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California: Brown's Last Budget Hurrah

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Abstract

California passed a 2018–2019 budget with record budget surpluses as the state attention shifted to the upcoming 2018 election. This was Jerry Brown's final budget after sixteen years as governor, a state record. Brown was concerned the state's volatile income tax revenues might not hold up during a future recession and wanted to store as much of the surplus away in the state's emergency "rainy-day" fund. Continuing the annual pattern, Democratic legislators wanted to spend some of the surplus on social services, including the increasing problems of homelessness and affordable housing. In addition, legislators began to address the long-ignored problem of sexual harassment in the capitol and was on the front line of the #MeToo movement, leading several legislators to resign. Democrats did well in the November elections, leading to an even bluer California.

California: Brown's Last Budget Hurrah

Introduction

As California prepares for the 2018-2019 budget, much of the political attention in the state has shifted towards two other issues, sexual harassment and the upcoming 2018 election. More than a hundred women legislators, staff, and lobbyists released a public letter in October 2017 accusing public officials in Sacramento of rampant sexism and prejudice. The resulting investigations and scandals have caused three legislators to resign, another member to take a leave of absence, and dramatically increased the tension in Sacramento. Furthermore, California had its major state elections in November 2018, including the race to replace Democratic Governor Jerry Brown. This has kept California's political class busy.

Brown introduced his final budget as governor in January and as the Legislature reviews his proposals, is slowly beginning to offer alternatives. One of the major issues, as it has been for many years now, is that legislative Democrats wish to increase social spending at a far greater pace than the notoriously frugal Brown. The question is whether Brown will bend to their will, or whether he will convince them, yet again, to take a more cautious fiscal approach. Meanwhile, both sides wait to see if the state's economy continues to turn, or if the longest sustained period of economic growth in California's modern history comes to an end.

Background

Politics

In the past decade, California has shifted from a liberal state to a very liberal state, a place where Republicans are quickly becoming an endangered species. While Republicanism remains strong in rural parts of the state, the Republican brand is doing poorly in the state's urban areas, where most of the voters are. The party is also struggling to attract nonwhite and younger voters, California's two fastest-growing groups.

2018 brought these problems into stark relief as Republican registration fell below "No Party Preference", leading Democrats to crow that Republicans were now a "third party" in the state. Democrats now make up nearly 45% of the state's 19 million registered voters.¹ In contrast, Republicans constitute just 25.1%, a smaller percentage than No Party Preference which has 25.5%.² In terms of raw numbers, this means that Republicans trail No Party Preference by slightly more than 83,000 voters.³ This problem is particularly acute in Los Angeles County and the San Francisco Bay area. In L.A. County, Democrats comprise a majority of registered voters at 51.2%, while No Party Preference has 26.1% and Republicans garner only 17.8%.⁴ In all nine

¹ May 21, 2018. *California Secretary of State*. Report of Registration.

² May 21, 2018. *California Secretary of State*. Report of Registration.

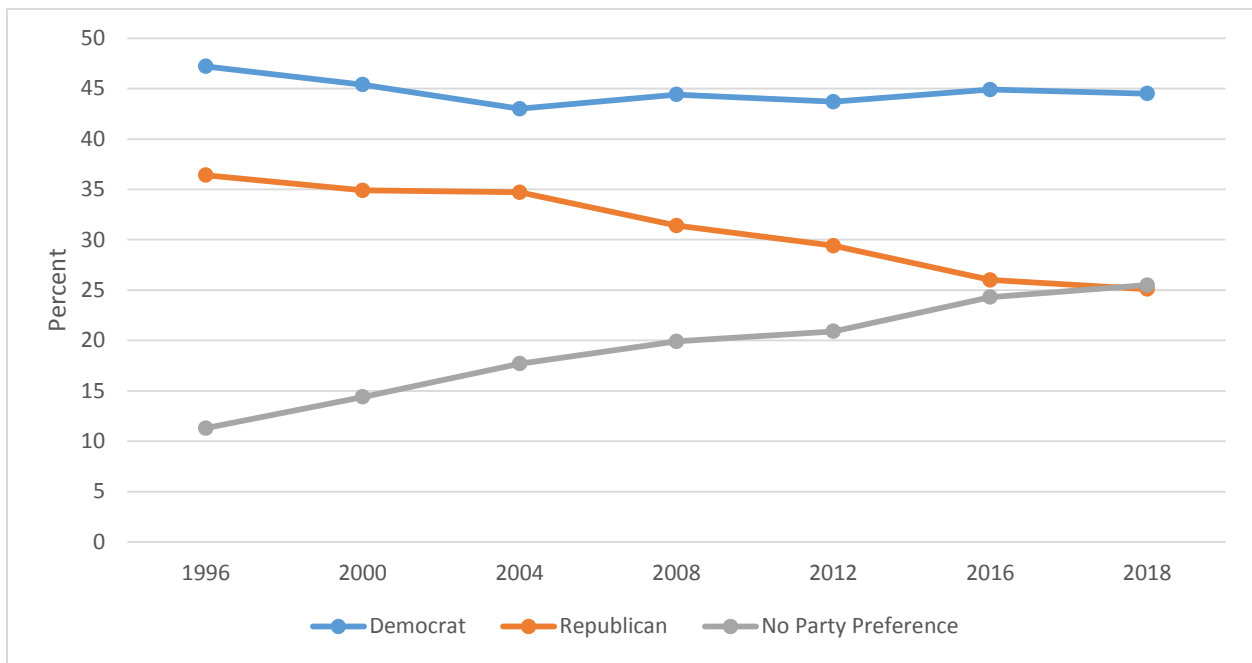
³ May 21, 2018. *California Secretary of State*. Report of Registration.

