two things. One is a cottage industry that makes money. "You need to have an initiative whether you need one or not, because I've got a firm here that needs to be paid. We provide all these campaign and marketing skills, so we've got to have initiatives just to keep the industry going." So they'll do that.

The second piece, which is becoming more prevalent in the last few years, is that the initiatives are part of a candidate's campaign tool kit. Every candidate wants to have his pet initiative out there that he can run on, run with. In this last election, you can see that clearly. [John] Van de Kamp thought he had to have three initiatives. Of course, he was wrong. Maybe you won't see this as much, because it's cost him, but he put three of those initiatives on the ballot to further his campaign. Leo McCarthy had an initiative on the ballot for lieutenant governor. Lloyd Connolly. I mean, the initiatives are being put on the ballot by politicians, to a large degree. There were other initiatives, but the ones that got the most attention came from politicians.

The other thing is that you can do, in an initiative, what you would go to jail for if you did it with the legislature. A legislator can't go to somebody and say, "If you give me \$50,000, I will put your project in my bill." You would be offended by that kind of a system.

HICKE: That doesn't sound too good.

DOERR: Yes, and you would go to jail if they caught you. An initiative promoter can do the same thing, and that's perfectly acceptable. There are no penalties against that. So some of these initiatives are absolutely venal and corrupt. So that's the third element.

HICKE: That's very interesting.

DOERR: So I'm not sure that the Deukmejian stand-offish policy has stimulated more initiatives.

The fourth thing is people could see the publicity value of initiatives. I think Prop. 13 was kind of the mother of initiatives. I called it the Mother Amoeba, because people could see from Prop. 13 that you could become famous by doing an initiative, so that's a political advantage. People never heard of Howard Jarvis and Paul Gann. After it passed, Paul Gann was running for the U.S. Senate. It enhances political prestige an enormous amount, showing that you could do things and get something done.

[Discussions deleted]

OK, getting back to this '83-'86, Tom Hannigan was the chairman of the committee during this period of time.

HICKE: Of the Rev and Tax . . .

DOERR: . . . Committee. He's now the assembly Democratic leader. He was kind of like Deukmejian in a way. A different political philosophy,



but some of the same kinds of characteristics. He's straight as an arrow. He wouldn't tolerate the kinds of hanky-panky that sometimes you see. Just this absolutely real, genuinely nice person. So everybody would say, "Tom is the nicest person in this whole building. He'd be the best speaker. He'd be a good speaker." Tom said, "I don't want to be speaker." Most people would love to be speaker. He said, "No, I don't want to be speaker. I'd never want to be speaker. I'm not interested in being speaker." He tells us this privately: "The speaker has to go around and raise money from the special interests. I don't like to do that, so I don't want to have anything to do with it." He has an antipolitical animal image. So it was nice working with him, and kind of refreshing.

After the budget crisis, there were several issues. Because of the generally good times, there weren't a lot of bills proposing increased taxation, as I mentioned. There were some several big issues that we did work on. One that I don't have to talk about because I've already covered it: unitary. Eighty-three through '86 was the period when the legislature really got down to putting together a unitary bill. It took four years to do it. I discussed that. That took a lot of time.

Another thing that we spent a lot of time on which I talked about briefly last time was the conformity issue. This related to the bill. The legislature adopted a system of automatic conformity. The law now references the federal law and then provides for California differences. That requires then, every year, a conformity bill whenever the Congress does one. And Congress was doing one just about every year. A companion bill was needed to set out where

the two laws were going to be the same, what changes there were in the federal law and where we wanted to make it different.

HICKE: In that case, would you only have to look at how they changed things?

DOERR: Yes. You'd have to look at the whole thing to see which ones you didn't want to conform to.

HICKE: Yes. But you'd already made decisions about a lot of things, probably, so the things that they changed in their new . . .

DOERR: In their law, you might say, "We want to do that," or "We don't want to do that." There are things that they did that the legislature decided not to. For example, Congress decided to tax social security of people above a certain income threshold, and California politicians didn't want to touch that. So under this new system, the legislature has to say, "No, we conform to a federal law except for social security, which shall be treated as exempt income."

HICKE: Why didn't California politicians want that?

DOERR: They didn't want to offend the senior citizens. It makes no sense. It should be done. It should be done for equity, it should be done for progressivity, it should be done for ease of administration. Everything in tax theory tells you that should be done. It's equity to treat similar income the same, but when you don't tax social security you create an inequity for somebody who retires under the public employees retirement system who works for the state. Their entire income is taxed. The same person with the same total amount of income. . . . two people exactly the same, living next door, the same income, one gets part of their income from social security, one gets part of their income from PERS. No tax; taxed. Equity. By taxing



higher income people, you increase the progressivity of the tax. And three, having the law the same as federal, you don't have to go in your tax return and always make the adjustment that you have to make, so it simplifies the return. But for political reasons, they don't want to touch it.

HICKE: It wouldn't have been easy to just let it go?

DOERR: It would have been easy, but they didn't want to do it.

HICKE: When I say "wouldn't have been easy," you think the senior citizens would have noticed and been . . .

DOERR: I'm afraid that they would have noticed. Now, to take that one step further just to show you how political this issue is, next Monday Johan Klehs, who's chairman of the assembly Rev and Tax Committee, has a constitutional amendment to put in the constitution a provision that the state shall never tax any social security income, which is almost demagogic. I'm going to go over there and oppose this bill. One, you never put the details of your tax law in the constitution. Two, you clutter up the ballot with more measures, people are sick of having to do thirty-three measures. And three, on the merits, it makes no sense. Why would he want to do something like this?

HICKE: Why would he?

DOERR: I don't know for sure. Either he truly believes social security payments should be tax-exempt, or he wants to garner support from senior groups. Or possibly get publicity by having his name in the ballot pamphlet.

Between '83 and '86 there were some bills that don't really rise to the level of consciousness so they weren't very important. The

legislature passed conformity bills each year. But what happened during this period, particularly the '85-'86 period, was that some of the folks wanted to go further. [Assemblyman] Elihu Harris got interested--he's the mayor of Oakland now--in putting through what he called the flat tax. He got support from the Republicans. We couldn't figure out why he was proposing a flat tax.

HICKE: A flat tax is just a percentage increase on everybody? Is that what you mean?

DOERR: No. Change the tax structure so everybody pays the same.

HICKE: Oh.

DOERR: But he had meetings with several professors down at Hoover Institution at Stanford who convinced him it was a good idea. So there was a kind of conformity-flat tax marriage. State law would conform to the entire federal base, whatever that happened to be, and put the flat tax rate on it.

So there's this fight, then, brewing between Harris and the committee. The chair, Hannigan, didn't like it. The issue generated hard feelings. Mr. Harris went to the speaker and complained that I'd put out a false analysis of his bill on the floor that was prejudiced against him, which I didn't. That's how nasty this fight got.

HICKE: What were the pros and cons?

DOERR: The pros were: There's a philosophical argument that government shouldn't have a progressive income tax; it should be proportioned or it should be one rate. That would do less harm to economic incentives, that kind of thing.



Then you have the argument that for simplicity, we should just adopt the federal base, where you're saying we could put your income tax return on a postcard. We couldn't do that because there are things that we can't adopt in the federal base. You just can't do it because those things are prohibited from being taxed. I think we talked about that last time. He was oblivious to that, so it got to be a real nasty fight.

HICKE: It would effect less redistribution of income.

DOERR: Exactly.

HICKE: Then I suppose that's the philosophical argument against redistribution of income. He doesn't seem like the person who would . . .

DOERR: . . . be there. No, I know. So his bill got through the assembly in, I think it was '86, but it was killed over in the senate. And then in '87 the legislature constructed a big tax package from the federal '86 tax changes as part of the conformity package. Because the '86 act was so big, the conformity bill was huge, and I'll go into that a little bit more.

On this particular point, Mr. Harris introduced the bill that was killed the year before, so you had these two competing bills. He got the speaker to appoint him to the Rev and Tax Committee in '87. So the way the votes were structured on the committee, his bill could be stopped. There were the votes to stop his bill. All the Democrats but him would vote against it.

HICKE: Right in the committee, he would stop it?

DOERR: Yes. So Mr. Klehs could stop it. But Mr. Harris could stop the committee bill too. He could get all the Republicans and himself to

stop it. That was what happened, so initially, all the Republicans and Elihu together stopped the committee bill, and all the Democrats except him stopped his bill.

Anyway, that was what was going on. Eventually a deal was made that let both bills go out. So both bills went out, and they went over to the senate. The senate killed his bill and put the other one through. But the politics of that were strange.

HICKE: Yes. Indeed. Somebody probably, like you said, the Hoover Institute or somewhere, had really talked him into this on some basis. It would be interesting to know what.

DOERR: Yes. So while we're on the conformity issue, I went into '87. When we were working on his bill in '85 and '86, I was convinced the Franchise Tax Board revenue estimates were incorrect. The numbers that came out made no sense. I said, "These numbers don't pass the smell test. They just are not correct."

HICKE: It was the staff you were talking to?

DOERR: It was the revenue estimating staff. Because of that--and this was an interesting little episode--we were totally convinced that the FTB was not reliable in terms of their numbers. In 1987, we anticipated a big conformity bill with which we had to deal, from the major structural changes in the federal 1986 act.

So we decided to hire a Washington, D.C. firm known as Policy Economics Group, or PEG, which was headed by Dr. [Thomas] Tom Vasquez, who was highly respected. He used to work for the Treasury and developed an economic model to estimate revenue changes, and he'd taken that into private business and worked on it. He got state models put together based on all the



information that he'd gotten, and demographics and all this, that, and the other thing. So he had these models that could estimate the impacts of the different provisions.

We wanted to know what happened to revenues by various changes in state tax laws, such as capital gains, or that operating loss, the interest deduction and what happened by income group. We got a great deal of information from him. It's very interesting; the distributional impacts of all these changes.

