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## Research Article

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# California's 2011–2012 Budget: Balancing the Budget Behemoth

**Abstract:** This report begins with an explanation of California's budget process as well as an overview of the 2010 election's impact over that process. It is followed by a narrative of how the budget process played out this past year, an analysis of the enacted budget, and an outlook for the future.

**Keywords:** budget; budget politics; governor; Jerry Brown; legislature; western state budget report

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## 1 Introduction

In January 2011, Governor Jerry Brown submitted his proposed FY 2011–2012 budget. The estimated \$25.4 billion shortfall stems from the combination of an \$8.2 billion deficit from the current year's 2010–2011 budget along with a \$17.2 billion projected revenue gap for the upcoming fiscal year. To balance the budget, Brown proposed a combination of severe budget cuts, along with the extension of a series of temporary tax increases, but only if approved by California voters. His proposed budget also includes a \$1 billion reserve, which is why some observers in the media have reported a \$26.4 billion deficit.

## 2 The Budget Process in California

Budget-making in California is a constant and ongoing process. At any given time, some branch or agency of state government is analyzing how much revenue the state is raising (or expecting to raise) through taxes and fees, and how much of that revenue can be allocated to meet the state's numerous (and growing) obligations.

As such, California is always grappling with three separate budgets. The “current year” budget refers to the approved budget for the current fiscal year (FY 2010–2011). This budget will be in effect through June 30th. The “budget year” budget refers to the proposed budget for the next fiscal year (FY 2011–2012) beginning on July 1st. Finally, the “planning year” budget refers to future budget calculations being worked on by the state’s executive departments for the subsequent fiscal year (FY 2012–2013).

This whole process begins in the Executive Branch with the California Department of Finance (DOF). The main function of the DOF is to assist the governor in preparing and managing the state’s budget.

Shortly after the beginning of the fiscal year, the DOF solicits budget requests from the various departments of state government for the following fiscal year. By early fall, all departments respond with their proposed budgets and the DOF begins to conduct hearings and makes revisions to those requests. Upon completion of that process, the DOF forwards the budget numbers to the governor. The governor is then required to submit his budget to the legislature by January 10th. The time this activity commences in mid-summer up to the governor’s formal budget proposal to the legislature in early January is known as the “planning year” budget.

Once submitted to the legislature, the proposed budget (now the “budget year” budget) is referred to the Legislative Analyst’s Office (LAO) for review. Similar to the Congressional Budget Office, the LAO is tasked with presenting the legislature with independent, objective, and nonpartisan analysis of the state budget. In order to do this, the LAO typically examines the Governor’s Budget for 1 to 2 months before the respective Assembly and Senate budget committees hold hearings on the proposal. During that time, LAO budget analysts frequently highlight areas of either inadequate or excessive spending in various departments.

Upon completing their review, the Assembly Budget and the Senate Budget and Fiscal Review Committees (two of the most powerful and prestigious committees in the California legislature) review the budget and the accompanying LAO analysis. Subcommittees with particular expertise in certain areas of state finances examine those areas where the governor and LAO disagree on the appropriate levels of funding (typically, areas of agreement are not examined closely). Majority votes are required to make changes to the budget document in subcommittee, and the LAO monitors all such changes closely for their potential fiscal impact.

Meanwhile, in May, the DOF utilizes updated economic forecasts for the coming fiscal year to revise and fine-tune its budget numbers. This is known as the “May Revision” or “May Revise”. After receiving the May Revise, subcommittees

make their final tweaks and report their recommendations to the full committee. The full committees then approve the subcommittee reports (usually quickly and without controversy) and send them to the floor for consideration.

Due to the inevitable fact that the Assembly and Senate will produce different budgets, both chambers typically approve their respective budgets quickly and without controversy. This is because all parties know that the real battle will be over the conference committee report.

In conference, intense lobbying occurs over funding levels. The conference committee may vote to provide less than the spending approved by either house for any given Executive department, but not more. In addition, the Executive departments have a strong incentive to get their budget passed identically in each chamber, because only funding differences between the Assembly and Senate are usually examined. Once the conference report is agreed upon, the compromise budget is sent back to the Assembly and Senate for adoption.

Since the adoption of Proposition 25 in 2010, budgets that do not contain tax increases may be passed by a simple majority of both houses (41 in the Assembly and 21 in the Senate). However, if tax increases are included in the budget, the state constitution requires a 2/3 vote of each chamber for passage (54 in the Assembly and 27 in the Senate). If approved, the budget is sent to the governor for his signature.

At this stage, the governor may choose to exercise his line-item veto authority. Although the governor is not allowed to zero-out funding for agencies or programs mandated by law, he or she is allowed to reduce spending levels. However, the governor is not empowered to increase spending on any line-item. Line-item vetoes – like regular vetoes – can be overridden by a 2/3 vote of both houses of the legislature, although this is very rare. Once the budget is adopted and the new fiscal year begins, this becomes the “current year” budget.

Although the California Constitution requires the legislature to adopt a budget by June 15th, and the governor to affirm his signature by July 1st (the beginning of the new fiscal year), the budget is almost always late. Since 1968, the state has only enacted a new budget by July 1st in 15 out of 42 years. In 2007, the budget was “only” 55 days late (Hussey 2009). By 2008, as the state’s economy began to suffer and both parties dug in, a budget deal was not signed by Governor Schwarzenegger until September 23rd – a record-setting 85 days after the fiscal year began (Hussey 2009).

Further complications may arise during this time. For instance, when revenue decreases over the fiscal year or falls below current year revenue projections (which sometimes happens just weeks after the legislature passes a budget), the governor is empowered to call the legislature into special session to make mid-year revisions to the budget.

### 3 Balanced Budget Blues

Like most states, California is constitutionally required to produce a balanced budget every year. However, unlike most states, California is heavily and disproportionately reliant upon income tax revenue (both personal and corporate) to fund its operations.

This creates a boom-and-bust cycle where the state is flush with money when times are good (e.g., during the “dot com” bubble of the late 1990s and the housing bubble of the mid 2000s), and becomes mired in huge deficits when times are bad (e.g., during the “dot com” bust of the early 2000s, the housing bust of the late 2000s, and the “Great Recession” of today). During these difficult times, because California cannot run a deficit like the federal government, the state is forced to choose between tax increases opposed by Republicans and major spending cuts opposed by Democrats.

### 4 Supermajority Requirements

Over the past 50 years, the Democratic Party has dominated the California legislature. Republicans have only controlled the California Assembly for 4 out of the past 52 years. In the Senate, Republicans have commanded a majority in only 2 out of the past 54 years. Given this legislative dominance by the Democrats, one would assume that Democrats would be in the driver’s seat when it comes to making difficult budgetary decisions.

However, until the passage of Proposition 25 in November 2010, California was one of only three states – along with Rhode Island and Arkansas – requiring a legislative supermajority to pass a budget.<sup>1</sup> This allowed legislative Republicans – a minority in both chambers but still holding more than 1/3 of the seats – to wield significant influence over the budget process (Hussey 2009). This is one of the reasons why budgets have been so late in the past. With this requirement removed, Democrats should have increased influence over both the shape and timeliness of state budgets in the future.

However, despite this victory for the Democrats, Republicans still possess an effective veto over taxation. Although budgets can now be passed with a simple majority, the state constitution still requires a 2/3 vote to pass any tax increases.

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1 National Conference of State Legislators, <http://www.ncsl.org/Default.aspx?TabId=12654>.

To complicate matters, in recent years, members of the Republican caucus in the Assembly and Senate have been unwilling to support almost any tax increase for any reason.<sup>2</sup> By refusing to agree to any tax hikes, Republicans are generally able to force Democrats into finding other solutions to balance the state budget. Most commonly, Democrats respond by refusing to make major cuts in state expenditures favored by their constituencies, and as a result, the state's budget limps along year after year, held together by accounting gimmicks and inflated estimates of future tax revenue (Hussey 2009).

However, such a remedy may not be possible this year. Given the \$25.4 billion deficit the state currently faces, many Democrats feel that tax increases are necessary to prevent devastating cuts to state services. In an effort to build public pressure on Republicans, Democrats are holding public hearings all over the state on the implications of an all-cuts budget.

## 5 Polarization of the Legislature

The difficulty of reaching agreement across the partisan divide is made worse by the extreme polarization of views within the California legislature. For the most part, liberal Democrats are facing off against conservative Republicans (although the Republican caucus is more homogeneously conservative than the Democratic caucus is liberal). Unlike some states, where the parties play “between the 40-yard lines”, in California, the parties occupy distinctly opposite ends of the field.

The chief reason for this is the ideological/partisan segregation of the electorate. With the exceptions of Orange County and San Diego County, coastal areas of the state tend to be overwhelmingly liberal from the Oregon border to Los Angeles. This liberalism is anchored by the large-population Democratic strongholds of San Francisco and Los Angeles. Interior California, however, has traditionally been much more conservative. As a result, it is very difficult to draw competitive state legislative districts. Local districts that are compact and serve “continuous communities of interest” tend to be overwhelmingly Democratic or Republican (Douzet et al. 2008). As Korey (2010) notes, this problem is made worse by the bipartisan gerrymander of districts that followed the 2000 Census.