⁴ May 21, 2018. *California Secretary of State*. Report of Registration.

of the Bay Area counties, NPP voters outnumber Republicans.⁵ In San Francisco County, only 7% of registered voters are Republicans, in contrast to 57.7% Democratic and 31.3% No Party Preference.⁶

Taking a more historical look, over the past twenty years Republican registration has dropped ten percentage points and the party now has 500,000 fewer registered voters than in 1998, despite two decades of population growth in the state.⁷ Democratic registration has also dipped slightly over the same period, by about two percentage points, while No Party Preference has more than doubled.⁸ Even in conservative areas, there are reflections of these statewide trends. For example, since 2000 in the conservative Sacramento suburb of Folsom, the percentage of Republicans has fallen from 52% to 41%, while Democrats have held steady around 30% and No Party Preference has grown.⁹ Figure 1 depicts the statewide changes in party registration from 1996 to 2018.

Figure 1. Party Registration in California, 1996-2018



Source: California Secretary of State. Report of Registration as of May 21, 2018.

The California Republican Party has tried to downplay the significance of these new registration numbers. California GOP spokesman Matt Fleming said, “This isn’t surprising. Voters have been becoming more and more independent for years. But no party preference doesn’t mean

⁵ May 21, 2018. *California Secretary of State*. Report of Registration.

⁶ May 21, 2018. *California Secretary of State*. Report of Registration.

⁷ June 1, 2018. *San Francisco Chronicle*. Republicans Slip to Third Place, Behind Independents, As Registration Choice of Californians.

⁸ May 30, 2018. *Politico*. California Republicans Hit Rock Bottom.

⁹ June 9, 2017. *Sacramento Bee*. Just a handful of California cities still have a majority of Republican voters.

voters are becoming Democrats....The rise in NPP suggests that voters fed up with the status quo in California, which, by any objective measure, is Democrat control of Sacramento.”¹⁰

However, while NPP voters may not be registering Democratic, their demographic profile suggests they are unlikely to vote Republican. Most new NPP registrants are young, nonwhite, and generally opposed to the policies of President Trump.¹¹

Tony Quinn, a former Republican consultant and now senior editor of the California Target Book, said of the new numbers, “This is a real hit to the image of the California Republican Party....A lot of Californians became Republicans during the Reagan era, but that was 50 years ago. Many of those Republican voters have died or moved out of the state. They retired and left....[Also,] there are a lot more Latino citizens in the state than there were in the past. The children who were babies when Proposition 187 passed are 24 years old now, and they’re voting.”¹² Undoubtedly, demographics are playing a key role in the state’s politics. California Republican Party Chair Jim Brulte told the *New York Times* in 2016 that “The decline in Republican Party registration in California parallels almost identically the decline in the white population in California”¹³ This is a trend that shows no signs of reversing.

Demographics

To understand California, it is important to recognize the state’s rapidly changing demographics. California has been a majority-minority state since the late 1990s, and is one of the most diverse states in the nation. After the 2010 Census, non-Hispanic Whites held a narrow plurality of 40.1% of the state’s population, with Latinos comprising 37.6%.¹⁴ However, based on updated information from the U.S. Census Bureau, non-Hispanic Whites currently account for only 37.2%, while Latinos have achieved a plurality of 39.1%.¹⁵ As recently as 1980, non-Hispanic Whites accounted for two-thirds of California’s population.¹⁶ Figure 2 depicts the shifting makeup of the state from 1980 to 2020 (projected).

¹⁰ May 30, 2018. *Politico*. California Republicans Hit Rock Bottom.