We hired him to do the revenue and the distributional effects of the tax changes, and it hit the fan. The Franchise Tax Board and the Department of Finance were livid. We had crossed the Rubicon; I mean, that was their turf. We'd invaded their turf with our army, and the relationships really went downhill for a while, because we in effect said, "We don't trust you." This was fairly expensive. I think we spent \$150,000 on this contract with them, maybe more than that, because we didn't trust the Franchise Tax Board numbers.

HICKE: And how did it come out? Different?

DOERR: Two things came out. Two things that were very interesting. After we got our first run, the first thing they had to do was to add up how much income we were going to collect from the income tax, to get the global scope of what the income tax was and then how they would see the changes we had made. They were showing the Department of Finance revenue estimate number to be wrong.

HICKE: Oh, really.

DOERR: Yes. So the Finance absolutely didn't want us to put that number out. Absolutely. So we didn't. We said, "We're not anxious to. We're using these for internal purposes to develop tax policy. We're

not responsible for revenue estimates, so we won't put out the total number." But PEG was right, and we had an early warning of the problem where we had. . . .

You remember the year where the governor first suggested he was going to close some more loopholes? The governor called it a tax increase so we withdrew it, made the cuts. That's because those estimates of Finance were wrong and we knew about it way before it became public, because we had our own estimates.

[End Tape 29, Side B]

[Begin Tape 30, Side A]

HICKE: The second piece of it?

DOERR: It was that in terms of the capital gains piece, they showed more gain from what was happening than the Finance did, which caused, again, part of that strange revenue picture. Because of the federal capital gains changes, there were more realizations early which produced more money than expected in the current year and less in the budget year. Finance wouldn't agree to their numbers. So when the committee was developing the conformity bill, it used the PEG number. I'll come to this later, because this was when I bowed out. At the end of the process, I wasn't there anymore.

At the end, legislators decided that they wanted to use the Finance number, because Finance showed us getting more money from capital gains than the PEG people did. They used the Finance number so they could finance goodies. The bill became a Christmas tree. In retrospect, Finance was wrong and PEG was right. That created the other part of that deficit. The governor was going to



raise taxes, and then he wouldn't. It all related around this little episode.

HICKE: It had rather far-reaching implications.

DOERR: Yes, that we had started developing independent revenue estimates back in '86. That's why I'm treating it as an '86 development. It's mostly '87, but we entered into this contract and had all this technical work done in 1986. It's marvelous stuff that has never been seen; it's never been published, but it has all the distributional effects of all these different tax changes. A wealth, a resource of great use, I think, in studying taxes and distributional impacts. It was never published, never seen in the light of day.

HICKE: Will that be with your papers when you deposit them in the State Archives?

DOERR: Let's see. [goes through papers] This is the kind of thing. This is . . .

HICKE: Members of families. Taxable families.

DOERR: Yes. This is sales taxes paid. Again, we're just dealing with the sales tax deduction there. All the information like that. Employee business expenses, all the different kinds of things.

HICKE: . . . broken down by . . .

DOERR: . . . broken down by income group, broken down by types of families and this and that and the other thing, and what it was before and after--if we conformed or we didn't conform. Moving expenses.

HICKE: What's the name of this binder?

DOERR: "Nineteen-eighty-seven Conformity Early Planning Computer Runs."

HICKE: And that will be with your papers?

DOERR: Yes.

HICKE: OK.

DOERR: It's just too bad it wasn't generally available for people to use and study, because it's more than a study of taxes. It's a study of how different ways . . .

HICKE: The impact of all the . . .

DOERR: The impact of how people spend their money. Business could look at it. Sociologically, you could use it to see what people are doing. It could be a wealth of information, and it's all broken down by income class.

HICKE: Yes. I'm just thinking why or how could it be available.

DOERR: I don't know why it wasn't put out. They never did.

HICKE: Another question is why wouldn't the Department of Finance want to have this done themselves?

DOERR: I think it's the turf and embarrassment issue.

HICKE: But I mean at some later point, I should think this would be very valuable to them to have an outside group do something like that.

DOERR: Yes, it should be. I see it as all positive, just right down the line. I'm pleased that we were initiators of getting over the bureaucratic obstacle that we had. But Hannigan supported us. It was a big amount to ask. We had to go and ask for \$150,000, which is a fairly large sum. I think it was justified in terms of the kind of data that we received.

HICKE: And in terms of what happened because it wasn't used.

DOERR: Yes. Some of it wasn't used. A lot of it was used, but some of it wasn't. Some of it was ignored. We might come back to conformity a little bit later, when we get to '87.



HICKE: All right.

DOERR: Another of the big issues during this period was the so-called Jarvis IV Initiative.<sup>1</sup> That was in 1984. This was a follow-on to Prop. 13. There were really some explosive things in it, some of which caused real problems. The three big issues in it were. . . . I guess the biggest issue was treatment of fees, putting limits on fees.

HICKE: Consulting fees?

DOERR: No, government fees. Fees charged for services.

HICKE: OK.

DOERR: This was ill-advised. The second issue was that it extended this change of ownership exemption. The legislature provided an exemption for spouses. The initiative changed it for interfamily transfers. The third issue was it clarified the vote requirement limits that were in Prop 13, that the courts had tossed out in the Farrell case, which we talked about last time.

HICKE: Are you going to explain what was wrong?

DOERR: Well, you couldn't put tax rate limits on fees for service because the costs of service go up. Like putting a fee on electrical service provided by government. If the government is selling electricity-- some governments do--you can't say you can't raise the cost of that.

HICKE: OK. So it was a limit on the . . .

DOERR: And there are all kinds of different kinds of fees that are imposed.

There was a large coalition in opposition including even people who thought 13 was fine. They thought this was really going too far. So it was defeated rather handily.

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1. Proposition 36 (November 1984).

The committee put out an analysis of the initiative. Jarvis IV, here it is. It was the Jarvis Initiative.

HICKE: A.C.A. 53.

DOERR: It had a number of different provisions. [Looks through papers] One provision was adopted as Rule 2, the limit on how you value property using the purchase price. New construction valuation provisions. So there's a lot in it. It revised the vote requirement.

HICKE: That's all included in Jarvis IV?

DOERR: Yes, this was all in. There are no limits on fees. Limits on fees became an issue. Enterprise activities of local government were curbed by the fee provisions. It curbed the sale of water; the sale of electricity; garbage; operation of airports, hospitals, and transit.

HICKE: He was reaching pretty far on that one.

DOERR: Yes. A lot of time was spent talking about the fee provisions because they didn't work.

HICKE: I can't imagine how they thought how anybody would even think that would be a feasible . . .

DOERR: It was not feasible. When you had public hospitals, you couldn't be exceeding the fee limit.

HICKE: You'd like to have hospital fees not go up, but it's not practical to even think that that might happen.

DOERR: There was one provision in this the legislature thought was reasonable, so it just borrowed it. Mr. Hannigan introduced it the next session, and put it on the ballot. That was the exemption from Prop 13 for transfers of property within a family. We called it the "parent-to-child exemption." Under Prop 13, if you inherit property from your parents, then you had a change of ownership. The



parent-child transfer exemption passed easily in 1986. That was a Hannigan proposal.

Then another part of the initiative that was subsequently adopted was to clarify the Farrell provisions in terms of what local governments could do in terms of taxing authority. That became Proposition 62 in 1986<sup>1</sup> that was put on the ballot. And again, that passed, which clarified that local governments could levy increased taxes with voter approval. If it was for a general purpose, it was a majority vote; if it was for a special purpose, it was a two-thirds vote.

There have been some court cases that have undermined that proposition with respect to charter cities. They tried to apply it to charter cities but the court said that charter cities were immune from it.

HICKE: Did the charter cities themselves challenge this?

DOERR: Yes, they went ahead and imposed some taxes and were challenged, and it went up. That was another outgrowth of this Jarvis IV Initiative. But that's still on the books, and there's still a lot of litigation in terms of actually what it covers and what it doesn't cover, so that's not going to be settled for a while.

A couple more things for this period and then I think that will probably wrap up '83-'86. In '85, the committee decided it needed to take another look at the property tax from an administrator's standpoint. How was it being administered, what could we do to fix it up? So the committee held a big hearing and subsequently

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1. Proposition 62 (November 1986).

passed legislation that made about thirteen, fourteen reforms in the property tax in 1986; this was the Hannigan bill.<sup>1</sup>

A couple of provisions in the bill required the Board of Equalization to review county assessments. After Prop. 13, the board's review had no teeth. A.B. 2890 put some teeth in it, in the sense that it said if you aren't assessing up to a proper level, you're going to lose some funding. So that was in there. One of the other major changes was the distribution of revenues from state-assessed property, so instead of those revenues going back to where the property is located, they're spread countywide. There are a number of other provisions in the bill, but I just wanted to call attention to that.

Finally, one of the big issues that started to develop during this period, and again, it falls over into the next period, was the transportation funding problem. With the way the gas tax is computed, it was actually almost flat, with very little growth, because it was on a per-gallon basis. Motorists paid so much tax per gallon. Now, people in California are getting more miles to the gallon under the federal laws that were requiring automobiles to make them more fuel efficient, so even though they were driving farther, they weren't buying that many more gallons of gas. As a result, there was very negligible growth in the money available for transportation, but the needs were growing tremendously.

So beginning in this period, people began to say, "We've got to do something about the transportation system. We need a gas tax

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1. A.B. 2890 (1986).



increase." So the first problem here was the wrestling of the Gann limit, because there wasn't any room under the limit. As a result, some legislators wanted to pull the tax out from under the limit, and that was a problem because it was slow growing. The gas tax was in the Gann limit during this period, so it was computed, but because it was slow growing, it allowed the state to spend more money from the income tax and other fast-growing taxes for the general fund. In effect, it was subsidizing a higher-than-Gann-level spending level for the general fund. So once you tried to take it out from under the Gann limit, then it jeopardized those funds, so that the legislators didn't want to do that.