In their book, *The Coming Age of Direct Democracy*, Baldassare and Katz (2007) discuss the significant consequences of this gerrymandering scheme.

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<sup>2</sup> This is hardly surprising given that primary challenges and recall efforts were commonly directed to those Republicans who supported tax increases in the past.

They say, “The scheme worked, strengthening both parties’ grip on their districts. The lack of bipartisan contests increased the role of party primaries, with nominations often going to the parties’ most extreme, activist members. Moderates were pushed out, and the parties became more ideological – Democrats more liberal and Republicans more conservative – with successful candidates showing little interest in compromise or finding common ground.” (p. 24).

In response to this, California voters passed two Propositions. First, they passed Proposition 11 in 2008, which created a bipartisan Citizens Redistricting Commission that should be in-charge of redistricting following the 2010 Census. By taking the redistricting process out of the hands of politicians, it is expected that this reform will produce more competitive districts. However the existing ideological/partisan segregation of the electorate makes that a difficult task.

Second, voters passed Proposition 14 in 2010, which changed California’s primary system from a closed primary (favored by party insiders) to a non-partisan blanket primary. Under this system, all candidates for a particular office will appear on the same primary ballot. The top two vote-getters in the primary (regardless of party affiliation) will advance to the general election. It is expected that this reform will encourage candidates to moderate their views in an effort to appeal to the median voter, as opposed to sharpening their views to appeal to either the Democratic or Republican base (as they have done in the past).

## 6 The Impact of Term Limits

Another fact of life in the California legislature is the influence of term limits. In 1990, California voters passed Proposition 140, which imposed a lifetime limit of three two-year terms in the Assembly (6 years total) and two 4-year terms in the Senate (8 years total). These are some of the shortest term limits in the nation for state legislators. According to Korey (2009, p. 55), “In 1991, the year following passage of the measure, the average member of the Assembly was in his or her ninth year in that body, while the average for the Senate was ten years.” This means that the maximum tenure now is less than the average tenure then (Korey 2010). With limited time in office, politicians now concentrate more on finding their next job rather than focusing on their current one. Korey (2010) argues that “members lack institutional memory of the past and have less incentive to take a long-term view of the consequences of their decisions. Perhaps more subtly, they

have less time to forge personal relationships, making it harder to negotiate differences and easier to demonize political opponents.”

Moreover, not only do these limits routinely purge the most experienced members of both parties, they also produce legislative leaders with little state budget experience. From 1961 to 1995, only five men served as California’s Assembly Speaker, one of the most prestigious and powerful offices in the state. In the subsequent 16 years, 10 different people have served in that office, with only one serving more than three years as Speaker. The current Assembly Speaker, John Perez of Los Angeles, is a freshman member who will be “termed out” in 2016. As Hussey (2009) asks, “How can anyone in the legislature, let alone its leader, effectively bargain with the governor over the state budget when they have just been elected to office?”

## 7 Ballot Box Budgeting

Of the 27 states that have some form of direct democracy, Californians make use of their initiative, referendum, and recall procedures more than citizens of any other state. On any given California ballot, voters can expect to decide the fate of five to fifteen different proposals. Very often, these proposals have significant fiscal impacts. For example, in 1988 voters narrowly approved Proposition 98, which created a minimum funding formula for the state’s K-14 education system (K-12 plus community colleges). This proposition required the state to dedicate either 40% of the state budget to K-14 education, or an amount equal to the previous year’s expenditure plus inflation and enrollment increases, whichever was higher. The legislature could vote by 2/3 in each house to suspend Proposition 98 requirements; however, any money not allocated during a suspension year must be paid back in future budgets.

This reliance upon direct democracy complicates the job of the governor and state legislature in crafting a budget, because certain taxing and spending options are not available to them. Moreover, in the case of Proposition 98, 40% of the state’s budget has already been allocated by the voters before any budget negotiations begin.

This system of “ballot box budgeting” also tends to produce structural deficits for the state, even in the best of times. This is because voters generally approve new spending projects but reject new tax increases. For example, in 2008 voters approved Proposition 1A, which authorized the issuance of \$9.95 billion in state bonds to fund the California High-Speed Rail Authority. Most of this money was earmarked to fund the construction of a high-speed rail system



between San Francisco and Los Angeles. On the same ballot, voters approved \$900 million in bonds to help military veterans purchase homes (Proposition 12). Four years before, in 2004, voters approved Proposition 71 authorizing \$3 billion in bonds to fund stem-cell research. With interest, the LAO projected that the high-speed rail project would ultimately cost the state \$19.4 billion, assistance for military veterans would cost \$1.8 billion, and stem-cell research would cost \$6 billion (2004 and 2008 CA Voter Guides). This is only the cost of three initiatives.

Hence, with large portions of state spending already mandated by voters, and a steep 2/3 requirement to raise taxes, the state often finds itself with more bills than it has money to pay.

## 8 Impact of the 2010 Elections: True Blue

Election Night 2010 brought much bad news to the Democratic Party. Nationally, the party lost 6 seats in the Senate and 63 seats in the House, enough to flip party control of the House to the Republicans. In state after state, Republicans made major gains in gubernatorial and state legislative races. This included winning the governorships of several key states, such as Florida, Pennsylvania, Ohio, Michigan, Wisconsin, Iowa, and New Mexico. Yet, despite the good results for Republicans in other parts of the country, California voters seemed immune to the GOP wave. In fact, California became more Democratic in 2010.

U.S. Senator Barbara Boxer defeated Republican challenger Carly Fiorina by 10 percentage points to win her fourth term in office (CA Statement of the Vote 2010). Democrats managed to hold on to all of their U.S. House seats in California (although Democratic incumbents faced serious challenges in the 11th and 20th congressional districts). After 28 years, Jerry Brown returned to the California governorship when he easily defeated Republican candidate Meg Whitman by nearly 14 percentage points (CASOV 2010). As a result, California became one of only four states where Democrats won governorships formerly held by Republicans.<sup>3</sup> This is in contrast to 12 GOP gubernatorial pick-ups.<sup>4</sup> Capping off the evening, Democrats actually gained a seat in the California Assembly when Richard Pan (D) defeated

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<sup>3</sup> The others being Connecticut, Vermont, and Minnesota.

<sup>4</sup> GOP Gubernatorial Pickups in 2010: Florida, Iowa, Kansas, Maine, Michigan, New Mexico, Ohio, Oklahoma, Pennsylvania, Tennessee, Wisconsin, and Wyoming.

Andy Pugno (R) in an open-seat race in the Republican-leaning 5th Assembly District.<sup>5</sup>

When the election was over, Democrats held the Governorship, Lieutenant Governorship, all six statewide constitutional offices, both U.S. Senate seats, a 34–19 advantage in the U.S. House delegation, a 52–28 advantage in the State Assembly, and a 25–15 advantage in the State Senate (CASOV 2010). From an electoral standpoint, California was “true blue”.

The only silver lining for conservatives in the state was the clear anti-tax and anti-state government message that voters sent through their votes on a series of ballot measures.

## 9 Proposition 21

If passed, Proposition 21 would have imposed an \$18 surcharge on motor vehicle registrations to provide a dedicated source of revenue for state parks and wildlife conservation programs (CA Voter Guide 2010). To lessen the sting of the added fee, vehicles subject to the surcharge would have been allowed free admission and parking at all 278 state parks (CA Voter Guide 2010). Despite the concerns of conservationists about the deteriorating condition of the state’s parks, and the promise of \$250 million in annual revenue to fund maintenance and improvements (CA Voter Guide 2010), Proposition 21 failed by over 14% points (CASOV 2010). With a bad economy and high unemployment, voters were not willing to pay an additional \$18 in state fees.

## 10 Proposition 22

Proposition 22 was designed to prevent the state government from seizing the assets of county and municipal governments in an effort to balance the state’s budget. For many years, this had been a common practice when state legislators were looking for ways to balance the state’s books without resorting to either spending cuts or tax increases. For example, in 2009 the state seized \$5 billion in assets from localities all around the state (Lillis 2010). In that year alone, the City of Sacramento saw \$12 million in property tax revenue and \$26 million in redevelopment funding transferred from the city into the state’s coffers (Lillis 2010). On Election Night, Proposition 22 was passed by 20 percentage points (CASOV 2010).

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<sup>5</sup> November 4, 2011. *Sacramento Bee*, Democrat Pan Declares Victory in Usually Reliable GOP District.

This will make it even more difficult for state policymakers to find solutions to the state's vexing budget problems.

