

A transcript for
The Silicon Valley Leadership Group
Conversation with Gov. Arnold Schwarzenegger
Barbara Marshman, Moderator
Hosted by SunPower at Cypress Semiconductor
December 2, 2009

Also on stage:
Mr. Tom Werner, CEO, SunPower

1 **Gov. Schwarzenegger:**
2 (offstage) What am I going to do with all this kindness?

3
4 **Male voice:**
5 Relish it!...

6
7 **Mr. Guardino:**
8 Ladies and gentlemen, if you could please stand for Governor Arnold Schwarzenegger.

9
10 **Gov. Schwarzenegger:**
11 ...Oh, my mic is on!... This is exciting to be here... with so many smart people.

12
13 **Mr. Werner:**
14 I guess I get to kick this off. I want to welcome the governor to Silicon Valley and the Silicon
15 Valley Leadership Group. We're thrilled to have you here. I do want to say one quick word
16 about the governor. He's a man of action. He's driven the innovation economy and the green-
17 tech economy in a phenomenal way, and we owe him so much.

18
19 The last time I met him, I mentioned that we were hitting the net-metering cap, which means that
20 the meters can't run backwards if you put a solar system on your house; and oddly, in like six
21 weeks, it was fixed. So he's done an incredible job for us and for California and for the green-
22 tech economy. It's just a pleasure to be up here with you. Thank you very much.

23
24 **Gov. Schwarzenegger:**
25 Thank *you* very much. Thank you. (applause)

26
27 **Mr. Guardino:**
28 And if I may set the stage, Henry XIV (sic) once said that punctuality is the politeness of kings,
29 and you will notice that Gov. Schwarzenegger [was] on time, once again. We've had the honor
30 of hosting him here in Silicon Valley more than 20 times in the last six years. The first meeting,
31 he wasn't on time. He was early. He beat most of our CEOs to the session, and it's that type of
32 respect for others, that incredible business mind and common sense, that have made it a pleasure
33 to not only watch him as our governor these past six years, but to do such a phenomenal job for
34 the innovation economy in that role. So will you join me once again in thanking our governor for
35 joining us today? (applause)

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With that, we're going to turn it over to the editorial-page editor of the *San Jose Mercury News*, Barbara Marshman, who's going to ask the governor some questions; and then I will come back up to present any questions from you as our CEOs here today. Thank you, Barbara.

Ms. Marshman:

Thank you, Carl. What fun this is! What a nice surprise on a Wednesday afternoon. It's nice to see you here. Let's plunge right in and start talking about the thing that, I think, is probably on everyone's mind these days – jobs. The state unemployment rate is 12 ½ percent. In Silicon Valley, it's almost 12 percent. We are not used to that. I know your administration is trying to do some things to turn that around. Are you seeing anything that's working?

Gov. Schwarzenegger:

Well, first of all let me just say...thank you to Tom and to Carl and to you, Barbara, for having me here in SunPower, and it's great to have all of you here. I know you have a busy schedule, and so I hope this whole hour,...half hour, whatever we're doing, is worthwhile for all of you.

But to answer your question, I think that, you know, California has a big challenge when it comes to job creation...Even though we, as an administration, have done a lot, especially in the last budget negotiations, [whether] it is the public-private partnerships, or pushing out billions of extra dollars in infrastructure to create jobs, because we know that each billion [dollars] creates, you know, 18,000 new jobs; and we have worked very closely with the federal government to get a lot of the stimulus money from the federal government, which also has helped to create jobs; and those numbers are disputable, because some say it's, you know, 100,000 jobs. Others say it's 50,000 jobs. But it doesn't really matter. In one way or the other, it's created jobs. It depends on what you would [use] as a definition of "retaining jobs" or "creating jobs," and so on. And we were going to continue fighting that.

But the fact of the matter is that we also at the same time know that manufacturing has left California, and it's because it's more expensive to do business here in California. Property is more expensive. Electricity is more expensive. Water is more expensive – all of those things. Housing is more expensive...But, at the same time, we have real problems with labor laws. You know, they're very restrictive, and...are costing businesses more money.

And so we...tried to get some of the things done in the last budget negotiations, but we're not finished. I think there will be other budget negotiations coming up in the very near future, and we will again press the legislators to act and to free up some of those labor laws to make it easier to work here in this state and to create business and to create those jobs again.

Now there's a lot of people that talk about [the fact] that jobs are leaving the state, and all this. I don't buy into it much, in this whole thing, because, I mean, there's maybe some [that] leave, but the neighboring states that supposedly have all these ideal working conditions, you know, they have higher unemployment rates than we have, and so I think that people still are interested in

79 coming to California and working here, creating business here, building their companies here.
80 But what we have to do is, we...have to go and return again, and make it easier to...manufacture
81 in our state here, because a lot of...the people that you see sitting here, that are very innovative
82 people, and create wonderful, new things; but whatever is being created is then manufactured
83 outside the state. So that's not going to help the state much. So if we really want to bring the
84 unemployment rate down, we've got to free up labor laws, and we've got to make it more, you
85 know – we've got to make it easier to do business here, and we're going to fight for that, and
86 make this part of the budget negotiations, because there will be the question coming up, "How do
87 we create more revenues?" And this is always the debate between Democrats and
88 Republications. You know, Democrats talk first always about "raising revenues," meaning
89 "raising taxes."

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91 Well, we have done that. You know, we have raised taxes to show that we are...willing to meet
92 in the middle, that it's not just all about cuts; but we also know that there are so many other ways
93 of creating revenues. If we, for instance, create a more business-friendly environment, then we
94 can build businesses and create jobs and therefore create more revenues for the state; and also, if
95 we change some of the things, like, for instance, within the state, that we change some of the
96 laws,...for instance, in the prison system, where we now have gotten into the situation where
97 we're spending much more money on our prisons than on higher education, and that's
98 inexcusable.

