



**Russell Goldsmith, Chairman & Chief Executive Officer  
City National Bank  
Remarks at Downtown Los Angeles Rotary Club  
City Club  
March 11, 2005**

*[Introduction by Ben Tunnell]*

Thank you, Ben. I'm delighted to join you today. On behalf of City National Bank's 2,400 colleagues, I want to express my appreciation to the Rotary Club for today's invitation and to all clients and colleagues of City National Bank.

For 96 years, LA 5 has played an important role in building the social and economic vitality of Los Angeles. We appreciate and applaud what the Rotary Club has done and is doing to improve our community.

City National Bank is also committed to this community and has been since we opened for business 51 years ago. The company was founded by a small group of Los Angeles entrepreneurs who set out to create a new kind of bank – a bank that would support small and mid-sized businesses, professionals, entrepreneurs and investors as well as this community.

I'm pleased to report that – thanks to thousands of such clients and so many talented bankers – that remains our focus and has enabled City National to grow into the largest bank headquartered in L.A., and the second largest independent bank headquartered in the state as a whole. We now have \$14 billion in assets and 52 offices, not only here in Southern California but also in the San Francisco Bay Area and New York. CNAM and our 11 affiliates manage or administer over \$35 billion in client investment assets.

In addition, as you may know, we recently expanded our longstanding commitment to downtown L.A. ARCO Plaza has become City National Plaza, and soon it will house more than 800 colleagues – about one-third of the bank’s workforce -- in our regional banking center and administrative headquarters to better serve our Los Angeles clients.

Soon we will make a further commitment to downtown Los Angeles by opening another banking office right here on Bunker Hill.

Our decision to expand in the heart of downtown Los Angeles underscores our confidence in both this city and California and reflects City National’s position as California’s and L.A.’s Premier Private and Business Bank.

This is, as you know, a remarkably good place in so many ways to live and work.

- California is the sixth largest economy on earth.
- Our state is a leader in innovation and invention in design for so many things from apparel to cars from toys to laser-guided missiles ... a leader in industries from aerospace to biotechnology ... from wine to wet suits.
- Not only are we the entertainment capital of the world, we are America’s international gateway. The Los Angeles and Long Beach port complex is the largest in the nation and No. 3 in the world.
- Los Angeles County alone is the 17<sup>th</sup> largest economy in the world.
- In L.A. County there are more than 310,000 businesses, and 80 percent of them are entrepreneurs who employ fewer than 10 people.
- We’re blessed with good weather, great universities and the No. 1 college football team in the nation is right down the street!

We clearly enjoy some very distinct advantages here in Los Angeles and throughout California, but we also face significant challenges.

As so many of you know, some of the small and mid-sized businesses, professionals and entrepreneurs who help drive California's economy are having challenges and doubts about living and doing business here. And many of them are being unduly hampered in their ability to get things done.

- Many of these challenges confront the whole state, not just L.A.
- Some companies have already moved a lot of good jobs out of California. Others like AMGEN and Countrywide, have announced that any future expansion will take place outside of California, taking the potential for those good jobs and added tax revenue with them.

Let's face it: For many years, California was able to attract so many businesses and create so many jobs on the appeal of our climate and the abundance of our natural and human resources, that the political and business leadership largely took our economy for granted.

That's just not something we can afford anymore.

Other states and other nations are trying to take for themselves the prosperity and jobs and investment capital that too many Californians take for granted and they're armed with some sobering facts:

According to one survey:

- The cost of doing business here in California is 30 percent higher than in neighboring western states, and
- California's regulatory costs alone are 105 percent higher than the western state average.

Of course, we can argue over these numbers, and of course California still has many strengths – 37 million people, a strong and diverse economy that creates lots of jobs through small and mid-size businesses, the lion's share of venture capital investing – and much more. But we clearly have challenges and problems that need to be addressed.

Here in Los Angeles and throughout California, I believe that we must alter the political agenda and set higher expectations for all of our stakeholders: the private sector, labor, local governments, politicians in Sacramento and Washington, D.C., and the non-profit sector.

We must all work together in a much more constructive private and public partnership to enhance the economy of California. If we do that, then we can afford more of our enlightened social agenda.

Those of us in the private sector need to be more insistent and active in how and where and how productively government spends our tax dollars. We can't wait for ARCO or Security Pacific to fight our battles anymore.