My old friend Bill Bagley, who you know had been a chairman of the Revenue & Taxation committee--and I've always kept in touch with him; he's still a dear friend, I see him every once in a while--was appointed to the Transportation Commission by Governor Deukmejian. So he called me up, and we were chatting and this and that about the transportation problem, so I suggested, "You know, the only real solution to this is a bond issue. That will get you a great deal of money for roads immediately. You won't have any Gann limit problems because it's not in the Gann limit, et cetera, et cetera." He said, "Ohhh, yes. OK, I want you to come to the Transportation Committee meeting that we're having to discuss financing alternatives," which was being held in 1986 in Orange County.

So I went down there and I gathered a lot of material on the state's bond capacity. We were very low in terms of other states or debt capacity. Bonds were outside the Gann limit. Because of the

fact that transportation is going to be used by future generations, we can make an argument that it could be paid for over time, because it is that kind of a capital asset, as much as any other, that you might want to spread the cost over the life of the users.

When we made the presentation, I thought I was making some headway there, and of course Bagley was interested in it. So the upshot of it was that it came back to the governor, and the governor thought it was a good idea. So that was the genesis, I think. I'll never know for sure. I made the proposal to Bagley and to the Transportation Committee, and then later the governor comes out with a big transportation bond issue<sup>1</sup> that went on the ballot. When did it go on the ballot? It was 1988. And it failed. People voted it down. And then in '90 the legislature came back with Gann limit changes and a gas tax increase in Prop. 111<sup>2</sup> and the rail transit bonds,<sup>3</sup> which did pass. But the first thing tried in '88 was just a flat-out bond for transportation, and it was defeated very narrowly by 48 to 52 or 49. It was close, but it did lose.

HICKE: Now we know where the idea came from.

DOERR: Bagley and I had hatched that idea and pushed it in 1986. The transportation funding problem did continue.

HICKE: Yes, sure.

DOERR: The issue was before the legislature. They were still trying to figure out how to relate to the Gann limit and how to fund transportation

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1. Proposition 74 (June 1988).

2. Proposition 111 (June 1990).

3. Proposition 116 (June 1990).



and not change the Gann limit. It was a big mess. The bond issue at first was the way people thought we could get around it.

Well, that didn't pass. What is the state going to do now? So at this point--now by this time it had gone outside the legislature--we see that the transportation people are running an initiative to in effect say that the sales tax on gas is going to be used for transportation.<sup>1</sup>

Another proposal on that same ballot was to change the Gann limit that had been put on there by a coalition of public employee unions, so that they got the higher of personal income cost of living rather than the lower.<sup>2</sup> That was defeated. Both those initiatives were defeated.

At this point, I should cover how the Gann limit was changed, because the change relates to transportation as well as all other issues. We will begin in 1987.

In 1987, Johan Klehs becomes the new chairman of the Rev and Tax Committee. This is when my days were numbered--the countdown to execution day. Klehs is the strangest chair I've ever known. He was almost the opposite of Willie Brown in management style.

Willie, God bless him, would have us take care of problems. Johan didn't want that at all. He did not want us to take care of the problems. We were going to be literally little more than clerks. He specifically told me on two or three times he didn't want me

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1. Proposition 72 (June 1988).

2. Proposition 71 (June 1988).

seeing anybody. If anybody came in to see me about taxes, I should have them go talk to him. He was impossible.

HICKE: Paranoid?

DOERR: I don't know why. I must have been some kind of threat to him, but he couldn't handle that. He decided that I had a better office than he did. Committee offices were located on the second floor. This was where the committee had been since 1972, and the configuration was always the same. The member's office, as you went in the door, was on the right side, and was a large office. This was where Willie had his office, where Joe Gonsalves had his office, Hannigan also, and it was a big office. It was a nice office.

We looked over the inner courtyard. This is where the governor's suites are. There is a one-story governor's conference room. There is a little courtyard with flowers. So the member's office windows overlooked the roof of this conference room with the air-conditioner ducts on top. It wasn't very pretty. It was a bigger office, but not as nice a view out the window.

My office, at the other end of the suite, was a small but comfortable office. I could look down in the courtyard, so I could see the flowers and the bushes and into the offices. I could see Steven Merksamer's<sup>1</sup> desk, who was coming into his office, just see what was going on. If there was something going on in the governor's conference room, I could see into that. It was interesting. It was the best view in the whole capitol in terms of

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1. Governor Deukmejian's chief of staff.



seeing if the governor's holding a reception, which he did often, who would be there, and whether they'd have drinks and cocktails.

HICKE: [Laughter] You could see who was invited.

DOERR: I could see who was invited, and I'd see somebody, I'd wave to them. When Johan came in, he hated that. He had a big office, but he liked the fact that I had a better view. He had to move the entire operations out of the office. He remodeled the whole office, carved the member's offices into two, and he in effect took my office and made it bigger, and then carved up the other offices into very small offices. I used to be able to have meetings in my other office because there was enough room to get about six people. It was about the size of this office.

HICKE: This is what? About eight or ten feet square, something like that?

DOERR: Yes. I had my desk kitty-corner, and it was oversized, so we used to have all the staff meetings there.

HICKE: So there was a ledge hanging out over the edge of the desk?

DOERR: It had a table effect. And we'd have Martin Helmke in the senate and Fred Silva at the meetings. We worked on the Prop. 13 implementation.

HICKE: You had all your stuff there?

DOERR: I had all the stuff there, so it was pretty much constantly the group's meeting place. Well, after this big change with Johan, the office was so small you couldn't even fit a chair into it. It was bizarre. It was really teeny-tiny. Well, anyway, I didn't have to stay there very long. They remodeled the office suite around Eastertime, and I guess I was there not much more than a month after that.

Then during that time--and I don't know if this was the final reason for my demise--there was a special election down in Los Angeles County for the state senate. Paul Carpenter had been elected to the State Board of Equalization, so his seat was vacant. It was a free ride. It was in the middle of his term.

So they had to have a special election in that district. Everybody thought the Republicans would win that, because it was a conservative area. So the Republican candidate was one of our committee members, whose name was [Assemblyman Wayne] Grisham. The Democratic candidate was a local city councilman by the name of Cecil Green.

Johan was putting pressure on me to go down there and work on the campaign and walk precincts, which I'd never done. Nobody had ever put political pressure on me to do political things in twenty-five years. This was a real departure from past activities. I'd never had that pressure before. I declined to go because I didn't think it was appropriate. Plus the fact that Mr. Grisham was a member of my committee, so that was incompatible. I saw my role as serving all the members of the committee, not just the chair of the majority. If anybody needed help, I'd try and help them, or even, for that matter, the whole assembly.

I'll give you a little story about that, so don't let me forget about it. Maybe I can do that right here. During this '83-'86 period, I got acquainted with [Assemblyman Patrick J.] Pat Nolan. At this point he came in, and he was a "Prop. 13 baby" and was not in a leadership position. In fact, he was a back bencher, so to speak. [Assemblyman Robert] Bob Naylor was the majority leader.



Bob Naylor was one of the great legislators in terms of being smart. He was one of the most brilliant of the members. He was on the committee too. He'd pick things up and could argue issues. I really was impressed with him.

So Pat Nolan was interested in establishing an enterprise zone program.

[End Tape 30, Side A]

[Begin Tape 30, Side B]

DOERR: This was a proposal that had been kicking around at the federal level for a number of years. The idea was to provide tax breaks, regulatory reforms, and other things in low-income poverty areas to encourage business to go in and provide jobs and investment. It's been controversial. The feds haven't even acted yet. Reagan proposed it for eight years. [President George] Bush is still proposing it. The Congress doesn't like it. They think it's kind of a ripoff. But Nolan was interested in doing this, and the Republican consultant, whom I'd gotten to know very well on a personal basis--she was this delightful lady, Diane Kozub--said, "Why don't you come up and meet with Pat, because he's interested in that?"

So I went up and talked to him, and we decided to form a little task force. We got some people together and talked some more and talked some more, and worked out a bill. Then when the bill came to committee, I helped present it and explain it, and explain what Mr. Nolan was trying to do. I even made my own revenue estimates for it, which I thought were more reasonable than the other ones. And I helped him at every step of the process. The

bill got through; California has an enterprise zone program. I maybe should have discussed this earlier, because that's fairly significant, considering that's a big federal issue.

So the legislature passed the enterprise zone program, and Mr. Nolan was the author of the program. He was surprised that the consultant to the tax committee was willing to spend time and effort to help, in effect, the back bench Republican member get an important bill through, which I did. When the Republicans lost some seats, Mr. Naylor lost the minority leadership to Mr. Nolan. It was nice to have him as a friend. He has always remembered me for helping him out.

HICKE: He was surprised because he was a Republican and because he was . . . ?

DOERR: He thought that the Democrats controlled the committee staff, so they wouldn't help Republicans, which was never the way I operated. I always tried to help everybody.

HICKE: But perhaps you were unique or at least . . .

DOERR: Anyway, so he always would comment. Afterwards, I went to his apartment for parties and I became his friend as well. But it was just an example of a point that I'd always considered that I was to be helpful to everybody, that that was what staff was to be about.

Now, Johan not only wanted me to go down and campaign in the election in Los Angeles County for the senate, for somebody I had never met and didn't know and I had no idea what he stood for, but I was to campaign against a member of my own committee, who was a sitting member of the committee, who I theoretically, if he had asked me for help on something, which he never did--I didn't



really get very well acquainted with him--then I would have felt I should give him help like I would give Pat Nolan or anyone else. So I refused. I just flat out refused. I said, "I'm not going to go."

Ten days after that he calls me into his office and says, "I want to have a chat with you." Or "Can I have a word with you?" He says, "I've talked to the Rules Committee and we're going to reassign you to the Assembly Office of Research. It will really work out better, because that would give the members, all members of the assembly, more access to your . . . . [Pause]

HICKE: Expertise.

DOERR: " . . . expertise, blah, blah, blah. And it really would be good if you could do. . . . We're having problems with the Gann limit and we'd like to have you work on a study for that." And I knew that was just bullshit. He wanted me out of his hair.