99
100 And this is...not because, all of a sudden, people in California are more against – you know,
101 doing things against the law, or there are more criminals, or any of that. It's just that we have a
102 prison system that is run by state employees, and if you compare [that] with other states, where
103 they have private prisons, they can run the prison system for one-third less; and so if we are
104 spending \$10 billion on our prisons, and you cut one-third off, which is, you know, \$3.3 billion,
105 I'd rather take that...\$3.3 billion and put it in higher education and put it towards our
106 universities, because that is the future. The prison is not the future. Higher education is the
107 future.

108
109 And so this is where we have to concentrate, ...not having a receiver that we have because of a
110 federal judge, that is out of control, and that is spending money as [if] we have all the money in
111 the world, and he's paying \$500,000 salaries to people that work in the prisons, because he has
112 the power to do so, given to him by the federal judge. So he goes nuts there, and we are spending
113 hundreds of millions of dollars unnecessarily. People in the prisons have a better healthcare
114 system than people outside the prisons, and I think all of that is wrong. And so it's a combination
115 of things that we need to do, but it's a constitutional change that needs to happen there,
116 because..., constitutionally, it's the law we have to have the state employees to run the prisons,
117 and I think if we change that, and have private prisons,...I think that the state can save a lot of
118 money. So those are the [kinds] of things [about which] there will be a discussion in the next
119 round of our budget negotiations.

120
121 **Ms. Marshman:**

122 You mentioned that you...don't think jobs are leaving the state; but it's a perception here
123 that...companies are moving, at least moving some of their jobs to Oregon, Arizona....At a
124 Leadership Group [session] we had a few weeks ago, we had Governor Bill Ritter
125 from...Colorado here, and he brought up a number of very interesting initiatives to try to attract
126 green industry to his state. Very aggressive, actually. I think...Tom's ears perked up. Tom is
127 looking to build a manufacturing facility. Oh, it's not a secret! (laughter) In fact, maybe...you'd
128 like to talk a little bit about the kinds of things you hear from...other states when
129 you're...shopping.

130
131 **Mr. Werner:**

132 Yes, and just let the record be clear....The governor's team is working with us (laughter), and
133 always giving me that look, and...Susan Kennedy, [his] chief of staff, is all over this; but, as he
134 said, it's a competitive environment, and it would be irresponsible for me as a CEO to put jobs in
135 California because I have a lot of respect for the governor. I have to do it for the shareholders,
136 and do what's economic. And the [sort of thing] that you're competing against is, of course, the
137 cost of infrastructure.

138
139 Having said that, there's no better place to innovate than Silicon Valley, for sure; but when you
140 look at some of the other elements in terms of taxation—we're going to talk later about the
141 single-sales-tax apportionment factor—the training credits that you can get. I mean it's a
142 competitive world, just like it is in our business environment. So the sorts of things that are
143 happening [are] inexpensive land, training credits, tax reductions, tax elimination, low-cost
144 infrastructure. Those sorts of things are what California is competing with.

145
146 **Ms. Marshman:**

147 So what's in *your* arsenal when...folks are looking at California, perhaps without quite the
148 orientation to California that Tom starts with?

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150 **Gov. Schwarzenegger:**

151 I think it's a fair point that he is making. That's what I was saying earlier; but at the same time,
152 you know, I always see the glass half-full; and so, at the same time, while *this* is happening, we
153 have, for instance, car manufacturers that are relocating or locating to California, like, for
154 instance, Tesla.

155
156 Bill Richards in New Mexico has tried very hard and has really pulled out everything that he had,
157 and...attracted them to go to New Mexico; and I remember, I ran into him at the...national
158 governors' conference in Washington, and he had this big smile on his face, and he says, "I got
159 one of your companies." Then I said, "Congratulations."

160
161 Then I came back, and then *we* sat down with Tesla, and we found a way of giving them a better
162 deal, and so they decided that they're going to go and come to California and build their second
163 Tesla car, their four-door sedan, here in California. And so [there are] companies that are moving
164 back to California or coming to California for the first time. So we have success stories like *that*,

165 also. So...companies may leave, [but there are] companies coming back here. And, like I said,
166 Ritter is a good friend, and we are partners in a lot of things, especially the environmental issues,
167 and ocean protection and coastline protection – [on] all of those things, we work together very
168 closely. But, as I told *him*, I said, “You’re coming to California because you’re struggling,
169 because *you* have a high unemployment rate. Businesses are not happening in *your* state, so
170 that’s why you’re trying to come here and think that you can kind of [skim the] cream off a little
171 bit from California.”

172
173 So they are all struggling. All the states around us are struggling much more than California
174 itself, and if I have a choice to be governor of the great state of California, of any of the other
175 states, let me tell you something. I’d rather be here 10 times over in this state, because I think
176 this is the greatest place -- They know it. This is the greatest place in the world, and there’s no
177 one overseas, when I travel around – I just came from Israel, and I came from Europe, and I was
178 at a conference in Milan. Everyone only talks about the dream of coming to California. There
179 was no one jumping up and down saying, “I’m going to fight and do everything I can to get to
180 Oregon.” There was no one....Those governors know that, and they are suffering because of this
181 inferiority complex there, you know, which I understand. So that’s the way it works.

182
183 So I think that there’s a lot of work we need to do. There’s a history here of loading up and
184 creating regulations that make it very tough on businesses, and I think we’ve got to get rid of
185 some of those regulations, because remember one thing. This state will be perfect if government
186 gets out of the way. That’s the bottom line. Get government out of the way, and you will see
187 things falling into place and it will be a much better place to work and to do business here.

188
189 **Ms. Marshman:**
190 Let’s turn to an area where government is getting *more* involved, and that’s healthcare reform.
191 You fought the good fight a couple of years ago, to try to do something in California. I know we
192 supported it, the editorial board. I think a lot of people in this room did. It didn’t work out for
193 California. Are you watching what’s happening in Washington now? Do you...understand what
194 the Senate bill would mean for California?