For example, in 10 weeks, Los Angeles will choose a mayor. The field has been reduced to two men. We should demand to know what their priorities are and, in particular, how they're going to protect and grow our economy.

What are they actually going to do to enhance public safety and pay for the 1,000 more police we need? What are they going to do to enhance the ability to do business competitively, safely and effectively in Los Angeles? In my view the Mayor, for example, has made some improvements and has done no harm to our economy.

Another issue that is an indicator is inclusionary zoning, which is – in my view -- the wrong way to achieve an important goal of more affordable housing. These and other important issues need to be addressed by the candidates. We need to know where they stand and how they will affect our economy.

We all know public safety is a prerequisite of economic growth and the most basic requirement of government.

Following the rejection of the ballot proposal to increase the County sales tax and a lot of maneuvering and posturing, I was pleased to see that Mayor Hahn has a new plan to come up with enough money to hire an additional 670 police officers.

That is a strong start and a good litmus test in this campaign. The business community should press the City Council to find a way now to fund the level of police protection that L.A. requires – because we're not there now.

As you may have noticed, on my lapel is a pin – a blue ladder. It is City National's logo, and it represents our company's commitment to our clients and our communities – a commitment at City National to help them on their Way Up.

Knowing that the Rotary Club is also committed to The Way Up for your members and our community, I want to share with you today four things that we at City National believe should be done by government to enhance our state and local economy on The Way Up.

1. State and local government must regulate the economy and its businesses more responsibly and reasonably, more productively and competitively with growth of the economy and good jobs as a top priority;
2. Government must prioritize its spending of our tax resources more wisely;
3. State and local government – like private enterprise – must take a fresh look at how they operate and how they are structured in order to become more productive, just as we all do in our businesses.
4. Finally, California needs to get its fair share from the federal government.

To get these things done, business, labor, government and the nonprofit community need to work together – beyond the old labels. Let's grow the pie rather than fight over how we slice the pie.

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First, let's talk about regulating more responsibly.

I'm not opposed to government regulation. To its credit, California is a truly compassionate state, often on the leading edge of the great issues of our day. I'm proud that we have higher expectations for our environment, for a decent minimum wage, for adequate health care, and so forth.

But California can't afford to create a regulatory system so complex, expensive and non-competitive that it drives companies – and jobs – elsewhere. We can't overly burden Californians' ability to get things done. We are in a competitive national and global economy and we can only carry so much weight in this race before we fall behind.

Mandatory health care ... paid family leave ... inflexible overtime rules, workers' compensation benefits ... they are all good ideas and well-intentioned, but does anyone in Sacramento stop to ask how we can make them all affordable?

Does anyone stop to ask whether it's fair or smart to pay for so many of these social initiatives with hidden and not-so-hidden taxes on small business owners and their employees?

I have a modest proposal: The state Legislature and local government should be required to produce an "economic impact report" for every legislative proposal they are considering.

Just as environmental impact reports anticipate the consequences of major land developments, this requirement would calculate in advance and for the public the impact of proposed governmental regulations and programs on California jobs and its economy.

You and I try to weigh all of the costs and benefits of our decisions every day before we make them. Our lawmakers should do the same before they vote on them.

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Second, we must ask government – at all levels – to invest our tax resources more wisely.

According to California's non-partisan Legislative Analyst, the state's per capita spending -- which adjusts for both inflation *and* population growth -- has increased by about 17 percent.

Yet school test scores here in California still rank near the bottom nationwide, and our infrastructure has suffered years of neglect.

When people began to arrive here by the millions in the 1950s and '60s, California built freeways, aqueducts, state-of-the-art schools and a university system that promised a tuition-free education to every student who qualified.

Unfortunately, in spite of ever-bigger budgets, the state has not done a good enough job of maintaining, renewing, expanding and modernizing our infrastructure in transportation, energy, education, healthcare and even water.

Transportation is a good example. In 1982, the average Southern California driver lost 47 hours in traffic congestion. By 2002, that had nearly doubled to 93 hours.

Studies show that traffic congestion costs Californians \$5 billion a year in lost time, lost productivity, extra fuel, car repairs and so forth. Yet per capita highway spending here in California ranks dead last among the 50 states.

The challenge is growing along with our population. Each year, California is adding about 600,000 people. The state's own infrastructure plan says we'll need to invest \$54 billion for education, transportation, water, public safety and the like ... in only the next five years.