## 11 Proposition 25

The main goal of Proposition 25 was to reduce the margin required to pass a state budget from 2/3 of the legislature to a simple majority. In order to blunt opposition to the measure, proponents of Proposition 25 stressed that the 2/3 requirement would remain in place for tax increases. In addition, Proposition 25 supporters focused most of their ad campaign on another provision of the ballot measure. In addition to eliminating the 2/3 requirement to pass the budget, Proposition 25 would also require the legislature to work without pay whenever the budget was late. This was an incredibly appealing provision for an electorate that was fed up with the dysfunction of state government and eager to punish a legislature that they held in such low esteem. Indeed, a year before, voters passed Proposition 1F (preventing pay raises for state officials in years when the budget is in deficit) by an overwhelming 74%–26% margin. With the 55%–45% passage of Proposition 25, Democrats should have an easier time passing a state budget by the June 15th deadline (CASOV 2010).

## 12 Proposition 26

Proposition 26 was an effort to expand the definition of “taxes” to include payments traditionally categorized as “fees” or “charges” (CA Voter Guide 2010). In so doing, these levies would have to be approved by a 2/3 vote rather than a simple majority. Always resistant to taxation, California voters passed this measure by a 52.5%–48.5% margin (CASOV 2010).

## 13 Governor Brown's 2011–12 Budget Proposal<sup>6</sup>

As stated earlier, Governor Brown submitted his proposed budget in early January 2011. California's Legislative Analyst Office released their analysis much

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<sup>6</sup> Unless otherwise indicated, information regarding the governor's proposed budget comes from the California Department of Finance (CDOF 2011a) and the state's Legislative Analyst Office (CLAO 2011a).

sooner than normal, in part because Brown's plan required quick action by the state legislature to place a series of tax extensions before the voters by early June. The Democratic governor wanted a complete budget deal finished within 60 days.

## 14 Revenue

At the centerpiece of Brown's budget, the governor requested the legislature place four tax extensions on a special June 2011 ballot. If approved by voters, the tax extensions would increase revenue for the General Fund by approximately \$9.6 billion over 2 years. The extensions included a one-quarter percent increase in the income tax, a 1-cent hike in the sales tax, a half percent increase in the vehicle license fee, and a reduction in the amount taxpayers could take as a state dependent tax credit. Initially passed by Schwarzenegger and the state legislature in 2009, these four temporary tax increases were set to expire June 30, 2011. Voters had already had the opportunity in a special May 2009 election to extend the tax increases an additional 2 years, but they rejected the extension by nearly a two-to-one margin.

Brown also proposed a change in corporate tax law that would raise taxes on businesses whose headquarters are outside California. The governor also proposed eliminating tax credits for "enterprise zones".

## 15 Budget Cuts

K-14 education was largely spared in Brown's January budget proposal. The budget did not include money for cost-of-living increases, but did fund projected enrollment growth. The state would reduce per-pupil funding by only about \$100, primarily coming from the loss of federal stimulus dollars. Community college students' fees would climb from \$26 per unit to \$36, but still the lowest in the nation. Brown's plan also included \$2.2 billion in funding deferrals, meaning the state would not pay some of this fiscal year's education expenses until the start of FY 2012–13.

State support for higher education took a much deeper hit, with cuts of \$500 million each to the UC and Cal State systems. Total funding for the California State University would shrink by 18%. Even if both governing boards raised student tuition by about 10%, as suggested, that would not fully cover the lost funding.

Much of the real cuts in the proposed budget came from social services. Medi-Cal – California's version of Medicaid – would get cut by \$1.7 billion. The

state would cap the number of covered prescription drugs for each patient and limit doctor visits to ten per year. The state would also institute co-payments for doctor and ER visits, saving more than \$500 million. Brown would also eliminate the state's adult daycare program, and would reduce Medi-Cal payments to healthcare providers by 10%.

Brown also recommended shifting \$1 billion in voter-approved tobacco taxes to pay for Medi-Cal coverage of children. This would include both a one-time transfer of unused reserves, but also a permanent 50% redirection of funds as well. These taxes were approved by voters in 1998 as part of Proposition 10, which then funded early childhood development programs. Transferring that money away, however, would require the approval of voters, who already rejected an earlier one-time shift proposed by Schwarzenegger and the Democratic legislature in 2009, voting down that proposal nearly two-to-one.

Another area targeted was In-Home Supportive Services (IHSS), which provides personal care for roughly 456,400 low-income and disabled Californians, often by family members. Brown would cut service hours across the board by 8.4%, which would follow a 3.6% cut enacted by Schwarzenegger the previous year. The proposed budget also eliminates domestic services such as housework and cooking for residents who already live with a care provider, affecting more than 300,000 Californians.

The budget would also eliminate more than half the state funding for CalWORKs, California's welfare program that provides cash assistance and child care for the poor. The \$1.5 billion cut would reduce the lifetime eligibility for the program from 5 to 4 years while cutting monthly grants by 13%. The average CalWORKs grant for a single parent with two children is about \$500 per month, and the program covers almost 600,000 families, which would drop to about 450,000 with the proposed changes. Brown regretted the difficult cuts in this program the most: "People have gotten off welfare and gotten a job, and we're making their child care more difficult."<sup>7</sup>

California's prison system would keep most of its funding, but the state proposes to shift many nonviolent inmates to county jails, which are cheaper than expensive state prisons. Brown earmarked almost \$750 million for local jails to house the additional prisoners.

Brown also hoped to achieve over \$300 million in savings through negotiations with California's public employee unions. Further savings would occur by increasing the amount state employees would pay for their medical care.

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7 January 11, 2011. *Los Angeles Times*, A breakdown of Jerry Brown's budget.

There were several other smaller cuts as well. The governor proposed eliminating funding for the first lady's office, and scrapping the Office of the Secretary of Education, the latter saving about \$1.6 million. This office exists in addition to the appointed State Board of Education and the elected State Superintendent of Public Instruction. Moreover, the state would no longer assist in funding county fairs, saving \$32 million. These sort of small cuts are popular with Brown, who enjoys his frugal image, returning most of the funding set aside for his inauguration, while also ordering state workers to return half of their nearly combined 100,000 state-issued cell phones early in his administration.<sup>8</sup>

## 16 Financial Transfers

Counties would take over about a dozen functions, including psychiatric hospitals and outpatient mental health treatment. Counties would take on some of the work now done by state firefighters, reducing the number of responses to medical emergencies by the Department of Forestry and Fire Protection. In addition, California's Child Welfare Services, which includes foster care, adoptions and child abuse prevention programs, would also shift to the counties. The state would give the counties more than \$3.7 billion to operate them.

Brown's January budget would also phase out state authorization of local redevelopment programs. It would dissolve the 425 redevelopment agencies and transfer their \$1.7 billion in revenue to mainly local services, freeing up state money.

Finally, the state would use voter-approved funding for mental illness to replace General Fund money now spent on mental-health care. Proposition 63, passed in 2004, adds a 1% surcharge on incomes \$1 million or higher. This shift might also require voter approval, and a previous attempt to temporarily shift this money failed in 2009 as well.

## 17 Initial Political Response

California's Legislative Analyst Mac Taylor called Brown's initial proposal "a very good starting point", especially the governor's willingness to tackle the structural

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<sup>8</sup> January 12, 2011. *Los Angeles Times*, Gov. Jerry Brown orders California workers to turn in 48,000 cell phones.

deficit. Taylor remarked, “We continue to face year after year these budgetary problems because we’ve adopted so many one-time or limited-term solutions.”<sup>9</sup>

At the same time, the LAO chief warned that many of the proposed cuts and budget transfers might not occur, once again creating an imbalanced budget. “There’s clearly a lot riding on the election,” Taylor said, “a huge part of his budget plan is contingent on the voters approving those extensions.”<sup>10</sup> Ramping up the political pressure, Brown refused to provide a cuts-only alternative budget.

From the beginning, Republicans were very reluctant to negotiate with Brown. In fact, they started the budget process by announcing they were going to skip offering a counter-budget, a typical component of the annual budget dance. In part, this was a reaction to Proposition 25, which lowered the number of legislators needed to pass a budget from 2/3 to a simple majority. The newly passed proposition eliminated the need for Democrats to get Republican votes to pass a budget, but it also made the Republicans even more unwilling to discuss anything that still required a 2/3 vote, like tax increases, or Brown’s plan to put the tax extension up for a public vote. “This is really not our problem,” said Senator Tom Berryhill (R-Oakdale), “the Democrats own this, and we think that they should be giving us what the solutions are.”<sup>11</sup>

Republican Caucus Chairman Bob Huff (R-Diamond Bar) said presenting a cuts-only budget would be damaging and pointless. “Listen, the drill is, we come up with a budget, it gets vilified by everybody and at the end of the day we don’t have the ability to pass it. It’s a majority-vote budget. We’re not the majority. We respect that,” Huff said to reporters after meeting with Brown, “the majority has the ability, they have the authority. God bless them.”<sup>12</sup>

With Republican intransigence never stronger, the question emerged whether the Democrats could place the taxes before the voters with a simple majority. Two potential pathways emerged. On one hand, one would use a section of the state constitution that allows the Legislature to propose amendments to previously voter-approved statutory initiatives. The Legislature could sneak the tax extensions into such an amendment, and pass it with only a majority vote, setting up the

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<sup>9</sup> January 13, 2011. *Sacramento Bee*, Brown’s Countdown, Day 4: Analyst says budget plan carries risks.