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196 **Gov. Schwarzenegger:**
197 I think that the people that worked on healthcare reform in California, there are a lot of those
198 experts, and they’re really geniuses that were in our office, and some of them are now outside the
199 office, [who] are advising the Obama administration and giving them advice because we have
200 gone through it, the whole thing, and where the obstacles are, and where it is doable. And so I
201 think that’s good. I think that it’s great to have a President that is interested in the subject of
202 having healthcare reform, and with the goal to insure as many people as possible. I mean our
203 goal was to insure everybody in California. Theirs is a little bit more limited.

204
205 The key thing is, as they move along – and it changes all the time, as you know. It depends [on
206 whether] it’s the Senate version or the House version, all of those things; but the key thing is that

207 they concentrate on making sure that as many people as possible are insured, and also to reduce
208 the costs of healthcare.

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210 And that you do -- For instance, with healthcare, with insurance companies, one thing they have
211 not concentrated on yet is to make sure that insurance companies spend 85 percent of the money
212 on healthcare and only 15 percent on administrative costs and on profits. There are some
213 insurance companies that make 30 to 40 percent profits and administrative costs, and I think this
214 is way too high, and that's why the costs are going up all the time, and they have not addressed
215 that. So I strongly recommend for them to address that particular issue.

216
217 The other thing that has not been addressed so far, and it doesn't mean it's not going to happen,
218 because...these are no way with the finished product. It's "Oh, this is right now boiling, and it's
219 being negotiated," and so on,...and that's why I was very happy when [Safeway CEO] Steve
220 Byrd went back there several times, talking to them, and giving them advice, because I think
221 Safeway...is a perfect example of what can happen when you have prevention as a major part of
222 the whole reform.

223
224 They have prevention as a really strong part of their healthcare, and, because of that, their
225 healthcare costs went down 13 percent from one year to the next; whereas others went up by 8
226 percent. So that just shows you, there's a key area where we can save a lot of money. We've got
227 to offer people incentives to lose the body fat, reduce body weight, reduce the cholesterol level,
228 stop smoking, stop drinking, exercising every day, and you should get points for that, and
229 reductions on your costs; and it really worked well with Safeway, and I think they've shown the
230 way, and that's exactly what was a big part of our package when we negotiated healthcare
231 reform, to have prevention as a big part of it, because there's a lot of savings there; because it's
232 better when you pay a thousand dollars for a screen to...check if you have cancer, versus, then,
233 later on, spending, you know, a hundred thousand dollars, and curing a cancer problem that you
234 may have. So I think prevention is extremely important.

235
236 And I think if you really want to be successful in this, again, you should not just think that
237 government is the solution. You've got to make the people the solution, because you've got to go
238 and say to the people, "If you really want that healthcare reform, and if you really want to reduce
239 the costs, then *you've* got to change your way of life."

240
241 You can't continue going down and eating all of these, you know, cheese burgers, and have one
242 milk shake after the next when you know that a milkshake is 1,300 calories! And 1,300 calories?
243 You have to go and bicycle for three hours to burn off those 1,300 calories. You're killing
244 yourself. You're killing yourself. You're getting heart diseases from this and also when we just --
245 and the kids, you know, because it's easier to go just to one of those outlets where you can go
246 and get quick food, and all this. But you're killing the kids also, because the kids today have 10
247 pounds more body weight, the average, you know, ten-year-old, versus 20 years ago. So I mean
248 the body weight is going up. You're creating diabetes. You're creating all of [these problems]
249 already with children, *and* the grown-ups do the same thing. So I think you've got to teach the

250 people to eat better and to not smoke as much, to try to cut down on their smoking, and cut down
251 on the alcohol use, and those things, and that can really prolong your life, and also make you
252 have [fewer] illnesses. So you've got to include the people rather than just making it, "This is
253 something that government is—out to be—responsible [for]." No. All of us—we *all*—are
254 responsible to bring our healthcare costs down.

255
256 **Ms. Marshman:**

257 If you had to handicap it, do you think healthcare reform will pass in Washington?
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259 **Gov. Schwarzenegger:**

260 I think that it will pass because, I think, in the end, when you get into something like this, it
261 almost, in the end, becomes more important, the victory, than to solve a problem. And so I think
262 that now everyone is just so determined. It seems to me that if you're around Obama, you
263 couldn't let it happen that they *don't* get it done, because that would be disastrous for his
264 administration, because this is the first big thing that he's tackling here, because the other things
265 are not going so well, with the war in Afghanistan and with Iraq and all of those things, which is
266 not his fault. I mean it's just – You know, that's the way it is.

267
268 So I think that his intentions are in the right place by wanting to have healthcare reform and
269 wanting to reform and create environmental policies and energy policies; but those are all very,
270 very difficult things to tackle. Let's not forget that. I mean I have seen it firsthand, how difficult
271 it is to do anything when it comes to environmental issues and to passing AB 32.... You know
272 how difficult it is, and also healthcare. Although we were very close to getting it done, but then it
273 was killed in the senate because, you know, the tobacco lobbyists had more power than we had,
274 and so that's –

275
276 **Ms. Marshman:**

277 The single-payer folks.
278

279 **Gov. Schwarzenegger:**

280 Exactly. That's right. And the nurses. But...I think that some agreement will come out of this,
281 and I think that the key thing now is to inspire them and to work with them to get the best
282 possible package. That is, I think, the most important thing. Even though it will leave, still,
283 millions of people uninsured, but it will be better than what we had.