So I went over to the Assembly Office of Research. That was the most depressing period. I worked there from. . . . It was May 17 I was reassigned, and I formally quit on August 14, so it was about three months. I did nothing.

HICKE: I was going to say there was no way they could make use of what you . . .

DOERR: They didn't want to make use of me. I was asked by Hannigan to draft one bill for him, which was a check-off for the Vietnam Veterans Memorial, so I drafted a bill for him. The other time I just sat in the office and read and listened to the squawk box or wandered around and talked to people. I had nothing to do. It was so depressing. I don't know if that was deliberate or just the way

the system works. Maybe nobody over there has anything to do, ever, or maybe they just didn't want. . . .

But clearly, I was being frozen out of the tax issues. Remember, during this period, we began work on the conformity bill? I'd worked on all the preliminaries getting the bill into shape, and Johan was the author. That was beginning to move through. There were no requests for help or anything on that, just nothing from the committee on anything, just "You're frozen out." So I decided that wasn't the life to lead. They were paying me well to do nothing, and some people probably would have enjoyed that. I could have just retired on the job, drew my pay, not do any work, and take life easy. That was terrible.

HICKE: Not very challenging.

DOERR: It was the worst period of my life, so I decided to leave. Cal-Tax said, "We'd like to have you come with us." Fine. And some were a little bit skeptical at first, that somebody that worked for Willie Brown could work for the business community and represent them. But most knew me, and knew that I worked for everybody. I worked for Pat Nolan, I worked for Bagley. And so they hired me. I was pleased to get out and become a player in the game, back in the game.

But what is so ironic about that whole thing: here's Johan's excuse for booting me out, besides the fact I'd been available to everybody. "You can do a study of the Gann limit." Now, if I had done a study of the Gann limit in the Office of Research, it would have gone nowhere. It would have just been put on the shelf. It would have had no constituency.



When I came to Cal-Tax, "We need your help on the study of the Gann limit we're doing." [Laughter] So immediately when I got here, I plunged into the Gann limit study, and I came up with an idea of how we should change the limit which became Proposition 111.<sup>1</sup> So from doing a nothing Gann limit study that I would have done at the Assembly Office of Research, I ended up doing a Gann limit study that developed into legislation that became law.

HICKE: So you're still essentially writing legislation, but this is from a different kind of viewpoint? Or it then has to be carried through from a different viewpoint or in a different way?

DOERR: Yes. I worked for the state, I worked for the members. In this case, however, the proposal I put forward for the Gann limit would have been approximately the same if I'd done the study for the legislature.

HICKE: So it's a nonpartisan view.

DOERR: The kind of suggestions I made: we went to the growth of personal income as a criteria for limiting the growth in spending, rather than the lower of personal income on CPI. There were a great many changes in Prop. 111. But one of the points that I'd particularly made was that, at the local level, the Gann limit works against development. If you put a new plant in a town, it generates revenue but it doesn't change the Gann limit.

HICKE: Oh, yes.

DOERR: The Gann limit was based on population and the lowest of CPI, or state personal income. The plant doesn't necessarily change any of

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1. Proposition 111 (June 1990).

those components, so they could have a new plant and not get any money from the plant to provide the services required by the plant. That didn't make sense, so my proposal was to put in an alternative that the locals could use the growth in nonresidential new construction as a factor, which is in Prop. 111. That was something we created to take care of that problem. We also provided if there's an emergency, you can exceed the limit without having to ratchet down the limit for the following three years.

Then our recommendations got tied up with Prop. 98, which guarantees schools specified levels of state support. This project took from the time I got to Cal-Tax in 1987 to June of '90. The bill passed the legislature in '89 and went on the '90 ballot. In '87-'88, we were working with it here, and in '89 it was introduced and put on the ballot by Garamendi.

HICKE: In general, how does your work here compare with what you were doing?

DOERR: It's different. To a certain extent it's more influential, although I've had a major influence at the legislature, and I've really accomplished a lot. On the other hand, here, I'm respected and trusted, so I can kind of generally make tax policy for the business community of California. I work through the other organizations. So I'll go the Manufacturers' Association Tax Committee, and they all know me and trust me.

HICKE: So you have much more visible authority?

DOERR: Yes, I have more visible authority. To a certain extent, the legislative staff is not all that appreciated. I think they did appreciate me, but they didn't really show it. They'd show it more



on this other side. And then you talk about the Third House, because I'm a member of the Third House now. Here's my little certificate that lets me lobby. [Laughter] We have to pass an ethics course, or go to an ethics course.

HICKE: "Certificate of Completion. This will certify that David R. Doerr has completed the Ethics Committee's orientation course on the ethical issues and laws related to lobbying."

DOERR: We have to have that to lobby. But there is a Third House. When we've talked about it in the legislature, the Third House was kind of an abstraction referring to lobbyists. When I got over there I found out that we meet, we discuss issues and establish positions.

HICKE: It's an entity.

DOERR: It's not a formal entity, but it's an actual entity. We're now in the process of meeting and discussing the current tax and budget crisis and what we think ought to be done, and how we would solve it. We've had three or four meetings already of the various groups.

HICKE: And then what will come out of this?

DOERR: We'll go over across the street and say, "Here's what we think we ought to do."

HICKE: As a group? As a what?

DOERR: As a Third House.

HICKE: That's interesting.

DOERR: As the business community part, at least, of the Third House. The Third House has various elements, including public employee unions and others, but there's the business community's element of the Third House.

HICKE: So that would include the Chamber and the California Taxpayers Association.

DOERR: Yes, and the Newspaper Publishers' Association, the real estate lobbyists, the builders. There are just a lot of associations that meet and try and coordinate a common purpose. That's what I'm doing at lunch today, is meeting with the building industry, because they have a new lobbyist. My friend over there. . . . One of the main lobbyists over there used to work for me in the capitol, so he wants me to meet this other fellow that's going to be working on some of the tax and expenditure issues.

HICKE: So it sounds like it's very rewarding to be here.

DOERR: Yes. In the legislature you were kind of expected to walk a couple of paces to the rear and defer and bow to the legislators. However, you could be influential.

HICKE: But through somebody else.

DOERR: Through somebody else. And here, you're kind of more influential for who you are, and your reputation and what you're doing, and you're not the kind of behind-the-scenes operator that you are over there. I had visibility over there because I was there so long, I did lots of things and made speeches, so I became very visible in my own right. That's one of the things I think irritated Johan, was that I was better known than he was in the tax field. People would come to see me to solve their problems, and they wouldn't come to see him. He just couldn't handle it.

HICKE: That must have been true of other committee chairmen also, because you were always more expert than the committee chairmen.



DOERR: Well, Hannigan thought that it was important to have somebody who knew something to advise him. He didn't always have to take my advice, but he at least could rely on me to understand what was going on and tell him. Willie wanted somebody who could take care of things and work out things and bring in solutions that were reasonable.

Wadie Deddah wanted somebody who would keep him out of trouble. One thing he said was, "You know all this stuff; I don't. Just make sure you keep me out of trouble." I said, "Fine. I can do that." I did. We developed some good bills for him to carry. We made sure he didn't vote the wrong way in a lot of other bills. He was very pleased. When he left the assembly he said, "If I get the chairmanship of the Rev and Tax Committee in the senate, I want you to come with me. Won't you please come with me?" I said, "Well, yes, I'll be glad to." He didn't get the chairmanship. He didn't get it. Boatwright? Somebody else got it. Beverley? Not Wadie, because he was a freshman senator.

HICKE: What year was this?

DOERR: That was 1983, when Hannigan took over. Hannigan was very nice. I was happy to stay with the assembly too, but I would have been just as happy to go with Wadie, because he was very nice. He always treated me well. Johan was different.

HICKE: Why did Brown appoint him?

DOERR: He wanted it desperately, and he raised a lot of money for the Democratic candidates.

HICKE: So it was a reward?

DOERR: And nobody else wanted it. He made Hannigan majority floor leader. Tom would have stayed as committee chair, but he told me, "I've been here four years. I'd like to do something different. A change would be interesting." So when he goes off for the majority floor, Johan is appointed the new chair.

Now, Willie made that appointment, because at that time Tom had the reputation of being Mr. Straight Arrow, Mr. Wonderful, and Willie saw him as a threat to the speakership, which was wrong because Tom wasn't interested in running for speaker, but Willie wants to make sure that he's going to stay as speaker, so he co-opts people. That's one of his strategies. If somebody's giving him a hard time, he'll try and co-opt them.

HICKE: Get them on my side.

DOERR: Put them in a position where they won't make trouble. So he made Tom majority leader. That solved his problem.

So then one of the other persons that they were talking about as a potential chair was [Assemblyman Robert] Bob Campbell from Richmond, but he was not interested in it. I talked to him not too long ago. He said, "Yes, I could have become chairman of Rev and Tax but I didn't want to do that." He in effect said, "I want to be free," almost a Deukmejian attitude. If you're committee chairman, you kind of have to go along with the leadership program. He says, "I don't want to be in that position. I just want to decide the issues the way I think they should be decided."

However, as speaker, Willie Brown gave committee chairs more latitude in what they could do than other speakers.

HICKE: I don't think you have talked about that.



DOERR: In prior years, the general policy was for committee staff to work in concert with the speaker's office. They saw this professional staff that's not only helping the committee but providing advice to the speaker's office. So the speaker had, in effect, control over hiring and firing. So you were there serving the committee chair but also the speaker's office.

But Willie decided not to operate in this manner.

HICKE: You have talked about this, but perhaps you can tell me more.

DOERR: You read these press papers about the powerful speaker and his image. In my view it's actually exactly the opposite. It's more of a laissez-faire speakership. If a committee chairman wants to do this, generally that's fine. If they want to do that, that's also fine. If they want to carry this bill, that's fine. If they want to fire staff, that's fine. Other speakers have run a more centralized speakership. Mr. Brown has ceded more power to the committee chairs. It's like going back to English history, King John giving the power to the . .

HICKE: The Magna Carta. To the nobles.