<sup>10</sup> January 13, 2011. *Sacramento Bee*, Brown’s Countdown, Day 4: Analyst says budget plan carries risks.

<sup>11</sup> Jan 12, 2011. *Sacramento Bee*, Brown pitches his budget plan to legislators.

<sup>12</sup> January 11, 2011. *Los Angeles Times*. Republicans won’t offer own budget plan, lest they become “the bad guys.”

public vote that Brown requested.<sup>13</sup> This had previously occurred with other initiatives, and California has a long list of voter-approved budget initiatives to choose from. Conservatives were worried about this scenario even before the November 2010 election.<sup>14</sup> Democrats were reluctant to peruse this option however, and anti-tax groups would undoubtedly go to court to stop implementation.

On the other hand, the second strategy involves the use of Proposition 25, which was just enacted by the voters in November 2010. As mentioned earlier, Proposition 25 reduces the legislature majority to pass the annual state budget from 2/3 to a simple majority, eliminating the need for the majority Democrats to work with the minority Republicans. For obvious reasons then, conservatives and Republicans had opposed the measure in the 2010 election, and much of their arguments against its passage sprang from the fear that the majority Democrats would use the majority-vote language of the proposition to pass tax increases with a majority vote. However, few worried about a situation where the legislative majority would want to place a ballot measure before the voters without having a 2/3 majority. Once that scenario became a possible reality, however, both sides began scrutinizing the proposition's language to see if it contained anything that would give the Democrats that authority. The LAO speculated that the majority-vote threshold would not apply here, however.<sup>15</sup>

Of course, all of this was predicated based on the notion that voters would approve the tax extensions if only Brown and the legislative Democrats could get them on the ballot. Initial public opinion showed only tepid support. Although the vast majority of Californians were in favor of placing the tax extensions on the ballot, a mid-January Public Policy Institute of California (PPIC) poll showed only 54% specifically approving the tax extensions, compared to 41% opposed. Moreover, when asked about specific taxes, like income or sales tax increase, support plummeted further.<sup>16</sup> Yet these were the very tax extensions that were part of Brown's plan.

Much of this dichotomy stems from the public's lack of knowledge about California's budget and finances. In the same PPIC poll, only 16% of Californians correctly identified the most expensive component of state government (K-14 education), with an alarming 45% believing it is state prisons and corrections, which

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<sup>13</sup> January 12, *Sacramento Bee*, Dan Walters: No one knows if Democrats' Plan B on budget is legal.

<sup>14</sup> Sep 23, 2010. *Fox and Hounds Weblog*, How to Pass a Budget and Tax Increases by a Majority Vote of the Legislature.

<sup>15</sup> LAO 2011–2012 Report.

<sup>16</sup> January 2011 PPIC Poll, Californians & Their Government. [http://www.ppic.org/content/pubs/survey/S\\_111MBS.pdf](http://www.ppic.org/content/pubs/survey/S_111MBS.pdf).



make up only 10% of the state budget. Likely voters also incorrectly identified the state's largest source of revenue, with only 30% accurately selecting personal income tax.<sup>17</sup> With this level of disconnect between reality and misperception, it has become that much harder for California's political leaders to put together an annual budget, much less plan for the state's future.

## 18 Trying to Budge the Elephants

Facing continued Republican opposition and a lukewarm uniformed public, Brown used his January 31 State of the State address to try to build support for his budget plan. Invoking the popular democratic uprisings in the Middle East, Brown urged Republicans not to block the proposed June tax referendum. "When democratic ideals and calls for the right to vote are stirring the imagination of young people in Egypt and Tunisia and other parts of the world, we in California can't say now is the time to block a vote of the people," Brown remarked.<sup>18</sup>

However, Republicans remained steadfast in opposition. Moreover, their solidarity paradoxically created a schism among legislative Democrats. State Senate Pro-Tem Darrell Steinberg (D-Sacramento) contemplated passing an all-cuts budget, demonstrating to the public the severity of the \$25.4 billion deficit, with the hope that such a somber proposal would increase public pressure on the Republicans to negotiate. His caucus had already requested the LAO assemble a tentative plan. In contrast, Assembly Speaker John Perez (D-Los Angeles) believed such a tactic would only sidetrack negotiations. "It's purely an academic exercise," Perez told reporters, "I don't think there are Republican votes for that. I don't think there are Democratic votes for that. So I think actually engaging that conversation really distracts us."<sup>19</sup>

With State Senate approval, the LAO released their cuts-only budget anyway. The alternatives to the tax extension were dire. University tuition would increase another 10%, community college fees would triple, while state workers would lose almost 10% of their pay with additional forced furlough days. Serious cuts would now reach the K-12 system, increasing class sizes in the lower grades. Most

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<sup>17</sup> January 2011 PPIC Poll, Californians & Their Government. [http://www.ppic.org/content/pubs/survey/S\\_111MBS.pdf](http://www.ppic.org/content/pubs/survey/S_111MBS.pdf).

<sup>18</sup> February 1, 2011. *Los Angeles Times*, Brown argues for his budget plan in State of the State address.

<sup>19</sup> February 8, 2011. *Los Angeles Times*, Budget tactics threaten rift among top Democrats.

health and social services would be slashed to their federal funding minimums, while the state would eliminate half a billion dollars of public safety grants.<sup>20</sup>

As stated earlier, the legislative Republican leadership refused to negotiate, but an informal collection of five Republican State Senators began talks with the Brown administration in late February. Four of the five members are serving their first term in the Senate, with just two up for re-election in 2012.<sup>21</sup> As important, the group includes the only two Republican legislators – out of 43 in total – who did not sign conservative activist Grover Norquist’s public pledge not to raise taxes while in office.<sup>22</sup> Nicknamed the “GOP Five” by the press, these Republican legislators attempted to negotiate with the Democrats without awakening the ire of California conservative activists and party leaders.

Escaping conservative scrutiny in California is not easy, however, especially with populist LA radio talk-show hosts “Jon and Ken,” who prominently display on their website edited pictures of past and present Republican budget supporters, their heads lopped off and set atop cartoon pikes (Hussey 2009). Just 2 years ago, anti-tax and other conservative activists attacked the “Sacramento Six,” six legislative Republicans who voted for the 2009 Budget deal negotiated by Schwarzenegger and the legislature. Only one of the six still holds an elected office, serving as a county assessor. In late March, an anti-tax group began running radio ads in two of the “GOP Five” districts, urging them not to agree to any new tax extensions. “We must hold our legislators accountable,” the ad proclaimed.<sup>23</sup>

Nonetheless, the “GOP Five” hoped a deal could be reached. In exchange for supporting a public vote on the tax extension, the five Republican legislators wanted a variety of other public policies enacted or at least placed in front of voters. These policies included pension, tax, civil service and regulatory reforms. After several weeks of talks, Brown was either unwilling or unable to agree to their terms, and the five legislators publicly declared an impasse a few days shy of Brown’s self-imposed 60-day timeline.<sup>24</sup>

While there was initial hope discussions might continue, the California Republican State Convention convened in Sacramento in mid-March, and the mainly conservative delegates passed a plank rejecting a public vote on the tax

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**20** February 10, 2011, California Legislative Analyst letter to State Senator Mark Leno. <http://blogs.sacbee.com/capitolalert/latest/LAOall.pdf>.

**21** March 12, 2011. *Sacramento Bee*, Brown’s Countdown, Day 62: Inside the “GOP 5”.

**22** Republican Senators Anthony Cannella (Ceres) and Sam Blakeslee (San Luis Obispo). May 25, 2011. *Sacramento Bee*, Jerry Brown, Grover Norquist spar on tax plan.

**23** March 30, 2011. *Los Angeles Times*, Jerry Brown ends talks on bipartisan budget deal.

**24** March 8, 2011. *Sacramento Bee*, Brown’s Countdown, Day 58: Republicans declare impasse in budget talks with Brown.

extensions. Many delegates even supported a resolution – eventually withdrawn – that would label legislators who supported Brown’s plan as “traitorous”.<sup>25</sup>

## 19 Stalemate

By the end of March, the standoff continued, eliminating any possibility of a June election. Brown publicly announced negotiations with the legislative Republicans had ended in failure. The governor painted the Republicans as unwilling to compromise, and demanding an unreasonably lengthy list of policy proposals the Democrats had no desire to implement. Among them was a permanent spending cap seen as an anathema to labor and other liberal interest groups in the state. Republicans fired back, showing reporters a list of tentative compromises Brown had made during negotiations.<sup>26</sup>

Both Brown and the legislative Democrats showed little interest in pursuing a majority-vote legislative strategy to put the tax measure on the ballot without Republican support. Consequently, Republicans succeeded in stopping Brown’s tax proposal from going to the voters in June. Senate Pro-Tem Steinberg agreed, telling reporters, “They’ve done a pretty good job of running out the clock here.”<sup>27</sup> The end of negotiations left the entire budget process up in the air.