284
285 **Ms. Marshman:**

286 Okay. Let's talk briefly about transportation. Caltrans is estimating that California needs a
287 minimum of \$500 billion over the next 30 years to tackle our—just our—priority transportation
288 projects, and that's on top of the prop 1B money, which is...already out there -- \$20 billion. Of
289 course, for us in Silicon Valley, this translates into what does it mean for BART. How do we—
290 how does California—get that money?...The infrastructure is so important to the business basis
291 of the state. How do we *do* this?
292

293 **Gov. Schwarzenegger:**

294 I think that everyone recognizes that California is number one in rebuilding our state. That's why
295 we are used as an example all the time. The rest of the country? They are not spending much
296 money on infrastructure at all. The federal government is spending very little money on
297 infrastructure.

298
299 As a matter of fact, they had a great opportunity with this economic-stimulus package, and they
300 put very, very little money into infrastructure, and that's why Gov. Rendell (D-Pennsylvania)
301 and Michael Bloomberg, the mayor of New York, and [I] formed a partnership to go and have
302 meetings with the Obama administration and to stress how important it is to rebuild America. We
303 have put our foot in the door. In 2006, the legislature, Democrats and Republicans, came on
304 board, something that I campaigned for, for years, to rebuild California, and finally came to an
305 agreement and passed the \$37 billion package, the Strategic Growth Plan package, and it went to
306 the voters. The voters approved it, which was really terrific, and they approved an
307 additional...\$5 billion in water bonds. Since then, you know, we approved almost \$8 billion [for]
308 the infrastructure and prisons, and the only piece of the puzzle to complete the whole thing was
309 water infrastructure.

310
311 We have just passed *that*, which was an historic accomplishment by the legislature. For four
312 decades, they have argued about this water infrastructure – canal versus no canal; to fix the Delta
313 versus not fixing the Delta; and to build more dams or not building more dams. All of those
314 kinds of things were debated for decades; but finally, action was created, and it's going to be put
315 on the ballot, and it will be on the ballot next November, and I hope that everyone here is, again,
316 and the people of California will jump at that opportunity, and approve those...bonds.

317
318 So we are very aggressive...compared to the rest of the nation when it comes to rebuilding the
319 state and kind of moving up to where we *ought* to be. But it's also correct at the same time to say
320 that there's much more that is needed. Because,...from one year to the next, it's that important;
321 but it is important because we have fallen behind. That's why we have, you know, bumper-to-
322 bumper traffic, and that's why we have levees that are, you know, very dangerously vulnerable
323 in California, because, for *so* many decades, they have not been strengthened, and we have 2,300
324 miles of levees. Most people don't even know we have all those levees. And we...need
325 affordable housing, and you need more schools to be built, and all of this needs to be done. So
326 there's a lot...more money that needs to be spent and invested in the future.

327
328 How are we going to do that? I think that it will be possible because I think now, since we got
329 the foot in the door, and now, since we have created public-private partnerships so that the
330 private sector can come in -- We have just seen the people approve the high-speed rail. I think
331 the people of California are very much into the...thing of "Let's move forward aggressively and
332 build our infrastructure," because they know, without infrastructure, we don't have an economy,
333 and we can't move forward. We get stuck. So I think the people have been behind it 100 percent.
334 I think the legislators, with a *lot* of work, and a lot of explaining, and campaigning and all this,
335 they also eventually get it, and they will approve those [kinds] of things.

336

337 My preference is that we take a certain amount of money, a certain percentage of our revenues,
338 and put it aside just for infrastructure, because that system of...pay-as-you-go is much cheaper
339 than when you have bonds. Bonds always cost you twice as much money, because it's like
340 buying a house. By the time you finish paying for it, it costs you twice as much money. So it's
341 wiser to just put the money aside and just pay as you go, and hopefully -- Those [kinds] of
342 initiatives have failed in the past; but hopefully, someone will put it on as an initiative, and it will
343 be successful, and it will go in that direction. because it's the only way we can...do it.

344

345 And if we need \$500 billion for infrastructure, for transportation infrastructure, I don't know.
346 But if you include high-speed rail and if you include also the whole trams and the trains and light
347 rail and all of those [kinds] of things, it *could* get to that amount. But I think it's important that
348 we pay equally as much attention to public transportation. You know, we've got to go and think
349 about the tram system, light rail, and all of those things, because that also helps us with the
350 environment by taking people off the road and making them travel that way.

351

352 So I will continue campaigning, and I just want to add that I will not, even though I have only a
353 year, a little bit more than a year, left in my administration,...I will not...stop campaigning for
354 rebuilding California. My journey and my...interest in helping California will continue even
355 when I'm out of office, and so I will continue promoting and campaigning on those issues, or if it
356 is government reform or budget reform or tax reform,...all of those [kinds] of things that I'm
357 interested in, I will continue working on those things from outside the office.

358

359 **Ms. Marshman:**

360 So you have a little over a year left. What...do you expect to do at this point, when you're out of
361 office? And what would you like your legacy to be? What would you like people to look back on
362 your administration and...see?

363

364 **Gov. Schwarzenegger:**

365 Well, you know, I'm not right now thinking that much about the legacy, because I still have a lot
366 of work ahead of me to be done. First of all, I think the important thing is that we, within the next
367 few months, make the legislators concentrate on tax reform. I think it's absolutely essential,
368 because if we look at our drop in revenues, these are self-inflicted wounds that we have in
369 California. It's not because of the economy. I mean, you know, we all know that the economy
370 goes up and goes down. The question is really, how do we prepare ourselves for those cycles?
371 And California has, for decades, not prepared itself, even though we know [there are] up-and
372 down-swings to come. So we don't have a rainy-day fund set aside so we have some extra
373 money when there's a downturn that we can cover, especially for education, and for some of the
374 vulnerable citizens....