DOERR: To the nobles. So you don't have a strong central leadership, as with past speakerships. It's been fragmented out into the committee chairs.

HICKE: It's an exact opposite of Louis XIV. He sounds like Louis XIV, but Louis XIV kept all the power in his own hands and kept his nobles just doing nothing.

DOERR: Yes.

HICKE: That is really interesting. And is it insecurity? He's afraid of being unseated?

DOERR: There could be a number of reasons. He may feel this produces better results or that could be one. However, it's a way of making sure that key members have few complaints about the speaker. That was one of the things, among others, that did Leo McCarthy in. They were mad at Leo. Remember there was the revolt against Leo? Mr. Brown was aware of that.

He was aware that Leo McCarthy was telling committee chairmen what to do, that he wants this bill out and he wants this program done. He told them, "I want you to keep a quality staff," kind of exercising leadership in terms of the management of the house in the important issues. Leo gets in trouble, and Howard Berman runs against him for speaker.

Then the money issue is another issue. They thought Leo was collecting money, campaign contributions for his own purposes rather than dividing them up with the troops. So that was a gripe against Leo, too.

But in general, I'd say that it's very different. Of the speakers I've known, all the speakers have been of the other type, more of the Jesse Unruh type, in centralizing power in the speaker's office. Willie is just the opposite of any of those.

HICKE: That's really interesting. Does he purposely project this image to the media, then? Or do you think they thought it up on their own?

DOERR: Both. I think it's a combination of both. He likes the limelight, really loves the limelight, so he likes to be out in front talking about everything. The press has been on him for various reasons.

HICKE: And maybe the press mistakes this level of limelight for power in the limelight, something like that?



DOERR: Yes. I think that there's a lot to that. I guess Willie still thinks highly of me. I don't know if you saw this Dan Walters column.

HICKE: Which one? I try to read it whenever I can. Is it this one? But I don't get the Sacramento Bee. I get that in the Daily Journal sometimes.

DOERR: He was talking about Prop. 140 and Willie and the assembly and this and that.

HICKE: No, I didn't see that.

DOERR: Anyway, apparently Willie had this press conference where he was taking on the press, and the more he fights the press, the more the press fights with him. The press isn't going to. . . . If he's attacking the press, they're going to fight back.

So he's talking about the effects of 140 and how devastating it's been, and the fact that the legislature has lost good consultants. He doesn't have the expertise that he can call on anymore, and he uses my name as the type of person that provided the expertise. So that goes into Dan Walters' column. And of course, Dan Walters says, "It was nice of Willie to say this, but one, Doerr's been gone for three and a half years; two, he was forced out by Willie's henchmen," which is kind of interesting. And the upshot of that, I think, is a couple of things.

One is I think he always did and probably still does have some respect for what I did for him as chair and as speaker. When the unitary bill was going through he just listened to what I had to say. He's always had that kind of confidence. He would hold staff meetings about how to do bill analyses, trying to get the analysis system developed. He would advise other consultants to talk to me.

This was the kind of thing he was interested in, in terms of the staff analysis and this type. People would comment, "The speaker sure thinks a lot of you." Then to have him use my name in this connection of being an example of the kind of staff expertise the legislature was losing was flattering in that sense.

HICKE: Sure.

DOERR: The other thing it tells you, though, I think is. . . . This has been one of my observations of Willie. He trusts the people he knows and has worked with more than newcomers. He really doesn't get to know too many of the new consultants well. For example, if there is an education problem, Willie would bring Mockler back, John Mockler.

[End Tape 30, Side B]

[Begin Tape 31, Side A]

HICKE: You were just saying he would bring John Mockler . . .

DOERR: John Mockler. John Mockler is a brilliant guy. I have a lot of respect for him. He has his own consulting firm in town. He used to be on Willie's staff, so Willie knows he's good. So rather than rely on the existing committee staff, whom he doesn't know that well, he would bring John Mockler back. Or if there's a problem in health, Steve Thompson, who is now the head of the Office of Research, would be brought back because he used to work for Willie on that, and he knows the subject. So he relies on people he's known and worked with, and does not really get too well acquainted with the new people.

HICKE: That's really interesting.



DOERR: Well, his image is different than what he is. He's more of a laissez-faire speaker. I'm not saying he doesn't have good motives.

HICKE: Oh, yes, I know. I'm thinking about his method.

DOERR: Yes. He still believes in things, that the state needs to do things and this and that and the other thing. He wants to see a good record of accomplishment. He wants the legislature to solve problems. So from that standpoint he's not too much different from the other speakers in terms of wanting the legislature to look good and be problem solving and have goals and this and that.

But the methods are just different. How he thinks the body ought to go about doing that is different than the way the other folks have done it, which is interesting. That's kind of a detached view now, because I can watch him, not from inside the building but from over here, with a little bit different perspective than you have when you're actually an employee. But I can often predict what he's going to do and how he's going to manage an issue. I'll tell people what's going to happen before it happens. They say, "How do you know that?" It just is a good guess because I lived with him for so long, as my own chairman, and then the speaker, that I'm able to anticipate what he's going to do.

See, that was the key. That's what I had to do. It was a little bit unusual for me to start with, when he became chairman, because I really wasn't sure what he wanted. Exactly how was I to do my job for him? But he wanted me to anticipate what he wanted, and take care of it.

HICKE: That is tough. So you've studied him to figure out what he's going to want?

DOERR: Yes. Then I became able to do it, and once you're able to anticipate what he wants, then you can kind of anticipate what you think he's going to do.

HICKE: Interesting. I don't know if that was in your job description or not.  
[Laughter]

DOERR: One of the most interesting of the people in the legislature for these many years. I mean, there's probably more written about him than anybody else but maybe Jesse Unruh, and perhaps even more, in terms of a legislative creature. When people think about the legislature they often think about Willie Brown, not about David Roberti. Nobody knows David Roberti.

HICKE: Brown calls forth emotional reactions, it seems to me.

DOERR: Yes. Those are emotional reactions from people that don't know him, that have never met him, but have read about him.

HICKE: Exactly. Yes, that's what I'm referring to.

DOERR: Or seen a snippet of something on TV where they've captured him in full oratorical flight and managed to clip out a little something or other. So they have that reaction from how he's portrayed.

HICKE: Right. Exactly.

DOERR: It's interesting. That's the one thing I don't understand, is how somebody who is as smart as he is has allowed the media to portray him in such a bad light, so to speak. But this has happened to him. I'm not sure why that happened.

HICKE: And actually, the picture you get, you don't think of him as being an especially brilliant person, but you're saying that he is very smart. And he doesn't even project that.



DOERR: No. That's again part of the laissez faire. The issues are dominated by the other folks. He's a team manager of the speaker. He does like to try and put things together, in certain instances. "This is a problem. Maybe you can give this up, and you can give this up, and that's where you ought to be." To some extent he still does that, I suspect, although that's not too visible. But he's letting the members deal with the issues in their own areas.

What else is there to talk about? I think we're kind of wrapping up, don't you think?

HICKE: Yes. One of the things I wanted to ask you was, looking at these last thirty years or whatever, say from the perspective of the twenty-first century, how does this period of California tax history fit in with the previous and what you think may be ahead? You may not be able to characterize all thirty years as one period, but . . .

DOERR: No, it's been a different period. It's been two periods. One is the substantial expansion of the tax authority and taxes, and then the tax revolt. We're still in the tax revolt period, and you saw the California poll just the other day, that people are still. . . . most people today think taxes are too high. So I think from 1978 to now, this is still the period of tax revolt. Looking at it from a broad historical basis, you put this in the era of the tax revolt. I think from almost the mid-thirties through the seventies was the area of tax expansion, from about 1933 until 1970, '71. That was when the last big tax bill passed, (until 1991), so there was about a forty-year period of tax expansion. It was when the legislature started a lot of these taxes and then raised them.

The Jerry Brown years, which kind of started before 13 and ended afterwards, were a transition to the tax revolt. I think Jerry's on another tack now; he's Mr. Radical, running for the senate. But when he was governor, he was Mr. Conservative, even before Prop. 13. He came in with a no new taxes pledge. Deukmejian or Bush wasn't the first to make a no new taxes pledge. It was Jerry Brown, when he ran originally for governor. Not only that, he was Ronald Reagan to the extent that he ran against the government too. The government couldn't do a damn thing for you, lower your expectations.

This was part of his first term, so it's not surprising that Prop. 13 kind of fits into that philosophy. He had been, you might say, warming up people to get them ready for this. So you might say that the tax revolt didn't start with a bang, but a whimper, and then it led to passage of Prop. 13, but probably the period from the start of Jerry Brown to now is part of the tax revolt period. It takes a while before the revolt can take effect.

And then from the 1930s to the seventies would be the tax increase period. Before that we had taxes, but they were mostly related to property tax issues and fairness kinds of issues, actually from the inception of the state until about 1930. The major tax was just the property tax. We had no income or sales tax. You'd have laws about whether the state was going to do it or the locals were going to do it, how did you divide up the money, how did you treat taxpayers fairly, those kinds of things.

But it wasn't an era of heavy taxes. It was a kinder and simpler era for taxpayers, an era of one tax, which was the property



tax. There were a few other taxes, yes. You had an inheritance tax for a long time. Now we don't have that. It's a victim of tax revolt. You can see all the things. Not just Prop. 13, but the elimination of the inheritance tax, indexing the income tax, all those things have happened, kind of milestones in this era that we're in now.

HICKE: Do you think it has peaked? And what's going to happen in this decade?

DOERR: No, I don't think it's peaked. I think it's not peaked, and I'll tell you why I think that. I think taxes may go up for this budget crisis as a necessity, but not as much as they would have gone up if these same conditions had been replicated at some other time.

The other thing that I see happening is the change in the rest of this decade. I think there's going to be a shift in political--now we're really speculating--political power, because of reapportionment, but that you're going to have more Republicans who are not going to be as anxious as the Democrats to raise taxes.

HICKE: You mean the reapportionment is going to put more Republicans in more power?