Brown then began to seriously consider a new alternative proposal: an end-run around the Republicans by gathering signatures for a November ballot initiative that would extend the tax increases. This would allow the governor to call a special election without even the need of the legislature. Brown had publicly discussed this as an option even before negotiations had ended with the Republicans, appearing at a labor convention on March 21.<sup>28</sup> The governor had hoped California labor would help fund this expensive endeavor. However, the process would require several months of planning and the arduous and expensive task of collecting over a million signatures in a very short amount of time, and as such, there was a great deal of trepidation among Brown’s union supporters.

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**25** March 20, 2011. *Sacramento Bee*, California Republican convention scorns Brown’s tax plan.

**26** March 30, 2011. *Sacramento Bee*, Brown’s Countdown, Day 80: Governor calls off budget talks with GOP.

**27** March 30, 2011. *Sacramento Bee*, Brown’s Countdown, Day 80: Governor calls off budget talks with GOP.

**28** March 23, 2011. *Sacramento Bee*, Brown’s Countdown, Day 73: Governor may seek November ballot initiative on tax plan.

In mid-April, the head of the California Teachers Association (CTA), called for state leaders to pass the tax extensions through the legislature, without going to the ballot. Of course, pursuing that 2/3 majority option was impossible due to Republican opposition, and it would also break Brown's campaign pledge. Nonetheless, CTA President David Sanchez told reporters, "Once you put [taxes] on the ballot after June, it's no longer an extension, it becomes new taxes. And once they're new taxes, the people won't support that. I think the Legislature ought to do that themselves."<sup>29</sup>

Sanchez's comments publicly acknowledged the big problem for Brown and the Democrats: waiting until November would change the nature of the tax debate. Opponents of the tax plan could now attack the vote as tax increases, not just tax extensions. Support for the tax plan had already evaporated to a 50–50 prospect. By mid-March, a PPIC poll showed support for the tax extensions falling to only 46%, with 45% in opposition.<sup>30</sup> Other polls showed Californians were even less likely to approve new tax increases, as opposed to extending the increases already in place. A mid-March Field/UC Berkeley Poll showed Californians supporting Brown's tax extension 58%–39% but opposing higher taxes to balance the state budget 43%–55%.<sup>31</sup> That immense electoral difference would dampen talk about a November special election while also playing to conservative opposition for a June vote.

## 20 Democrats Go Alone

As Governor Brown's self-imposed 60 days lapsed, and the deadline passed to place any measure on the June ballot, Democrats began to quickly fear their nightmare scenario was coming true: they would have to pass a budget without Republican support, perhaps even an unthinkable all-cuts budget.

The legislature had already begun slashing spending in a series of votes in mid-to-late March. Reluctantly agreeing with most of Brown's proposed budget cuts, Democrats in the legislature eliminated \$11.2–\$14<sup>32</sup> billion from

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<sup>29</sup> March 25, 2011. *Sacramento Bee*, Brown's Countdown, Day 75: Brown signs off on \$11.2 billion in cuts, still seeks GOP help.

<sup>30</sup> April 13, 2011. *Sacramento Bee*, Brown's Countdown, Day 94: Teachers seek tax hike without an election.

<sup>31</sup> March 2011 Field/UC Berkeley Poll.

<sup>32</sup> Although Republicans disputed the savings based on how much was cut and how much involved funding shifts, the \$2.8 billion difference derives from cuts that could not be officially included until the final budget bill became law. Most sources used the \$14 billion figure.

California's \$26.6 billion deficit through spending cuts, borrowing, and fund transfers. Brown quickly signed these 13 bills into law, including those that raised community college fees, removed a billion dollars of state aid for the UC and Cal State systems, shrunk individual welfare grants, and placed restrictions on Medi-Cal services. The legislation would also take money from First 5 childhood development programs and borrow from various special funds.<sup>33</sup> The cuts to Medi-Cal would first require approval from the federal government, and the Obama administration eventually approved a \$600 million reduction in late October 2011.<sup>34</sup> With fierce opposition from local governments, the legislature held up approval of Brown's plan to gut redevelopment agencies.

During these early budget reductions, Brown refused to go further and balance the budget with only cuts, declaring that this would "leave a lot of tears in its wake."<sup>35</sup> Democrats in the legislature agreed and many went on notice against an all-cuts budget noting the approved cuts were already outside their comfort zone. While both parties approved the welfare spending cuts, Republicans voted against any reduction to education and public safety, and the Democrats had to rely on Proposition 25 to pass those cuts by majority-vote. This put Democrats in the uncomfortable position of voting to reduce support to constituencies that make up their electoral base.

In the following few weeks, the state reported a substantial windfall of tax receipts that complicated the Democrats' tax extension message. The unexpected \$2.5 billion increase in tax revenue, primarily from income tax, made it easier for the state to balance its budget, but also made it more difficult politically for Democrats to argue California could only balance its budget with both spending cuts and increased taxes. Republicans argued the tax extensions were no longer necessary.

Assembly Republicans used the extra revenue to cobble together an alternative budget, one that would not involve extending the current taxes. Their plan included the extra \$2.5 billion in revenue, and estimated a similar amount would occur the following fiscal year. In addition to the extra revenue, Assembly Republicans would eliminate the deficit by approving additional cuts in the state workforce and social spending, and raiding available revenue in other state funds, some of which would require voter approval. Notably, the plan did not include

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**33** March 25, 2011. *Sacramento Bee*, Brown's Countdown, Day 75: Brown signs off on \$11.2 billion in cuts, still seeks GOP help.

**34** October 28, 2011. *Los Angeles Times*, California gets OK for large cuts to Medi-Cal.

**35** March 25, 2011. *Sacramento Bee*, Brown's Countdown, Day 75: Brown signs off on \$11.2 billion in cuts, still seeks GOP help.

any additional spending cuts to education and public safety, and included only a \$100 million reserve fund, as opposed to the \$1 billion sought by the governor.

Brown said little about the Republican plan, coming just four days before his May budget revision; however, other Democrats attacked the proposal for unrealistic budget assumptions. Democratic State Treasurer Bill Lockyer even called the proposal “a recipe for continued failure, jam-packed with gimmicks, one-time solutions, and illusory savings.”<sup>36</sup> Lockyer, well-known for his off-the-cuff quotes, further went on to say that maybe Republicans “think Tinkerbell will fly in and make the shortfalls vanish with pixie dust.”<sup>37</sup>

When Brown announced his May budget revision a few days later however, there was apparently some leftover pixie dust still around from his time as governor in the 1970s, because Brown’s budget included a total of \$6.6 billion in additional projected revenue through June 2012. Despite that increase, and a deficit now smaller than \$10 billion, the governor continued to call for the five-year tax extensions, to help pay down what he called the state’s \$34.7 billion “wall of debt.” This involved paying off the loans the state borrowed from a variety of special funds, including local governments, schools, even a one-day paycheck deferral to state workers that saved the state \$800 million in 2009.<sup>38</sup> Brown’s plan also included \$3 billion more for schools than his proposal in January, and he suggested deep cuts could occur without the tax extensions. However, the governor was reluctant to lay out what specific cuts would occur, telling reporters, “I’m not going to give the Republicans a road map to ruin.”<sup>39</sup>

Brown also had to worry about a legislative challenge from the left, with Democrats eyeing the increased revenue to offset some of the steeper social spending cuts they initially passed in March. Assembly Democrats wanted to replace the \$440 million in reductions to state-subsidized child care by continuing to borrow from special funds.<sup>40</sup> They were backed by Speaker Perez. Senate Democrats supported resorting some, but not all, of those cuts. “A lot of Democrats have said ‘Enough is enough,’” said Democratic political operative Steve Maviglio, a top aide to two former Democratic Assembly Speakers.<sup>41</sup> Brown opposed these changes, and was not pleased by the lack of unity.

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<sup>36</sup> May 13, 2011. *Sacramento Bee*, GOP state budget plan arrives – and is blasted as gimmicky.

<sup>37</sup> May 13, 2011. *Los Angeles Times*, GOP lawmakers issue plan to balance California budget.

<sup>38</sup> May 17, 2011. *Sacramento Bee*, Jerry Brown recasts tax push, targeting California’s “wall of debt.”

<sup>39</sup> May 17, 2011. *San Francisco Chronicle*, California deficit falls under \$10 billion, Brown says.

<sup>40</sup> May 25, 2011. *Sacramento Bee*, Democrats want to use new revenue to reverse cuts.

<sup>41</sup> May 27, 2011. *Reuters*, Analysis: California budget plan takes hits from both parties.