375

376 We have a tax system that is very volatile. We are relying -- Fifty-three (53) percent of our
377 revenues come from income tax or capital-gains tax, which is crazy, because that is mostly paid
378 by rich people, and the rich people, you know, as soon as the stock market crashes, then there's

379 no income coming in, in California. So this is why you have a drop in revenues of 27 percent or
380 20 percent. Like this last year, 27 percent drop, even though the economy only has dropped a
381 little bit. We have an increase in the economic activities of like 2 percent instead of maybe 5
382 percent, but that's not as much as what we experience in drop in revenues. So those are all self-
383 inflicted wounds, only because the legislature refuses to address those issues.
384

385 Now I've talked about it for the last six years. I have campaigned on it for the last six years. I
386 even had a special election where I wanted to fix the budget system itself. Now I'm asking the
387 legislators to go in, to fix the tax system, to create more stability so we don't have those [kinds]
388 of huge drops. I asked them to have a rainy-day fund set aside. The tax commission—the
389 bipartisan tax commission—has made it very clear we need a rainy-day fund and we need to
390 change the tax system. Of course, as you can see, labor went immediately against, you know, and
391 the Democrats went against, you know, our—those—recommendations, and also the chamber
392 went against it. So they all went against it because they'd rather hold on to the status quo even
393 though the status quo doesn't work, but they just don't like to venture out into something that is
394 unknown.
395

396 The first thing that you got from both sides was, "But with this new way of recommendations,
397 how do we know that this works? It has never been done before."
398

399 I say, "If I would have done only the things that...have been done before, I would still be
400 yodeling in Austria, on a farm somewhere," (laughter) because everything that I have done has
401 never been done before.
402

403 I mean there was no Austrian that ever won a world body-building championship. There was no
404 one that was brought over by an Austrian publishing company to win the championships. There
405 was no one that had an accent that became the highest-paid...movie star. There was no one that
406 ever, you know, came from Austria, and became governor of the state of California. I mean
407 there's an endless amount of things that I've done. I've never asked myself, "Has this ever been
408 done? And therefore, let's not do it, because it has never been done." That's a stupid thing to say.
409

410 I mean you're limiting yourself. You're crippling yourself by worrying always about, you know,
411 what this – "You know, how do we know it works?" But that's part of the whole thing.... "Let's
412 do it." They make great recommendations. You jump in there. You change the law. That's what
413 you adopt. And then, as they always do with legislation, they make some tweaks. If we see that
414 there are certain revenues falling short in certain areas, then you bump it up there and you make
415 the corrections as you go along, and that's...when you talk about having the guts, looking at the
416 problem, and see if you've got to fix it. I mean the only way –
417

418 And I think, for instance, Silicon Valley has been known—has been known—to do things that
419 have never, ever been done before. And so if we can just translate that, and maybe all of you
420 should come over to the capitol, and have -- Like the Latino Water Coalition. They had the
421 protest out in front of the capitol. You should be out there and holding signs and saying, "Be

422 more daring!” That’s what made California great is by being daring and by being out there, and I
423 think that’s what the legislators need to do. So they’re...scared of everything, because their main
424 purpose is to get re-elected, and so they are afraid that if they screw up something, and if they
425 miss something, that they go back to their districts, and they don’t get elected. So that’s the fear
426 they live under. You know, as long as you live under the fear, and you don’t realize that political
427 risk-taking is not political suicide, that you *should* take risks, that’s healthy, and that’s good.

428
429 So I think those will be the debates in the next few months, to...make the corrections in the tax
430 system, to make the corrections in the budget system. Create this rainy-day fund, and...continue
431 on pushing for infrastructure; and of course the key thing is to campaign throughout the year, to
432 make sure that the infrastructure package, the water-infrastructure package, gets approved in
433 November. So those are the [kinds] of things, and also we will continue working also on
434 education reform, which we are in right now. This next week will be a very...important time,
435 where the legislators will sit down and will be having debates, and they will be voting on this
436 very daring and very historic kind of education reform, which the federal government is asking
437 us to do if we want to be competitive, and compete for this \$4.3 billion race-to-the-top money.
438 So I am all for that. I think these are very good things that the federal government has
439 recommended for us to change, and so we are campaigning also on that, to make sure that
440 they’re going in that direction.

441
442 **Ms. Marshman:**

443 Well, it sounds like you’re going to build an entire legacy in 13 months, and that will be
444 interesting. Carl, I think, would like to turn the questioning to the audience.

445
446 **Mr. Guardino:**

447 Thank you, Barbara, and thank you, Governor Schwarzenegger. Common ground and daring is
448 something that Silicon Valley and this governor have in common. We’re honored that you’re
449 here once again. We’d like several of our CEOs to have a chance to make brief comments and
450 [ask] questions on those common-ground issues that we both agree need to be addressed in the
451 next 13 months. And we’re going to start with a mutual passion of competitive districts and open
452 primaries, and Bob Haggerty, the CEO of Polycom.

453
454 **Mr. Haggerty:**

455 ...Governor, first, thank you very much for your strategic thinking and the way you’ve taken the
456 state forward through good times and certainly with the challenges that we’re facing. And I think
457 that we all are—in Silicon Valley are—quite concerned about the dysfunctionality of the current
458 system that we have in Sacramento. It’s *way* too hard to get things done. And the open primary
459 seems to have a promise that we can move more moderate legislators into...power, and be able
460 to have things move faster; because, you know, Silicon Valley is about getting things done, and
461 we know you’re in support of this.

462
463 **Q:** And we’d like to know, what can we do to help you get this strategic initiative through,
464 and help us improve the process up in Sacramento?

465

466 A: First of all, let me just say that you-all here in Silicon Valley have been very helpful and
467 have been great partners of mine. Many of the initiatives that passed in these last few years since
468 I've been governor [passed] because I got the help from the Silicon Valley. You guys have been
469 generous, and that's why, for instance, redistricting reform, that they have tried five times in the
470 past, and the sixth time, it worked, and it passed, even though by only a half a point. But it
471 doesn't matter. I always just say, as long as you win, it doesn't matter by how much. And I think
472 that this was a perfect example that if you're persistent enough, and if we all work together, even
473 though the parties --The Democrats didn't like it, and the Republicans didn't like it, the
474 redistricting, but we got it done, and you will see a huge change just because of that coming in
475 2011.