DOERR: Yes. Everything I've seen out of the census tells me that even if the Democrats can gerrymander the districts to their absolute advantage, they can't do it because of the shift of population. What's protecting them now is that they have many of their members in undersized districts, because what you see in the census is that the urban centers--this is true all over the country--are losing population.

I was just looking at the paper the other day. The South has had this big increase in population, as we all knew. The population

is drifting from the North and the Midwest to the South and the West. So here's the South with a much larger than average population gain. However, all the big cities in the South, they're all losing population. I mean, it's amazing. Throughout the country, the urban centers, with all the Democratic districts, will be losing representation, while overall population is going up.

HICKE: To suburban and rural areas?

DOERR: Yes. Because if you have one Democrat representing 300,000 and one Republican representing 900,000, and now you're going to have to reapportion them, they're both going to be 600,000. There's no way you can pull 300,000 from there to there and keep this safe. That's going to be the problem.

I don't think people that recognize it have really focused on that yet. They've focused on the fact that maybe they're not going to be able to gerrymander, and that's going to change the partisan mix.

HICKE: Aren't those Democrats that are moving from the urban centers out?

DOERR: As you move out from the urban center, it's almost a kind of continuum, I think. As you move out, you gradually become less of a Democrat.

HICKE: I know, assuming you've got a static population, but assuming that the people themselves are moving out, will they change party?

DOERR: They tend to when they get out there.

HICKE: Oh, they will? OK, that's what I was asking. They will become Republican if they aren't now?

DOERR: They become that way as they move to the suburbs. This is all speculation. I could be totally wrong, but this is just the way I see



it. So I think that bodes for a more conservative fiscal policy for the state for this decade. Into the twenty-first century, I think maybe that turns around. As you get different kinds of problems, then I think people will be more ready to raise taxes, solve some of the problems at that time. So I think the tax revolt maybe has another nine years, ten years to go.

Then I think you're going to see some movement. That's pretty safe if you expect the governor to be reelected. If so, he's here until '97, and although he's more of a moderate in terms of fiscal issues but he's still going to tend to be more reluctant to raise taxes than normal. I think that's not a bad prediction.

HICKE: If I come back in ten years . . .

DOERR: . . . we'll see. I probably won't even be around in ten years. Maybe I'd stay here.

HICKE: You're going to retire?

DOERR: Yes. I could. I don't know; I talk about it to myself. I don't want to retire. I'm having fun, I'm still involved, I'm making policy. I'm shaping public policy from this end rather than from that end, as, for example, the changes in the Gann limit, but on other things too. Maybe I want to stay and have fun. On the other hand, maybe I want to just relax. There's a lot of pressure, still. I could or I couldn't.

HICKE: Well, do you think we've covered the waterfront here?

DOERR: Yes, I think we've covered pretty much everything. I think what I should do is read the transcript, then see if there's anything left out.

HICKE: Oh, sure. That would be wonderful.

DOERR: I don't know what's in those earlier transcripts, so maybe there's something that fell through the cracks.

HICKE: OK. Well, then, if you come up with some topics and so forth, we could just do one more follow-up if you want to do it, or if it's just a sentence or two and you want to write it in, you could do that.

DOERR: It probably might be more than a sentence.

HICKE: Whichever is easiest, we can do it.

DOERR: And maybe I'll think of some things that I should have said that I just didn't put in.

HICKE: That would be great. I just want to thank you very, very much on behalf of the State Archives and future scholars of state government for all the time that you've spent with us.

DOERR: It's been fun.

[End Tape 31, Side A]

[Tape 31, Side B not recorded]

This oral history is closed until January 1, 2023, by legal agreement with David Doerr.



The 1983-84 California Budget Crisis

A Paper By

David R. Doerr  
Chief Consultant  
Assembly Committee on Revenue and Taxation  
California Legislature

for presentation to  
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## INTRODUCTION

Fiscal issues have come out of political obscurity in the 1980s. In California this year, the battles waged over the collective set of issues loosely described as the 1983-84 budget crisis dwarfed all other legislative activity.

George Lefcoe suggested to me that it would be appropriate for this audience to review what happened in Sacramento this year and why. To cover all important actions in the detail which they deserve is virtually impossible. There is material here for 15 to 30 separate papers.

Considering the constraints of time, the major emphasis of this paper will be to tie the various events together, with an emphasis on tax policy decisions, and provide some continuity to legislative fiscal actions taken these past ten months.

And any of this material may be used without the written consent of the National Football League.

## CAUSES OF THE FISCAL CRISIS

Prior to reviewing the development of the 1983-84 state budget, it will be useful to understand the root causes of California's fiscal crisis, not necessarily in order of importance:



First, in the aftermath of Prop. 13, the Legislature made a major policy decision to maintain local services at acceptable levels, and to pay for it by drawing down a large state surplus over time. From 1978-79 through 1982-83, the cumulative cost of this "bail-out" program was \$26.3 billion. As a result, many have laid the current crisis at the door of Prop. 13 and have noted the impact of the initiative was finally becoming apparent.

A second cause was a significant reduction in this state's revenue base in the aftermath of Prop. 13. The State's personal income tax was indexed, tax relief for renters expanded, inheritance taxes repealed, and a number of other small tax reduction programs enacted. The five year reduction in revenue resulting from these changes amounts to approximately \$12 billion.

Finally, the 1981-1983 recession had a disastrous impact on state revenue. For example, the Department of Finance's preliminary pre-recession May 1981 estimate of 1982-83 General Fund revenues was \$23.9 billion. By November of 1982, that estimate had dropped to \$20.4 billion, a swing of \$3.5 billion for the one year.

It is quite obvious that without the presence of any one of these factors the state would have continued in excellent fiscal health.

## THE FIRST ROUND

The 1983-84 budget battle began in early December of 1982. When the Legislature returned to Sacramento for its Constitutionally-required organizational session, the legislators were told by Legislative Analyst Bill Hamm that the 1982-83 fiscal position had deteriorated and the state faced an estimated year-end deficit of \$1.004 billion.<sup>1/</sup> In addition, Hamm pointed out, due to this shortage of cash resources there was a real possibility that the state would be forced in the early spring to issue registered warrants to pay its bills. Warrants are state I.O.U.s which the state promises to pay at a future date when cash is available. Then-Governor Jerry Brown called the Legislature into special session December 6 to deal with two issues: the fiscal crisis and reapportionment.

At the time, a consensus seemed to be building for some type of temporary tax increase to erase the deficit. The fiscally conservative Legislative Analyst indicated such a course would be prudent. The Democratic leadership in the Assembly and Senate laid plans to introduce such legislation. Some Senate Republicans were not objecting to a limited sales tax increase. Outside of the Capitol, there was support from major newspapers

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1. For further detail, see "The State's Fiscal Problem: How Serious Is It and What Can be Done About It?" Legislative Analyst's Office, December 7, 1982.



such as the Los Angeles Times and Sacramento Bee. Even Kirk West, Executive Vice President of the influential California Taxpayers Association, was advocating a temporary sale tax increase.

Legislative committees began hearings in mid-December and a tax program began to take shape. Partisan differences surfaced over the components. The Democratic leadership favored taxing higher income individuals and oil companies. Some Republicans in the Senate preferred a sales tax approach.

Prop. 13 requires a two-thirds vote of the Legislature to increase any state tax. Therefore, bipartisan agreement was a prerequisite to the adoption of any plan. In the Assembly, after extensive discussion of the issue, Assembly Republicans adopted the position that the state should run a deficit for 1982-83 and pay off the debt in 1983-84.

By December 29, 1983, a two-house conference committee completed work on a package to put the budget back in balance. This included:

1. Expenditure reductions of \$381.6 million.
2. Acceleration of revenue collections to produce \$155 million.
3. A 6% permanent oil severance tax.
4. Temporary tax increases, as follows:
  - a. 1¢ sales tax increase.

- b. 10% personal income and bank and corporation tax surtaxes.
- c. 10% gross receipts tax on coin-operated amusement devices.
- d. 5¢ per pack cigarette tax increase.
- e. Removal of the sales tax exemption for candy and gum.

This package produced \$1.634 billion in expenditure reductions and revenue increases.<sup>2/</sup> It was first voted upon in the Senate, where it failed to get the two-thirds vote necessary for passage. The final vote was ayes 20, noes 12. With this failure, the package was not brought to vote in the Assembly. No one realized it at the time, but this was to be the high-water mark for those advocating a major tax increase as a solution to the state's budget woes.

#### GOVERNOR DEUKMEJIAN'S POSITION ON THE 1982-83 DEFICIT

With the inauguration of Governor George Deukmejian as California's 35th Governor, the picture changed dramatically. The new Governor rejected the idea of a tax increase as a solution to the 1982-83 deficit problem.

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2. For a more detailed explanation of this plan, see "Summary of Major Provisions of AB 13x", prepared by the Assembly Revenue and Taxation Committee, December 29, 1982.



Instead, he proposed a two-phase solution to the problem. Phase I incorporated a number of expenditure freezes and reductions, and transfers of the balances in a variety of special funds to the General Fund to reduce the size of the deficit (which by now had grown to \$1.5 billion). To deal with the remaining deficit of \$750 million, the Governor's Phase II recommendation was to carry it forward into the 1983-84 year and fund it by substantially reducing the projected workload budget.<sup>3/</sup>

The Democratic chairs of the budget committees of each house<sup>4/</sup> reacted by calling the Governor's plan "unacceptable". They contended it did not add up mathematically or operate responsibly. They suggested that this plan was of "dubious legality."

During January and early February, there were almost constant legislative hearings on the subject. Deadlines for action to forestall registered warrants were proclaimed and then revised. There were two critical issues, one fiscal and one legal: The legal issue revolved around contention that the California Constitution did not permit the state to carry a deficit.<sup>5/</sup> From

3. For details of the Governor's proposal, see "State of California, Governor's Budget for 1983-84", January 10, 1983.
4. Senator Al Alquist and Assemblyman John Vasconcellos.
5. See California Constitution, Article XVI, Section 1.

a fiscal standpoint, the Democrats recognized that if the deficit were to be paid from 1983-84 budget funds, it would force severe cutbacks in funding for programs they supported.