Whether that number is totally correct is not the issue. Government needs to make better use of its tax revenues, both in Sacramento and here in L.A. Let me give you an example:

- The L.A. Unified School District has an annual budget of \$13.4 billion, and yet it ranks among the least effective in the nation. It's not simply how much money, rather it is how productively – or not—government spends it.

Surely, we can do better. We must have higher expectations – and demand better results – from government and from its leaders and its employees.

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To have a more responsive and more productive public sector, my third suggestion today is that we also need to take a fresh look at the very structure of government and how it operates.

With 58 counties, 339 state boards and commissions, 500 cities, 983 school districts and 4,700 special districts, California's government is hard to understand and expensive to operate.

For example, today someone who wants to open a gas station in California has to register or obtain permits from at least nine different agencies.

It doesn't have to be that way.

The state of Washington, for example, has introduced a system that reduces all of the business licensing paperwork down to one form. And it's available online.

We also need to make state and local government both more efficient and focused on the real priorities.

I think Governor Schwarzenegger deserves credit for introducing a state government reform package. It's a much-needed start, but only that, so far. It will require a lot of dialogue, analysis and energy from the business community and both sides of the aisle if the governor is going to get things improved in Sacramento.

Here in Los Angeles, we should look at a structure where part-time LAUSD board members who are responsible for a \$13.4 billion budget are paid \$24,000 per year while members of the Los Angeles City Council oversee a budget only half as large, yet they are paid \$130,000 per year and work full time.

Surely, something's wrong here. Both structures can't be right. And neither is working very well.

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Fourth, if we are going to fund investment in California, we shouldn't have to do it alone.

We should be able to count on our fair share of U.S. tax dollars to help meet California's pressing needs.

In 2002, Californians sent about \$60 billion more to our nation's capital in federal taxes than the state received in federal spending. That may not sound too bad to you, but consider that California ranks 45th among the 50 states. For every tax dollar that you and I send to Washington, D.C., we're getting back just 76 cents.

By comparison, the citizens of New Mexico got \$2.37 for each \$1 they sent.

And Texas received 92 cents.

If California had collected the same 92 cents as Texas, we'd have received \$40 billion more per year than we did.

The fact is that California is now subsidizing the rest of the nation ... and we've been doing so for a long time. I'll give you two examples: Homeland Security and Healthcare.

First, Homeland Security: This state is home to some of America's most notable and vulnerable landmarks (LAX, Golden Gate Bridge, Disneyland, Port of Los Angeles/Long Beach) and yet a state like Wyoming will get seven times more – on a per capita basis – than California in allocated Homeland Security funds. California is in the bottom 20 percent of per-capita funding for homeland security, according to Time magazine.

We also need more federal funding for healthcare. Declining federal reimbursement from Medicare coupled with the sharp rise in the number of uninsured hospital patients has had a devastating impact on California's healthcare system. Since 1990, 70 of our hospital emergency rooms and trauma centers have closed. In LA County alone, nine hospitals have shut their doors since 1993.

Twice during his administration, President Bill Clinton helped to rescue LA County's healthcare system with the infusion of about \$2 billion dollars in federal aid. That didn't solve the problem; it just postponed the day of reckoning for our local leaders. But those federal funds are due to stop coming this summer, and that would place our county's healthcare system at tremendous risk.

It's time for all Californians to demand more from Washington. Our 53-member House delegation is larger than that of any other state. But they don't really work together. We should expect them to work together as Californians, rather than fight as political partisans when it comes to securing federal support for California.

It's also worth noting that Californians during the last election cycle donated \$240 million to the two major political parties and their candidates from all over America we gave the most in the nation. If politicians want campaign donations from you and other Californians, they should be told to treat California fairly after the election is over.

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I urge you to put this on your agenda for every conversation for every candidate you meet for Congress or the Senate.

California's economy is diverse, creative and strong. Nowhere is that more apparent than right here in Los Angeles.

There is, in fact, no better place to live and work. But a strong economy must be nurtured, not taken for granted; it is the responsibility of every sector – public and private, local and national.

A strong economy creates jobs, funds critical services and strengthens the social fabric of our community at all levels.

If you agree with me, I urge you to speak up as I am doing today. That also means fighting the apathy that produces a 26 percent voter turnout in Los Angeles. That means government, business and labor leaders need to join forces constructively. It means that we need to set forth higher expectations and hold accountable those who aspire to lead Los Angeles, California and our nation. That's the way up for us all.

Thank you very much.

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