476

477 Not during my administration, but, you know, I always made it clear, I'm a visionary. I don't
478 think just about "What can I do while I'm in office, and what effect [will it] have while I'm in
479 office?" Because otherwise...I wouldn't have even gotten into the whole infrastructure and
480 building [thing]. because the water project, for instance, wouldn't be done until 15 years from
481 now. We start with the whole construction maybe two years from now, so I will be out of office
482 then. But it doesn't matter. It's about California and about California's future. So the
483 redistricting will have a great impact to bring the two parties closer together.

484

485 The next-most important thing is the open primaries. You know, where you have the top two
486 contenders competing. If they're both Democrats or both Republicans, it doesn't matter. It's
487 about the issues. It's about...how trustworthy are they, how much are they willing to go and
488 work for the people rather than for the parties and for this division. It's based on that, when
489 people elect them, rather than what is their party affiliation, which is, I think, all nonsense.

490

491 And when you talk about the...legacy, that's one of the things that,...I think, I want people to
492 look back and say, "That guy fought for issues, not is it a Democratic issue or a Republican
493 issue." To me, it doesn't matter. Is the environmental issue a Democratic issue? I think that's
494 bogus because the environment ought to be enjoyed by both Democrats and Republicans. So it is
495 with infrastructure or with education, law enforcement, all of those [kinds] of issues. So we have
496 to ask ourselves –

497

498 So open primaries is a key thing, and I think that the way to win that is by recognizing there will
499 be two main enemies there that will be fighting this initiative. One is the Democratic Party, and
500 the other one is the Republican Party (laughter). And...why is that? The Democratic Party, the
501 party officials, [there are] three, four people sitting there that run the party. They like to
502 determine...who should be elected, and [whom] they help to win the primaries, the same as in
503 the Republican Party. They sit there. There's the Jon Fleishmans and those guys that sit there.
504 They are real right-wingers. And they sit there and they make the decision, "This guy, we help;
505 this guy, we don't help." So this is how they fix the system. So the people in the end never really
506 get the best people to choose from, because they have a guy that is being elected here by the
507 Democrats who is way to the left, and then they have a guy [who] is way to the right, but they

508 have no choice of someone [who] is in the middle and is really reasonable and is able to bring
509 both of the parties together.

510
511 So you have a disadvantage, and this is why it takes so much effort to get anything done in
512 California. Everything is immediately – It’s where they draw the...line in the sand, and it’s like
513 Democrats versus Republicans. So I think that the more money we raise – I mean we need a
514 minimum of \$20 million in order to make this initiative win, and I will be campaigning up and
515 down the state to make sure that we raise this money. We will have town-hall meetings and the
516 whole thing, but that’s where you come in. I mean we all know that if we have the \$20 million,
517 we can win, because the parties will spend money against it, but not as much money as normally
518 they would, because they are also, at the same, it’s an election year, where they need to have
519 their candidates also win, so they will spend a lot of money on *that*. And so therefore I think we
520 have a very good shot, [but] it is a difficult uphill battle. There’s no two ways about it, but I am
521 absolutely convinced that we can win it, but we—I—need your help. I need your help to come in
522 big. It’s not just a little contribution in...this case. We’ve got to come in really big and I will be
523 coming to you and we will have fund-raisers and so on. Because this is something that is not, like
524 I said, good for *me*, but it’s going to be good for the future. If you want to do something for the
525 future of California, that is an *absolute* necessity, to make that win.

526
527 **Mr. Guardino:**

528 Governor, we’re right by your side on this one. It’s a high priority for our executive board and, I
529 believe, all of our 300 members....Thanks for your leadership in taking this on.

530
531 You mentioned water earlier. We want to talk about the strategy on that. If Cele McCloy, CEO
532 of Integrated Science Solutions, could tee up this comment and question?

533
534 **Ms. McCloy:**

535 Thank you, Carl. Governor, you’ve mentioned the water bond and water-policy issues twice in
536 your comments so far today, and I’d like to thank you for your leadership after so many years of
537 inaction and degradation, actually, of the whole water infrastructure. So, that being said, and it’s
538 an \$11 billion price tag, so it’s not exactly chump change, and we’re not exactly in [an]
539 environment where there’s a great deal of extra cash lying around, and people are feeling a
540 pinch.

541
542 **Q:** Strategically, how do you think *you* are going to implement getting this passed? And then
543 the second part of the question is, what can we do to support you?

544
545 **A:** First of all, let me just make it clear that the \$11 billion is only part of a \$40 billion
546 infrastructure package, so we are leveraging the rest of the money, I mean, from federal
547 government and from local money. Users will pay some of that. So...it’s really a huge
548 infrastructure package that really will redo the whole water system,...really making it move from
549 [the] \$18 million project that it is now....The water infrastructure that is in place was the most
550 sophisticated plumbing system in the world, without any doubt; but, in the late ‘60s, early ‘70s,

551 for 18 million people. Since then, we have grown to 38 million people, *and*, by the time the
552 project is finished, which will be 15 years from now, and there will be some delays one can
553 expect, as we always have with construction. So it could be later than that. By that time, we will
554 be 45 million people, maybe even 50 million. We have no idea. But people, experts, say within
555 the next 20 years, we will go up to around, you know, 45, 50 million people. So therefore we
556 have to think big, and so this...is why we fought for the big package rather than just to piecemeal
557 the whole thing.

558
559 The other thing that is important to know is that money will not be spent right away. So it's not
560 like the bonds pass, and then immediately go out, and you start spending money. No. It would
561 take two years to get the permits. *Then* they will start restoring the Delta, which doesn't cost all
562 that much money. What will cost a lot of money is to build the infrastructure, which is to build
563 the dams and to build the canal and those things. Those things will not be started until 2014, I
564 will say. So there will be not much money at all...being used until 2014. By that time, we know
565 they come, and we will be back. So we don't have to worry about that.