## 21 No Deal, But a Budget?

By the beginning of June, pressure continued to mount for all parties to reach a budget agreement. After weeks of negotiations, Brown and the Republicans agreed to a tentative compromise. In exchange for Republicans agreeing to hold a special election in September over the tax extensions, the governor and the legislative Democrats would impose a firmer state spending cap on expenditures, reform public pensions by curbing some of the employee excess (such as pension “spiking”), and create fewer business-hostile regulations. The last component, long sought by business groups, would require the state to report on the economic impact of all new regulations before implementation. Republicans believe these reports will ward off many burdensome regulations that hinder job growth. “We’re very close on all those issues,” Brown said in an interview, further stating that “they’re going to get their pound of flesh.”<sup>42</sup>

However, in order to gain Democratic support for such drastic and fundamental policy changes, Republicans would not only have to vote to put the taxes on the ballot, but they would also have to allow the temporary taxes to continue until the election, a concept which became known as the “bridge tax.” It turned out to be a bridge too far. Republicans were unwilling to extend the taxes, and Democrats and Brown were unwilling to agree to Republican demands without extending the taxes. Republicans voted down Brown’s plan in the Senate on June 10.

Although Brown still continued to negotiate with Republicans, a majority-vote budget without any tax extensions became the more realistic alternative, because California’s legislators were approaching the June 15 constitutional deadline to pass a budget. In previous years, this deadline was almost always ignored, if not outright violated, since no enforcement mechanism existed to punish late lawmakers. But this year for the first time, a new mechanism existed, Proposition 25.

As mentioned earlier in this article, Proposition 25’s primary component lowers the threshold to pass the annual budget from 2/3 to a simple majority. However, it also contained a minor additional component to make it more palatable to voters, called a “sweetener” in Sacramento circles. If legislators failed to pass a budget on time, they would forfeit their pay until they succeeded.

Most pundits thought this clause would never get exercised. The argument was that as long as legislators passed a budget, any budget, even an unbalanced one, by June 15, legislators were off the hook. The final budget could look much different, because the clause only required that the legislature pass a budget bill

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<sup>42</sup> June 8, 2011. *Los Angeles Times*, California budget talks hit an impasse over 3-month tax extension.

to continue earning their salary plus expenses. They did not need for that bill to become law. Even by late May the conventional wisdom still held that the earlier unbalanced budget passed in March that consisted of only spending cuts would satisfy the requirement.<sup>43</sup>

Enter Democratic Controller John Chiang. Chiang, the state's chief accountant who also issues California's paychecks, was ultimately responsible for interpreting the clause, and in early June, he announced lawmakers would have to pass not just any budget, but a balanced budget to meet the Proposition 25 requirement. His interpretation differed from the legislature's lawyers, and relied on a constitution amendment – passed by voters as Proposition 58 in 2004 and then quickly forgotten – that requires the legislature to pass a budget bill that balances revenue with expenditures.<sup>44</sup>

With their pay now on the line, legislative Democrats reluctantly moved forward on a majority-vote budget, but one that would require some of the fiscal gimmicks and tricks Brown had so publicly opposed. The Democratic plan also increased vehicle-registration fees, added a new fee for rural residents to support state fire fighting, and required online merchants like Amazon.com to tax purchases. To make up for the loss of tax revenue, the state would delay paying back revenue owed to K-14 education system, and further cut higher education and public safety. The plan also brought back some of the complex and questionable accounting strategies used in earlier years to pass a budget that were only balanced on paper. Democrats admitted they were unhappy with their proposal and blamed Republicans for not compromising on the tax extensions. Assembly Speaker Perez told reporters, "If there was a glimmer of hope that if we waited [a week], that we could get the better solution with Republicans votes, obviously we wouldn't be taking this up. But that glimmer isn't out there right now."<sup>45</sup>

Using the components of Proposition 25, the Democrats passed their plan in both chambers by majority vote on June 15, without a single Republican backer and even a few Democrats voting no. Rather than completely adopting Brown's plan to scrap the state's many redevelopment agencies, the state would force the agencies to cough up most of their tax money to schools and other local entities if they

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<sup>43</sup> May 20, 2011. *Los Angeles Times*, Sacramento lawmakers may not be punished for late budget.

<sup>44</sup> June 23, 2011. *KQED News Weblog News Fix*, State Controller Says He'll Withhold Legislators' Paychecks if Budget Isn't On Time.

<sup>45</sup> June 14, 2011. *Los Angeles Times*, Democrats press forward on budget plan: Taxes, accounting moves, cuts.



wanted to remain in existence. By passing the budget before the midnight deadline, the legislature met the constitutional deadline for just the second time in 25 years.<sup>46</sup>

## 22 Shock and Awe

Catching everyone off guard, Jerry Brown vetoed the legislative Democratic budget hours after its passage, calling it unbalanced and “legally questionable.” The governor still hoped to negotiate a compromise with Republicans, and was unwilling to break his pledge to stop balancing the budget through accounting maneuvers and complicated tax swaps. Brown told reporters at a press conference, “We need four Republican votes, and in the next several days I’m going to do everything I can— I’ll move heaven and earth to get those votes.”<sup>47</sup> Brown’s rejection made history, the first spending bill vetoed in California’s history.<sup>48</sup>

Brown’s vetoed shocked and angered legislative Democrats. Steinberg and Perez told reporters they were “deeply dismayed” by Brown’s veto. Neither leader believed there was support among Democrats for any additional cuts to balance the budget.<sup>49</sup> Democratic Senator Ted Lieu (Torrance) wrote on Twitter, “No excuse for a Democratic Governor to blindside a Democratic legislature that was working with him and his staff.”<sup>50</sup>

In response to the veto, President Pro Tem Darrell Steinberg ordered the Senate to temporarily block confirmation of Brown’s appointees. Even the following week after the veto, Steinberg was still smarting, and when asked about Brown’s budget plan, he told reporters, “Is Plan A dead? I’ll leave it to the governor to announce the wake and the funeral services.”<sup>51</sup> The governor’s stand-off with Democrats reminded some Sacramento insiders of Brown’s previous tenure as governor and the nasty relationship he had with Democratic lawmakers by the end of his eight years in office. By the spring of 1981, their interactions had become so sour the Democratic leader of the Senate ordered the

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<sup>46</sup> June 16, 2011. *San Francisco Chronicle*, Legislature passes state budget, meets deadline.

<sup>47</sup> June 17, 2011. *Sacramento Bee*, Veto: Governor keeps hunting for GOP votes.

<sup>48</sup> Former governors, including Arnold Schwarzenegger in 2008, have vetoed trailer bills or other amending legislation to already enacted budgets.

<sup>49</sup> June 16, 2011. *Contra Costa Times*, Brown vetoes budget, criticizes “gimmicks”.

<sup>50</sup> June 17, 2011. *Sacramento Bee*, Veto: Governor keeps hunting for GOP votes.

<sup>51</sup> June 24, 2011. *Sacramento Bee*, Brown’s Countdown, Day 166: Governor mends fences with fellow Democrats – again.

sergeants-at-arms to remove Brown from the chamber. The governor wisely left before any escort was required.<sup>52</sup>

During Brown's first two terms, the State Legislature overrode several of the governor's vetoes, the last successful overrides in California's history. Before Brown, the legislature had only twice successfully overridden a governor's veto back to Earl Warren's administration.

In contrast, Jerry Brown has tried much harder to keep up relations with his fellow Democrats in the legislature. After the veto, Brown met privately with each chamber's Democratic Caucuses, and also met separately with both Speaker Perez and Pro Tem Steinberg. Former Democratic Governor Gray Davis, who also served as Brown's former chief of staff, said any "bruised feelings" among the Democrats in the legislators "will be a distant memory if the budget is improved by virtue of the veto."<sup>53</sup>

John Chiang increased the pressure a few days later by announcing that the vetoed budget bill did not qualify as a balanced budget and that, therefore, state legislators would forfeit any pay after June 15 until they passed a new budget. For most legislators, that would amount to about \$260 per day in salary and an additional \$142 daily tax-free per diem. Legislators were again outraged. Steinberg called Chiang's decision "a terrible precedent." Assemblyman Mike Gatto (D-Los Angeles) released a statement declaring, "California has officially degenerated into a Banana Republic, with one branch of government withholding the pay of another." Gatto further said the State Controller "just wants to sit there and beat up on the unpopular kids."<sup>54</sup>

Meanwhile, Brown's labor allies increasingly felt uneasy about holding a special election in September for the tax extensions, assuming Brown succeeded in convincing Republicans to place them on the ballot. The fear was that the special election would generate a small turnout, perhaps dominated by conservative and anti-tax voters, and the taxes would go down to defeat. Union officials preferred a more favorable election, like the 2012 general election with a larger turnout and President Obama on the ballot.<sup>55</sup> Labor was also concerned that if taxes were on the ballot, Republicans would demand their own reforms appear as well: state spending caps and pension reforms, neither well-liked among public

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52 June 24, 2011. *Sacramento Bee*, Brown's Countdown, Day 166: Governor mends fences with fellow Democrats – again.

53 June 24, 2011. *Sacramento Bee*, Brown's Countdown, Day 166: Governor mends fences with fellow Democrats – again.

54 June 22, 2011. *Sacramento Bee*, John Chiang's pay blockage upends budget talks.

55 June 22, 2011. *Los Angeles Times*, California Legislature to forfeit pay, Chiang says.

unions. The worse-case scenario among labor unions would be for the taxes to fail while the more conservative reforms succeeded. Waiting for a different and potentially friendlier election made more sense.