On February 7, the legal issue was resolved. The Office of the Attorney General issued an opinion which stands as a legal defense of deficit spending. The opinion states that a carry-over deficit is constitutionally permissible, as long as it can be repaid within a short period of time. State Controller Ken Cory observed that "the new Attorney General had thrown away 60 years of fiscal prudence." The opinion failed to break the deadlock as the Senate continued to insist that the deficit should not be carried forward into the new fiscal year and jeopardize important government programs.

The next move was the Governor's. He spoke on a statewide television network on February 9 in what has become known as the "Winds of Warrants" speech.<sup>6/</sup> He castigated the Senate, stressed the gravity of the situation, and described the many problems which would occur if the state was forced to issue registered warrants.

The Los Angeles Times responded in an editorial entitled "Rot In Sacramento,"<sup>7/</sup> which observed: "Democrats are right to hold out for a combination of tax increases and spending cuts that

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6. Named for a popular novel and TV mini-series at the time.

7. Los Angeles Times, Part II, page 6, February 11, 1983.



would not only restore the state's credit rating but also provide more funds for crucial areas such as education."

The deadlock continued.

Pressure on the Legislature was increased by heavy lobbying by the state's bankers, who were deathly afraid of warrants.

Banks were particularly concerned about:

- (1) The possible reduction in the credit rating of the state and the impact on the value of existing state obligations and added costs of future bond issues, and
- (2) the impact on customer relations when persons issued warrants attempted to cash them at banks, and the general havoc which would be created in processing them, discounting them and redeeming them. In fact, it was reported that, in a private meeting, the President of a major bank offered to loan the state enough to cover the cash flow deficit with no collateral, other than the signatures of the Governor and legislative leadership that it would be paid back.

As in all good political struggles, there finally reaches a point when a compromise is the only way out for both sides. With warrants imminent, a deal was struck between the Governor and the legislative leadership.

With warrants imminent, a deal was struck between the Governor and the legislative leadership.

On February 16, AB 28x (Robinson) passed both houses<sup>8/</sup> and was approved by the Governor on the next day.

The compromise provided for:

1. Authorization for short-term borrowing (to avoid warrants).
2. Reduction in local government subventions.
3. Various expenditure reductions and reversions to the General Fund of funds allocated to specific projects.
4. A sales tax pre-payment acceleration requiring many retailers to pay to the state sales taxes collected from June 1 through June 15 by the 24th of June.
5. Repeal of a provision permitting corporations to obtain refunds of estimated taxes prior to filing a final return.
6. An increase in the corporate estimated payment percentage to 90%.
7. An increase in the interest rate for delinquent taxes.
8. Acceleration of collection of withholding receipts from employers.
9. A conditional increase in the sales tax by 1% for six months (the so-called "trigger") if either:

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8. The vote was Ayes 60, Noes 17 in the Assembly and Ayes 53, Noes 6 in the Senate.



- a. The receipts actually received by the Controller by October 12, 1983, fall below an amount prescribed by statute; or
- b. The Governor estimates, on January 10, 1984, that the estimated General Fund surplus for 1983-84 is less than \$100 million.<sup>9/</sup>

The effect of the tax provision and reduction in local fiscal assistance amounted to \$162 million. For the Democratic members of the Legislature, the standby sales tax was a key element of the compromise. This permitted them to insure that the deficit to be carried over to the 1983-84 fiscal year would be paid back by either revenue generated by optimistic economic assumptions or the sales tax increase, and not by further cuts in an already spartan budget.

In fact, the bill spelled out this agreement, as follows:

1. Significant reductions in expenditures proposed in the Governor's Budget for 1983-84 shall not be made to reduce the 1982-83 deficit.
2. Borrowing to finance the 1982-83 deficit shall be repaid no later than the last day of the 1983-84 fiscal year.

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9. For further details, see attached report by the Assembly Committee on Revenue and Taxation "Major Tax Legislation of 1983, Volume I, Description of Tax and Local Government Provisions of AB 28X (Robinson)", July, 1983.

3. A tax increase shall be imposed if estimated revenues are insufficient to finance the expenditures proposed in the Governor's Budget for the 1983-84 fiscal year and to repay amounts borrowed in the 1982-83 fiscal year.
4. Nothing in this act shall be construed to limit the Governor or the Legislature from carrying out their constitutional or statutory duties.<sup>10/</sup>

With this compromise in place, the State of California embarked on its first planned budget deficit and the focus shifted to the development of the 1983-84 budget.

#### GOVERNOR'S PROPOSED 1983-84 BUDGET

On January 10, Governor Deukmejian submitted to the Legislature a proposed 1983-84 General Fund budget of \$21.676 billion, an amount approximately \$400 million below the estimated 1982-83 expenditure level. The budget document provided no specific plan for paying off the amount of the deficit from 1982-83, but referred to several general areas from which funds could be redirected.<sup>11/</sup> The budget, as submitted, was balanced without new taxes.

10. AB 28x of the 1982-83 First Extraordinary Session, Section 1.

11. These included:

	(in millions)
a. Reserve for economic uncertainties	\$650
b. Cost of living adjustments	926
c. Capital outlay	133
d. Reserve for financial legislation	150
e. Local fiscal relief	100
f. Second year savings	60



Included in this spending plan was the anticipation of savings based on the recommendations of a "Governmental Efficiency Team", composed of representatives of the private sector appointed by the Governor to review state operations.

The Democratic leadership was unimpressed with the Governor's proposal. Ways and Means Chair, Assemblyman John Vasconcellos and Senate Finance Chair, Senator Al Alquist called the budget unacceptable and out of balance by \$3.3 billion.<sup>12/</sup>

Major issues which evolved in the debate over the budget were:

1. Lack of funds to reflect inflationary costs of programs and levels of service.
2. Inadequate funds for schools and the need for major education reforms.
3. Funding for local government.
4. Major cuts prepared for certain programs such as the Coastal Commission, the Agricultural Labor Relations Board and the Energy Commission.
5. The means of funding the deficit carried forward from 1983-84.

The Democratic Leadership held to the position that added taxes were needed to alleviate budget cuts that they believed went too far.

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12. See Vasconcellos-Alquist letter to Governor Deukmejian dated January 17, 1983.

During this period, many alternative revenue programs were developed for discussion. Finally, a decision was made amongst the Democrats to marry a tax increase proposal with the major school finance bills. This course of action seemed most promising in view of polls which indicated that the public would support higher state taxes to improve the quality of public education. "Sin taxes," taxes on oil companies, and high income individuals were among the taxes under consideration.

#### LOOPHOLE CLOSING

In early May, the Governor received the report from his "Governmental Efficiency Team". The recommendations included some modest expenditure reductions, but the main emphasis was on closing a number of loopholes to raise additional revenue for the State.

The Governor endorsed the recommendations and submitted them to the Legislature for approval. In recommending that sales tax exemptions for candy, movie rentals, master tapes, monetized bullion, and custom computer software be repealed and the State's take-out from horse racing increased, the Governor found himself at odds with some of Sacramento's most powerful lobbyists.

Since tax rates were not increased, the this apparently did not violate the Governor's campaign pledge of no new taxes.



Speaker Brown, in reacting to the Governor's proposal, decided the only way to get the Governor's loophole closing proposal passed was to act quickly before the lobbyists could get organized. Therefore, on May 16, the Monday following the Governor's announcement, the Assembly met in a rarely-used Committee of the Whole to consider the proposal, which had hastily been incorporated into AB 1428 with Speaker Brown as the author.

This caused a major political problem within the Assembly Republican Caucus. Most of the lower house's GOP members were not prepared to vote for the measure.

Late the same evening, after hours of cajoling by the Governor's representatives, six Republicans finally joined all 48 democratic members in voting for the bill and it passed the Assembly in exactly the form recommended by the Governor.

The Senate opted to consider the bill with all due deliberate speed. The measure was routed through the normal committee hearing process, first through Senate Revenue and Taxation and then through Senate Finance.

By the time the bill had its first hearing in a Senate committee, it became a full employment bill for lobbyists. Representatives of all the affected interested descended on the Capitol.

"discovered" and the additional revenue helped facilitate overall agreements on the entire fiscal program.

#### FISCAL PROGRAM BILLS MOVE TO CONFERENCE

By the end of May, both houses had sent the other a school finance bill with a revenue component.

On May 26, the Assembly bill, AB 70 (Hughes), passed with \$830 million in new revenue as follows:

<u>TAX</u>	<u>1983-84 REVENUE</u> <u>(in millions)</u>
1. Adopt abusive tax shelter reforms in AB 1086.	\$100
2. Increase cigarette tax by 5¢ per pack effective September 1, 1983.	100
3. Increase alcoholic beverage taxes by 50% effective August 1, 1983.	60
4. Adopt accelerated property tax provisions of AB 1428 and provide revenue which otherwise would go to cities and counties is transferred to schools.	220
5. Repeal deductibility of oil wind-fall profits tax from State income and bank and corporation taxes.	70
6. Conform to selected provisions of TEFRA in AB 399.	160
7. Adopt 5% surcharge on tax paid by banks and corporations with taxable income of \$10,000,000 or more.	<u>120</u>
TOTAL	\$830



The Senate Bill, SB 813 (Hart), which was to become the main school finance/school reform vehicle, had passed the Senate earlier (May 19) with a slightly different component of taxes, including an increase in the sales tax and repeal of the candy sales tax exemption.

After the Assembly amended its school program into SB 813, it too was sent to a two-house conference committee.

Each house had also prepared its version of a State Budget and an implementing trailer bill. After much sound and fury in each house, a budget conference committee went to work in early June to work out a compromise between the houses that could be sent to the Governor for his signature.<sup>15/</sup>

#### FISCAL STALEMATE

This is where the plot thickens. As the budget conference committee toiled to produce a document that could be sent to the Governor, it became clear that the two parties were far apart on some very critical issues.