566
567 It's also, in the...bonds, the provision is that half of the bond can only be sold after 2015, so that
568 people know that not all of this money will be spent right away or will be used right away. So
569 those bonds will not be sold for years and years and years to come. So this is the important thing.
570 So therefore there is no money being used in general fund. So I think that's the key thing, to
571 explain that to people.

572
573 Number two, the only way this is going to win is by doing exactly the same thing as we did in
574 2006. Democrats and Republicans have to go up and down the state and campaign together,
575 because when...the people see that Democrats and Republicans work together, then they don't
576 feel suspicion. You know, so it's one party or the other, one attacking, and the other one saying,
577 "No, it's good." All this will not happen. So they will be campaigning together, and also we
578 made an effort, and why it took so long to negotiate is because all of the people that normally
579 were enemies of those kinds of infrastructure packages, we brought in. So they all became part of
580 the negotiations. They put in *their* ideas, and we included those ideas, which was very important.
581 And they came in with some *really* good ideas, I would say; and so everyone sat there at the
582 negotiating table. Everyone was heard. And even though everyone agreed that they didn't get
583 100 percent of what they wanted, but they ended up with 60 or 70 percent, and everyone got 60
584 or 70 percent, and therefore everyone was happy, and we could move forward, and that's the
585 only way you can do [it] when [there are] so many different kinds of stakeholders involved. And
586 so I was very happy that they finally got the whole thing done, and so you will not have the
587 environmentalists going out and attacking the project, or Democrats attacking the project, or
588 Republicans. See, you will have them all come together and campaign together and you will see
589 ads together. You will see television commercials where they...will be together. So...I think it's,
590 again, a doable campaign. Again, very challenging, because of the very reason that you just said,
591 that there will be some people out there from the far right that will say, "Isn't this the wrong
592 thing to do now, to spend more money?"

593

594 And my argument always will be, “No, this is *investing* money.” There is a difference between
595 spending money and investing money. You spend money and then it’s gone. Year after year, you
596 keep spending money on a certain program. Then it’s gone. But, in this case, it’s investing
597 money, and investing in the future of California. And so we just have to sell that idea. And,
598 again, it’s important that we raise enough money so that we can afford a good campaign, and to
599 make sure that it wins.

600

601 **Mr. Guardino:**

602 And, Governor, thank you for your leadership on prop 1C, the housing bond, in 2006. We both
603 agree that we need a permanent source for affordable homes in California. We’ve asked Mary
604 Doyle, our issue champion, the general counsel and senior vice president of Palm, to address this
605 and pose a question.

606

607 **Ms. Doyle:**

608 Good afternoon, Governor. It’s wonderful to have you here and to hear your thoughts and also
609 very great to hear...that you are concerned about affordable housing, as we are. It is a persistent
610 need throughout the state, but particularly here in Silicon Valley, where our CEOs feel it most
611 keenly in trying to recruit out-of-state and out-of-region employees.

612

613 With that said, we are convinced that we can’t afford, over the long term, to bond our way out of
614 this problem as we did with prop 1C, which is going to be—has been—wonderfully effective.
615 Thank you. But...we’re looking and hoping for a more stable, long-term, pay-as-you-go, as you
616 would say, fix to this problem. And that’s why we support SB 500, which is being carried by
617 Senator Steinberg (D-Sacramento), and is expected to raise as much as \$2 billion a year to create
618 around 30,000 new homes annually in addition to 11,000 new housing opportunities for large
619 families and individuals.

620

621 Last year, as I’m sure you know, at your direction, Lynn Jacobs, the [Department of] Housing
622 and Community Development director, traveled our state to find out what people were thinking,
623 and...what their thoughts were about solving our affordable-housing needs. And one those
624 listening sessions was actually hosted by Palm at our facility here in Silicon Valley. There, 100
625 people came out to provide input to Director Jacobs, and she, of course, received thousands of
626 various inputs, which she’s culled down to two, which are represented now in SB 500. We think
627 that, through her efforts, you’ve laid a solid foundation for solving the affordable-housing issue
628 for the long term. And [with] her efforts, and those of Senator Steinberg, and, coupled, we hope
629 and expect, with your direction and leadership, we could do something really lasting and
630 meaningful on housing and affordable housing in this state this year, and we think the table is set
631 for action in the coming months.

632

633 **Q:** We want to get SB 500 and a permanent source of funding for affordable housing to your
634 desk and signed. How can we help [make that] a reality?

635

636 A: First of all, we are working with Sen. Steinberg and I think that he has some great ideas
637 there, and, you know, I'm looking forward to [our working] together...to resolve this, and to
638 come up and to sign this bill, SB 500, because I'm a big believer in affordable housing. I think
639 we have seen -- When we had the bond in 2006 on a ballot, the thing that everyone thought
640 would *not* pass was affordable housing; but, in the meantime, it passed with the highest numbers.
641 So, as you can see, the people in California are very much interested in affordable housing, and
642 this is why I think that SB 500 is also going to be successful in the end, and it's going to get in
643 good shape down to my desk, so I can sign it. So we are working together because I think that
644 Steinberg is doing a great job in all of those kinds of areas.

645
646 There are many different issues that he is into that I love. One of them is career-based education.
647 Steinberg is very much into that, and so we are going to work together to create some good
648 legislation together for me to sign, also, to help our young people not to be programmed by
649 outside forces that you need a four-year college, and this is the only way you'll get accepted in
650 society. But there are some people that are interested, and have a specific goal in mind, where
651 they need a four-year college to get to their goal. But, at the same time, there are kids that have
652 another goal where they don't need the four-year college, where they maybe need a community
653 college, and we need some career-based education, and stuff like that. So he and I...are in sync
654 also on that.