With the tax extensions were about to expire, the combination of union unease and lawmakers eagerly wanting to get paid again ultimately pushed Brown to end negotiations with the Republicans and compromise with legislative Democrats to pass a budget. On June 25, Brown's press secretary Gil Duran called Republicans "basically moronic" in a radio interview, and said they could have had their reforms months ago.<sup>56</sup> The next day, the governor sat with Perez and Steinberg and announced a deal on the budget. The budget was passed on June 28, two days before the start of the new fiscal year, a rarity in California these days. Not a single Republican voted for the budget, requiring the Democrats to use their newfound simple-majority powers from Proposition 25. Brown signed the budget into law two days later, June 30, the same day the last of the temporary tax increases expired.

## 23 The Final FY 2011–2012 Budget

As discussed earlier, California is heavily reliant upon personal income taxes to fund its operations. As Figure 1 below illustrates, 57% of the state's general fund revenue came from this source. This was followed by sales and use taxes (22%), miscellaneous taxes (11%), and corporation taxes (10%).

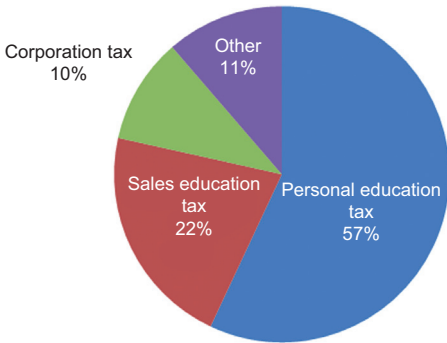
On the expenditure side, the "Big Four" in California are K-12 education (40%), Health and Human Services (27%), Higher Education (12%), and Corrections (11%) (Figure 2). Together, these categories account for 90% of state general fund spending.

This budget year saw major reductions in most areas of state spending (except Corrections), and unique provisions calling for additional mandatory spending cuts for state agencies if the state fell below its revenue projections. These cuts would occur at two thresholds. One set would be triggered if the state fell \$1 billion short of its revenue projections, and the other set would occur if the state were to realize a \$2 billion shortfall.

The first set of cuts would primarily affect higher education and corrections, while the second set would hit K-12 education the hardest. However,

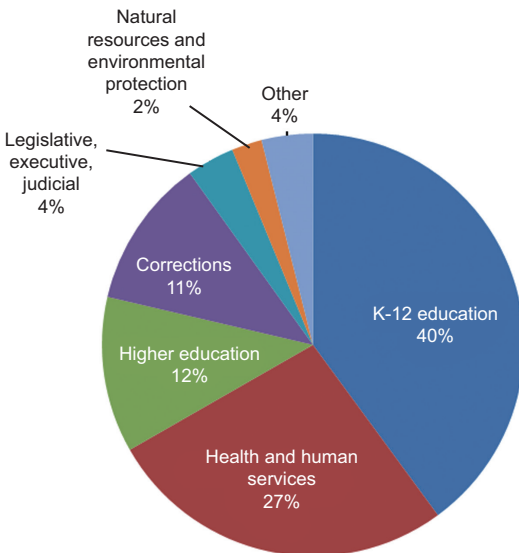
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<sup>56</sup> June 25, 2011. *KPCC*, California budget deadline Thursday; Brown's office says Republicans are "basically moronic".



**Figure 1:** Sources of California General Fund Revenue, 2011–2012.

last-minute legislation pushed by the CTA tempered some of the effects of any potential trigger. AB 144 publicly emerged less than an hour before lawmakers quickly approved it right before the start of the new fiscal year. This legislation blocks K-12 school districts from laying off teachers in the FY 2011–2012 school year, while also forcing those districts to ignore any potential fiscal effect from the \$1.9 billion trigger. School administrators are claiming that this provision will wreak havoc. “Districts will be under tremendous pressure to bring people back



**Figure 2:** California General Fund Expenditures, 2011–2012.

from layoffs and, if there is a midyear cut, there is no way to lay people off,” said David Gordon, Sacramento County superintendent of schools, “how then do you handle a midyear cut?”<sup>57</sup> Districts must negotiate any such cut with teachers and staff, and with layoffs off the table, it would give teachers powerful additional leverage with school officials. To complicate matters further, the state would allow local school districts to reduce the length of their school year by up to seven days in the event of a \$2 billion shortfall in state revenue, although any actual reduction in instructional time or pay/benefits for school employees would have to be handled locally through collective bargaining (CLAO 2011b).

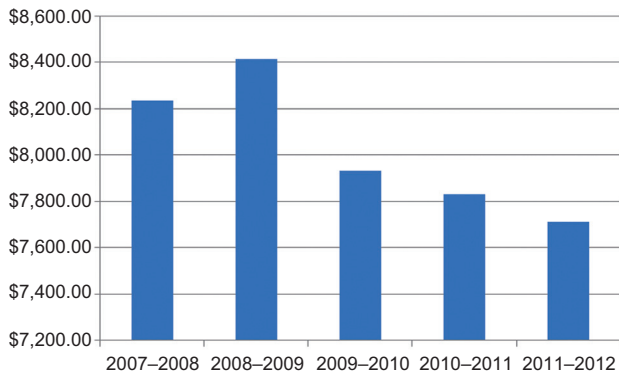
## 24 K-12 Education

K-12 education is the single, largest expense facing the state of California, consuming 40% of FY 2011–2012 general fund revenues (as mandated by the voter-approved Proposition 98 in 1988, which put in place a minimum funding formula for the state’s K-12 schools and community colleges). Overall, the state will provide some \$64.1 billion of funding during this budget year to support primary and secondary education (CDOF 2011b).

Yet, despite this high level of funding, the FY 2011–2012 budget reflects the third straight year of reductions in per pupil spending in California K-12 schools (Figure 3). In the 2008–2009 budget year, California had a per pupil spending rate of \$8,415; in the current year, that figure has fallen to \$7,713, reflecting a \$702 per pupil reduction (8.5%) over three years. While it should be noted that the higher levels of funding in FYs 2008–2009, 2009–2010, and 2010–2011 were partially the result of federal stimulus dollars that have now been depleted, California schools are still funded at lower levels this year than they were under the FY 2007–2008 budget. Per pupil spending in FY 2007–2008 was \$8,235. This figure is \$522 per pupil more than the figure for the current year, reflecting a combination of reduced state spending and rising enrollments. Given that enrollments will continue to increase in the near future, it is an ominous sign for school administrators that the new budget law requires local school districts to assume no increase in state support for the forthcoming 2012–2013 budget above their present funding levels in 2011–2012.

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<sup>57</sup> June 30, 2011. *Sacramento Bee*, Brown’s Countdown, Day 172: California teachers win big in state budget deal.



**Figure 3:** K-12 Per Pupil Spending in California, FYs 2007–2012.

As previously mentioned, the current budget also contains many trigger provisions, which would automatically reduce state spending by specified amounts if revenues fall short of projections. For example, if revenues fall \$2 billion below budgetary assumptions, this would automatically trigger a \$1.9 billion cut in K-12 and community college funding. A shortfall of this magnitude would also trigger a \$72 million cut to community college appropriations and a \$10-per-unit increase in student fees at community colleges. Under the existing budget, with revenue projections intact, community college funding is already set to be reduced by about \$419 million (7%) from its FY 2010–2011 levels.

Despite this overall reduction in state funding, the current budget would provide \$11 million to fund new charter schools and \$3.2 million to support technical schools training students for careers in the renewable resources and renewable energy fields.

## 25 Health and Social Services

Health, welfare, and social service programs claimed the second largest percentage of the state’s general fund revenues in 2011–2012, accounting for 27% of expenditures. The FY 2011–2012 budget provides a total of \$88.2 billion for such programs, with \$28.6 billion coming from the general fund (CDOF 2011b). Since there are so many programs under this category, we will only highlight the most significant budgetary changes from FY 2010–2011.

A budgetary cutback that received a great deal of media attention was the elimination of the state’s Adult Day Care Program for disabled and/or elderly adults. According to the DOF, “Approximately 35,000 beneficiaries use Adult Day

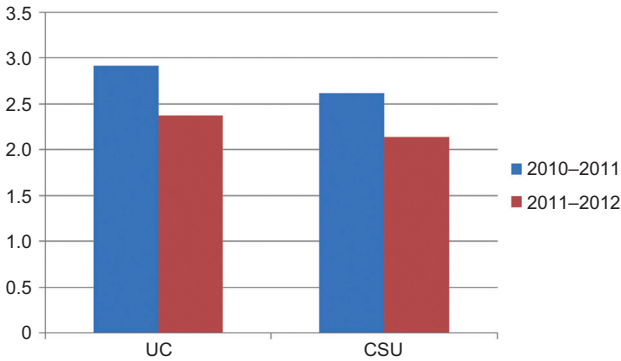
Health Care services each month in about 330 centers statewide.” Despite this, the legislature (at the behest of the governor) decided to eliminate the program, resulting in a savings of nearly \$170 million. Under Medi-Cal (California’s Medicaid program), additional savings were also realized by requiring beneficiaries to pay co-pays for doctor/dentist visits and emergency room care, thereby restricting Medi-Cal payments for certain nutritional supplements, and ending coverage completely for certain over-the-counter medications (CDOF 2011b).