The Democratic bottom line included:

- o \$800 million in new funds for K-12 schools, coupled with reforms;

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15. Due to opposition from Assembly Republicans, the Assembly budget bill was delayed passage several days and finally had to be sent to conference by a majority vote.

- o protection against item vetoes of programs Democrats believed to be vital;
- o opposition to spending any funds to hold a special December election on the "Sebastiani reapportionment initiative";
- o Reduction in state aid to cities and counties and the authorization of local revenue sources.

Attempts to pass the budget bill prior to the July 1 start of the new fiscal year failed when the Democrats in the Assembly would not vote for the budget unless the companion budget implementation bill, which attempted to protect a number of programs and put limits on a special election, was also passed, and the Republicans would not vote for the implementation bill.<sup>16/</sup> As noted above, the Democrats also wanted \$800 million in increased aid for schools.

The stalemate lasted 18 days into the new fiscal year, an all-time record. During this period, there were endless meetings. The legislative leadership met with the Governor on several occasions. At one point, Speaker Brown brought a quart of jamocha almond fudge ice cream to a meeting, reportedly the Governor's favorite, as a peace offering. Only on the school finance front was progress made, with the Administration offering to increase the funding level little by little.

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16. Both bills need two-thirds votes in each house.



- o The understanding by legislative Republicans that the Governor would try to "item veto" objectionable language in the budget implementation bill.
- o Action by the Democratic majority, in crafting the budget bill, to reduce state aid to cities and counties by over \$600 million below the cuts recommended by the Governor. This was accomplished by letting the AB 8 "deflator" run for the final nine months of this fiscal year.<sup>18/</sup> The Democrats' objective in doing this was to increase the pressure for adoption of legislation providing additional local taxing authority in lieu of subventions, and to provide budget resources for other expenditures, such as community college funding, state employee benefits, University of California funding, etc., at a level higher than proposed by the Governor.

The budget bill, SB 123 (Alquist) was sent to the Governor on July 19 by votes of ayes 35, noes 2 in the Senate and ayes 65 and noes 10 in the Assembly.

Before signing the budget, the Governor used his line item veto authority to cut \$1.1 billion from proposed General Fund

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18. The deflator was a part of the permanent Proposition 13 "bailout" legislation enacted in AB 8 of 1979. It automatically reduces state subventions to local government if state revenues fall below a given level.

Governor's favorite, as a peace offering. Only on the school finance front was progress made, with the Administration offering to increase the funding level little by little.

It is not possible to say that there was a grand compromise that put an end to the budget deadlock--there was not.

However, by July 18, several events had occurred which made it possible for each side to take some unilateral actions allowing passage of a budget and budget implementation bill.

These events were:

- o The announcement by the Governor that he would sign a K-12 school finance bill with \$800 million in additional funds for 1983-84. Thus, the school bill emerged from the Legislature with \$450 million more than originally budgeted by the Governor, but \$390 million less than originally approved by the Assembly and \$250 million less than originally approved by the Senate.
- o The agreement to increase General Fund revenue by \$780 million for 1983-84, without any general tax rate increase.
- o The calling of a special election on reapportionment by the Governor.
- o The removal by the Democrats of the language in the budget implementation bill relating to the special election, with the intent of fighting the issue in Court.<sup>17/</sup>

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17. On September 15, 1983, the California Supreme Court ruled the proposed initiative unconstitutional.



expenditures.<sup>19/</sup> The "blue pencil" cut into appropriations for almost every program. Support for community colleges was cut leaving them approximately \$108 million below the prior year. The Governor suggested a \$100 per year student fee as a partial offset. Other reductions included more than \$400 million out of budgets of the University of California and state colleges; the state's contribution of \$211 million to the State Employees Retirement System, a system which has an unfunded liability of \$13 billion (which is more a deferral than a cut); \$200 million from a variety of health and welfare programs; \$62 million in employee compensation; \$2.6 million, or 25%, from the budget of the Agricultural Labor Relations Board; \$55 million to pay for court-ordered and voluntary school desegregation programs; and \$5.2 million that would have kept the "Spirit of California" overnight train between Sacramento and Los Angeles running.<sup>20/</sup>

The Governor stated his item vetoes were consistent with his plan to restore fiscal solvency. Democrats in the Legislature reacted by saying the cuts were unnecessarily harsh and that the budget could have been balanced with reduction of state aid to local government coupled with some additional local revenue-raising authority.

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19. This action left the General Fund budget at \$22 billion.

20. For complete list of Governor's item vetoes of the budget, see "Office of the Governor, Release #367.

The Governor also vetoed a number of provisions of the budget implementation bill which restricted his authority to make item vetoes in the budget bill.<sup>21/</sup>

#### THE 1983-84 REVENUE PACKAGE

Perhaps the most surprising aspect of the entire budget battle was the raising of \$780 million in new revenue with token opposition and little public awareness. In terms of additional revenues raised for the first fiscal year, this is the second largest revenue package ever enacted in California.<sup>22/</sup>

The package was developed by incorporating into the school finance bill and budget implementation bill provisions of the TEFRA conformity effort and selected provisions of the Governor's original loophole closing bill.

The components of the 1983 tax package are:

1. An increase in the state's take-out of 1% on exotic bets at horse races. Revenue: \$9 million
2. Repeal of the sales tax exemption for home movie video rentals. Revenue: \$16 million
3. Repeal of the partial sales tax exemption for items sold through vending machines. Revenue: \$15.5 million

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21. The budget implementation bill was AB 223 (Vasconcellos).

22. SB 556, Enacted in 1967, raised approximately \$945 million in 1967-68.



4. Changes in vehicle license fees which base the fee on the cost price of a vehicle and revise depreciation tables.  
Revenue: \$120 million
5. Clarification of which measure of CPI should be used for indexing. Revenue: \$100 million
6. Reduction of the energy conservation tax credit. Revenue: \$17 million
7. Reduction in the solar tax credit. Revenue: \$23 million
8. Repeal of the gasoline tax deduction. Revenue: \$5 million
9. Reduction of the medical expense deduction. Revenue: \$65 million
10. Acceleration of remittance to the state of personal income tax withholding collections. Revenue: \$80 million
11. Imposition of increase (or decrease) in property tax at time of change of ownership or new construction. Revenue: \$234 million
12. Conformity with a number of the provisions of the 1982 federal Tax Reform and Fiscal Responsibility Act.  
Revenue: \$95 million 23/

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23. For a more detailed explanation of the provisions of the 1983 revenue package see "Major Tax Legislation of 1983, Volume 2, Description of Tax and Local Government Finance Provisions Enacted in AB 223 (Vasconcellos)" and "Major Tax Legislation of 1983, Volume 3, Revenue Provisions of the Education Reform Package", both published by the Assembly Committee on Revenue and Taxation. They are attached.

AFTERMATH

When legislators returned to Sacramento on August 15 following their summer recess, they faced several unresolved 1983-84 budget issues.

The Senate attempted to override five of the Governor's item vetoes in the budget bill. Each attempt fell short by several votes of the two-thirds necessary for the override.

The most pressing issues were local government fiscal relief and community college funding.

The Governor proposed to restore \$610 million in subventions to local government. Key Democratic legislators pressed for a "long range" solution to the local finance issues and the authorization of local government revenue sources. After four weeks of stalemate, the Legislature finally restored the \$610 million in subventions to local government with additional provisions stating intent to develop a "long term solution" in 1984 (AB 895, Cortese).

The community college funding issue was more difficult. At first the Governor advocated a \$100 per year fee to supplement the budget of the community colleges. The Democrats pushed for restoration of \$108 million of the funds vetoed by the Governor, which would restore the funding of community colleges to the level of the prior year. A number of Democrats, particularly in



the Assembly, also opposed the imposition of fees for the first time at the community college level.

During an extended period of negotiations on this issue, additional sources of funds were discovered to provide funding for the \$108 million. As the Session came to a close, the conference committee working on this issue submitted its report with \$108 million in additional funds, a \$50 fee for the second 1983-84 semester, and \$100 fee per year thereafter.

The Senate voted to approve the report, but the measure failed on a 38-38 tie vote in the Assembly, due to the continuing concern over the imposition of fees. Thus the 1983 session of the legislature came to a close, having resolved most of the 1983-84 fiscal issues, but with the funding of community colleges still unresolved.

#### THE FUTURE

What does the action on the 1983-84 budget portend for the future?

As we have seen, changes in the national economy and revisions of the tax structure made by the voters via the initiative can disrupt the best laid of fiscal plans.

Next year looks almost as uncertain as this year. Consider: -

1. A sales tax increase, contingent on external factors, is still on the books, although the odds against activation at this point are better than even money.
2. Foreign governments are lobbying in Washington to get the California worldwide combination features of the unitary method of apportioning income for bank and corporation tax purposes repealed by federal action. British Prime Minister Margaret Thatcher is here this week for this purpose. The cost to the state treasury could exceed \$500 million annually.
3. School finance will again be a major issue next year, with the Governor's veto of the second year money in the school finance bill. There are major second-year costs due to the reforms.
4. There are a number of court actions pending, testing the legality of certain actions taken by the state to cut expenditures. The amounts in dispute may be as much as \$100 million.
5. A prudent reserve for economic uncertainties should be established for 1984-85 at a cost of \$700 million.
6. A new initiative is being circulated by Howard Jarvis which would cut property taxes by another billion dollars or more.



7. Due to inadequate funds at the state and local level, new public infrastructure is not being built and existing public plants are wearing out. To rectify this, expenditures of billions of dollars will be needed in the near future.
9. Supporters of programs suffering budget cuts and public employees will be seeking to restore in 1983-84 the real dollars spent for these purposes in 1982-83.
9. And there is always a wild card or two not foreseen at this time.

Fiscal issues will continue to be the political issues in California for some time to come. And there will be no rest for the legislature, no rest for the Department of Finance, and no rest for legislative staff.

Attachments