655
656 There are many issues like that, that we are going to work on this year, and I think a lot of things
657 could be accomplished this year because of it. When we say "this year," I am counting not *this*
658 year, because (laughter) we already have seen difficulties for the legislators who come back.
659 They have to come back next week in the Assembly to go and vote on the education reform, so I
660 don't know if they're going to be in the mood to work much before Christmas, but I think that in
661 January, we will kick it off with a big bang, and I will have my State of the State address, and do
662 my budget presentation, and then really get to work, and try to bring Democrats and Republicans
663 together as much as possible, and affordable housing is definitely one of the things that we *will*
664 accomplish. Absolutely.

665
666 **Mr. Guardino:**

667 Governor, last February, thanks to your tenacity, we had a huge breakthrough in the budget deal
668 on single-sales-factor apportionment to tackle that issue. Since it looks like it might come back to
669 be challenged, here's Shellye Archambeau, the CEO of MetricStream.

670
671 **Ms. Archambeau:**

672 Thank you, Carl, and thank you again, Governor, for coming and spending your afternoon. We
673 really appreciate hearing your views on all these important issues. As Carl said, we were all very
674 pleased to see the measure that you supported for the...single-sales-factor apportionment change
675 to be made. This is very important to us here in Silicon Valley, and whenever you have
676 companies that have high [wages], high investments, etc., like technology, like biotech, etc., this
677 makes a big difference to us. So we're all very concerned about the fact that there's now a
678 coalition of people trying to indeed repeal this.

679

680 **Q:** So we want to understand, from your perspective, how important is this to you? And
681 what can we do to assist you in ensuring that this single-sales-factor actually remains in place,
682 and enables us to indeed be competitive here in the state of California?
683

683

684 **A:** As you know,...it was our administration that has fought for it, and we feel that
685 companies that employ people here, and that do business here, should not be punished when
686 they...make their sales outside the state, but employ all these people here, and really help us
687 stimulate the economy. So that's why we have changed it.
688

688

689 Now it's clear that because we are, again, at least anywhere between \$21 billion and \$24 billion
690 short this year, this coming year, meaning that this fiscal year right now, probably around \$7, \$8
691 billion, and then the rest of it, the next fiscal year, so that the people are going to look at those
692 things, not as much...trying to get rid of it, but to postpone it for a year or two. I have heard that
693 kind of a conversation, and [that] kind of a suggestion. So this will come up.
694

694

695 But, at the same time, I have to tell you, I passed proposition 49 in 2002, which is the After
696 School Education and Safety [Program], which [was] \$428 million, which now is around \$500
697 million, for after-school programs. It passed with 57 percent of the votes; and, since that day, the
698 legislators have been back, and came to my office every year, and said, "Let's repeal that. Let's
699 put it on a ballot, and if the people vote against it,...let's take that money and use it for
700 something else."
701

701

702 So, yes, there will be conversations like that. Yes, there will be discussions like that. It's
703 inevitable. Wherever you can grab money when you are short of \$22 to \$24 billion, you look at
704 all those things. What will happen, and...we have no idea, and I'm going to continue fighting for
705 those things, because I think it's important for the state; but, at the same time, one has to also
706 recognize that we've got to go and figure out a way of working with those shortcomings, with
707 these revenue shortcomings, and so everything will be, again, on the table. I'm not going to say
708 to anyone, "This is off the table," because you never start a negotiation by saying, "This and this
709 and this [are] off the table." But we're going to have a reasonable conversation. We're going to
710 make it very clear that we have to do more to stimulate the economy, to help companies to stay
711 here, to make companies hire more people,...that we should have tax incentives for everyone
712 that hires new people, and stuff like that. So we will actually send the conversation in a different
713 direction rather than taking something away;...but it will be very interesting negotiations coming
714 up after January.
715

715

716 **Mr. Guardino:**

717 The five words that I most hate to say – We are out of time. But we have a tradition at the
718 Leadership Group. We start on time. We end on time. We respect *your* time, so that the governor
719 knows that we will keep his busy life on time, and you, as CEOs and senior officers, know the
720 same. I think Tom wanted to make a make a quick comment on that point. He is the incoming
721 chair of my board, and I like being employed! Tom, you have a quick...?

722

723 **Mr. Werner:**

724 I just wanted to drive that last point home, that what that means for SunPower, as an example, is
725 an \$18 million penalty for employing more people in California....It's literally that. So that can't
726 make sense.

727

728 **Mr. Guardino:**

729 First, will you join me in thanking once again our governor, Arnold Schwarzenegger
730 (applause)...Governor Schwarzenegger, you have been so attentive and supportive of the
731 innovation economy that we...want chat with you because we think you are a resident here, but
732 we do want to leave you with two parting gifts, if we may. One, each of these CEOs and senior
733 officers here today have taken a moment to sign the inside of this book about our beautiful state,
734 *California: a Visual Journey*, that we would like to present to you as a small token of our
735 appreciation for your visit today. And second, for those late-night negotiations on budget and
736 challenging issues, when you get hungry (laughter), we know there's nothing healthier than a
737 very small chocolate bar that we would like to give to you.

738

739 **Gov. Schwarzenegger:**

740 Well, I just talked about prevention (laughter) in healthcare. I mean what is that? But thank you
741 very much. Thank you. I appreciate it. It's great to be here with all of you, and I'll be back
742 (laughter). I promise you that. And just want to say...that no matter how difficult it is right now
743 to govern, you should also know that I have never had a more interesting and exciting and
744 rewarding job than being governor of California. I enjoy my job thoroughly. I am having a great
745 time in there, and I always find some laughs, also, because that's my style, and so I'm looking
746 forward to working these next 13 months on your behalf, and I can guarantee you I will be
747 fighting all the way. So thank you very much. Thank you....

748

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/WPP

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