Another popular program adjusted to produce budget savings was CalWORKs, which is California’s welfare program providing cash assistance and child care for the poor. The FY 2011–2012 budget provided \$2.1 billion in funding for CalWORKs, which is essentially the same amount that they received in the previous year’s budget (CLAO 2011b). However, legislative adjustments were necessary to prevent the cost of the program from rising in FY 2011–2012 (CLAO 2011b). In order to maintain the program with the same funding levels as the previous year, savings were realized by reducing the total number of months that adults could receive aid, in the form of a monthly cash payout, from 60 to 48 months. According to the DOF, “This reduction will result in approximately 22,500 adults being removed from aid.” In addition, the amount of those monthly payouts will be reduced by 8% in FY 2011–2012. The combination of these two measures is projected to save the state about \$417 million over the next year.

## 26 Higher Education

Higher education is the third major area of state spending, accounting for 12% of general fund expenditures in FY 2011–2012. Overall, that year’s budget provides \$22.1 billion worth of state support for higher education, with \$10.1 billion coming from the state’s general fund (CDOF 2011b). This represents a dramatic reduction in state support for higher education from the FY 2010–2011 budget, and continues a trend of lower funding levels that began following FY 2007–2008. The present level of funding reflects a 12% reduction in general fund support from FY 2010–2011 and an 18% overall reduction in state support for higher education.

Such reductions have had dramatic impacts on both the University of California system and the California State University system (Figure 4). In the current budget year, each system is facing a reduction of \$650 million in state support. Almost all of such shortfall is scheduled to be made up by increasing tuition and fees, thus shifting the burden onto students. In November 2010, the UC Board of Regents voted to increase tuition by 8% (CLAO 2011b). Following the passage of the FY 2011–2012 budget in July, an additional 9.6% tuition increase was authorized



**Figure 4:** Funding for the University of California and California State University Systems, FYs 2010–2012 (general fund, in billions of dollars).

(CLAO 2011b). According to the Legislative Analyst’s Office, once these increases go into effect the average UC student will then pay about \$13,218 per year in tuition and fees. A similar story is unfolding in the California State University system. While CSU students typically pay about half the cost of UC students, the CSU increases as a percentage of tuition have actually been larger than those at UC. At their November 2010 meeting, the CSU Trustees voted to increase tuition by 10% (CLAO 2011b). This was followed by an additional 12% increase, which was approved after the passage of the FY 2011–2012 budget (CLAO 2011b). This means that the average CSU student now pays about \$6,472 per year in tuition and fees, according to the LAO. The LAO also predicts that these tuition increases will generate about \$415 million in additional revenue at UC and \$450 million in additional revenue at CSU. However, there could be more automatic cuts if the state falls short of its revenue projections. Specifically, the UC and CSU systems would lose an additional \$100 million each if state revenue falls \$1 billion or more below target.

## 27 Corrections

One area which seems to be immune from state budget-cutting is the California Department of Corrections and Rehabilitation, which currently accounts for 11% of the state’s general fund expenditures. In the FY 2011–2012 budget, CDCR received a total of \$10.1 billion in funding, \$9.8 billion of which came from the general fund (CDOF 2011b). This amount represents an increase of about \$340

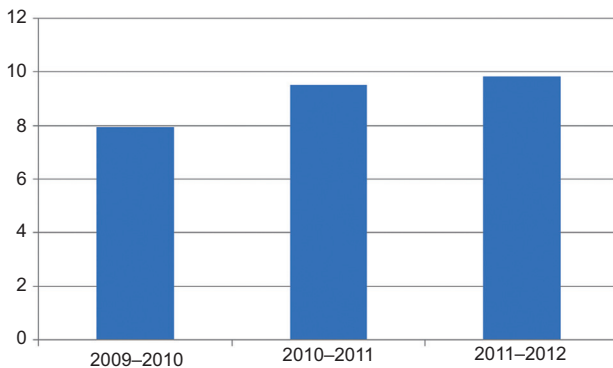


million from FY 2010–2011, and an increase of about \$1.9 billion from FY 2009–2010 (CLAO 2011b).

As with higher education, if the state falls \$1 billion or more below revenue projections automatic reductions would be triggered to CDCR's budget. However, even though higher education and corrections comprise a roughly equal share of general fund spending (\$10.1 billion for higher education; \$9.8 billion for corrections), the automatic cut would be five times larger for higher education (\$100 million) than it would be for CDCR (\$20 million). Additional savings in CDCR's budget would be realized by shifting responsibility for certain inmates from the state to the various counties.

## 28 State Parks and Wildfire Management

State parks and wildfire management account for a much smaller percentage of state expenditures. For example, the FY 2011–2012 budget provides only \$119 million from the general fund to the California Department of Parks and Recreation to support operations at state parks (CLAO 2011b). This figure is an \$11 million (8.5%) reduction from CDPR's FY 2010–2011 budget, and is likely to result in the closure of up to 70 state parks beginning in the summer of 2012, according to the LAO. Given that the failure of Proposition 21 left parks without a dedicated funding source, parks were left vulnerable to these types of cutbacks. CalFire is also facing reductions in the newly enacted budget. For example, nearly \$31 million is being cut from CalFire's budget by reducing the number of firefighters per truck from four down to three (CDOF 2011b).



**Figure 5:** Funding for the California Department of Corrections and Rehabilitation, FYs 2009–2012 (general fund, in billions of dollars).

## 29 Reflections

The California budget process in 2011 was a mixture of the old and the new. Like many budget fights of the past, this year's process was dominated by partisan gridlock over taxes. As before, the 2/3 rule prevented tax increases by allowing legislative Republicans to have a *de facto* veto over tax policy. This amount of control over state finances is extraordinary when one considers how little formal power Republicans have in state government. As mentioned previously, the Republican Party actually lost ground in California in the 2010 elections. Specifically, Republicans lost the governorship, all statewide elected offices, and even a seat in the State Assembly, in a year that was a Republican rout in other parts of the country. Yet, unlike previous years where Democratic leaders proved adept at getting Republican legislators to cross over in support of Democratic tax packages, this year the Republican caucus held firm. In so doing, a political party which controls barely 1/3 of the seats in the California Legislature was able to force the majority Democrats into enacting an all-cuts budget that hit Democratic priorities and constituencies hard.

Paradoxically, part of the reason for this increased power and cohesion could be explained by the Republicans' own electoral defeats. As the size of the party shrinks, the influence of conservative activists grows. While this poses a medium and long-term problem for Republican Party fortunes at the ballot box, in the short-term this allows Republicans in the legislature to maintain a high level of unity in opposing Democratic initiatives, particularly tax increases. However, this strength may be short-lived. Democrats are hopeful that they will soon capture a 2/3 majority in the legislature. Democratic strategists hope the trifecta of high voter turnout in a presidential election, newly redrawn non-gerrymandered districts, and a top-two open primary will allow them to pick up the two votes necessary in each chamber to reach the 2/3 supermajority threshold. Although they have controlled both chambers almost continuously since 1958,<sup>58</sup> Democrats have never reached 2/3 in both houses simultaneously.<sup>59</sup>

Against this backdrop, Proposition 25 proved to be an important new feature of the budget process this year. This was a measure long sought by Democrats to give them more control over state budgeting. By reducing the threshold from 2/3 to a simple majority to pass budgets, Democrats could agree on a spending

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<sup>58</sup> The Republicans held a brief 41-39 majority in the Assembly between 1969–1970 and 1995–1996. The Senate has been held continuously by the Democrats since the 1956 elections.

<sup>59</sup> May 16, 2011. *Sacramento Bee*, Brown's Countdown, Day 127: Democrats believe two-thirds margin in California Legislature is within reach.

plan without having to compromise to gain Republican support. Democrats could have total control over the budget process, as long as they do not raise taxes. In better economic times, this will definitely work to the Democrats advantage. However, when the California economy is as poor as it is now, that leaves Democrats with only three bad options: negotiate with the Republicans to obtain higher tax revenue, try to convince the public to amend Proposition 13 and reduce tax increases to a majority vote, or pass a majority budget that includes deep cuts among its constituent groups. The first idea is very difficult, and moves towards the impossible, with the increasing influence of anti-tax conservatives within the (shrinking) Republican Party. The second idea is politically impossible, given the California electorate's aversion to taxes and, in particular, any measure that would alter Proposition 13. The third idea is possible (it happened this year), but is very unpalatable both to the general public and to the Democratic base. This also complicates the Democrats' position, because they have total control over the budget, they can no longer blame Republicans for bad outcomes. Given their refusal to consider new revenues, Republicans are forcing Democrats to make deep cuts in popular programs – ones Democrats must accept all the blame for.

California still waits for a solution to its budget problem. Moreover, it still waits for a solution to its political problems as well.

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