¹¹ June 1, 2018. *San Francisco Chronicle*. Republicans Slip to Third Place, Behind Independents, As Registration Choice of Californians.

¹² June 1, 2018. *San Francisco Chronicle*. Republicans Slip to Third Place, Behind Independents, As Registration Choice of Californians.

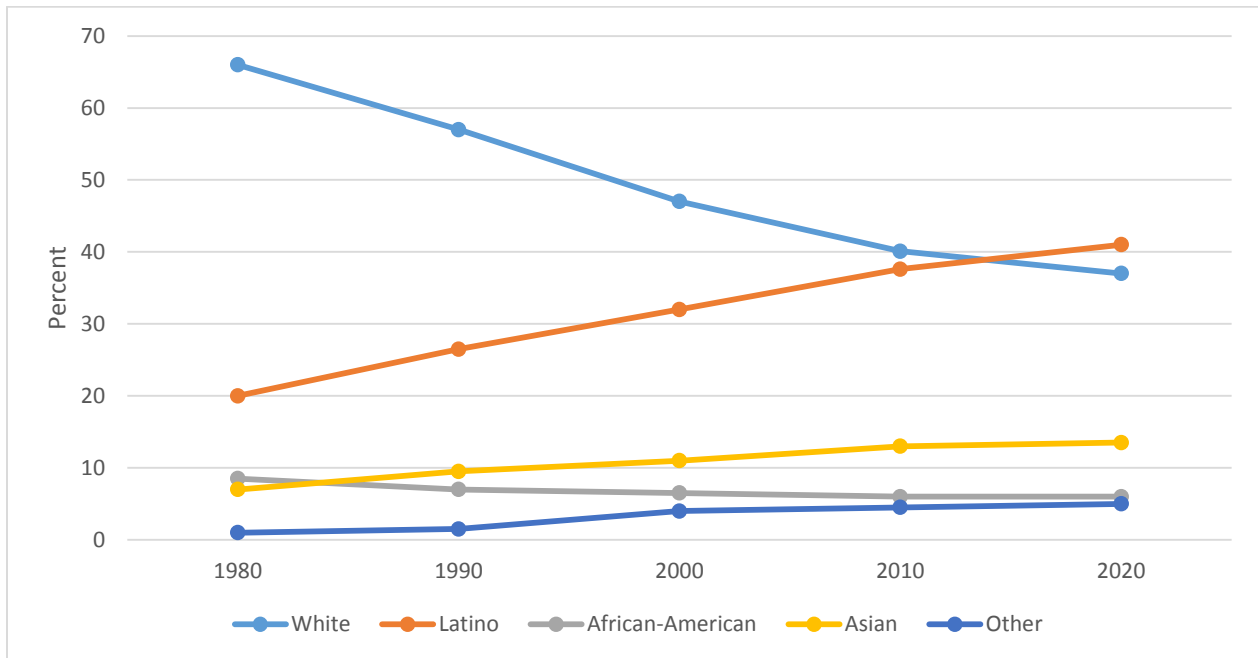
¹³ May 29, 2016. *New York Times*. Success of Jerry Brown, and California, Offers Lesson to National Democrats.

¹⁴ U.S. Census Bureau, 2018.

¹⁵ U.S. Census Bureau, 2018.

¹⁶ U.S. Census Bureau, 2018.

Figure 2. Changing Demographics in California, 1980-2020



Source: U.S. Census Bureau (Percentage of California's population)

As renowned political columnist Dan Walters wrote, “The state’s Republican Party, meanwhile, failed miserably to adjust to the new demographics. It continued to trumpet themes, such as strident resistance to undocumented immigrants...that alienated not only Latinos and other nonwhite communities but younger, well-educated white Californians as well.”¹⁷

Unemployment

Historically, unemployment has also been a major issue in the state. California is a boom-and-bust state and often experiences unemployment rates that are higher or lower than the nation at large. When recessions hit, California is often more severely impacted and takes longer to recover than other parts of the country. For example, the national unemployment rate hit its recent zenith in October 2009 at 10%, after which it slowly began to recede.¹⁸ Meanwhile, California’s jobless rate continued to climb to 12.3% in the early months of 2010, before slowly falling.¹⁹

As recently as January 2014, California’s unemployment rate was 1.6% higher than the national average.²⁰ However, by October 2018, the state’s unemployment rate stood at only 4.1% in comparison to a national rate of 3.7%.²¹ Figure 3 depicts the California and national unemployment rates from January 2014 through October 2018.

¹⁷ November 27, 2016. *Sacramento Bee*. How California became a very blue state.

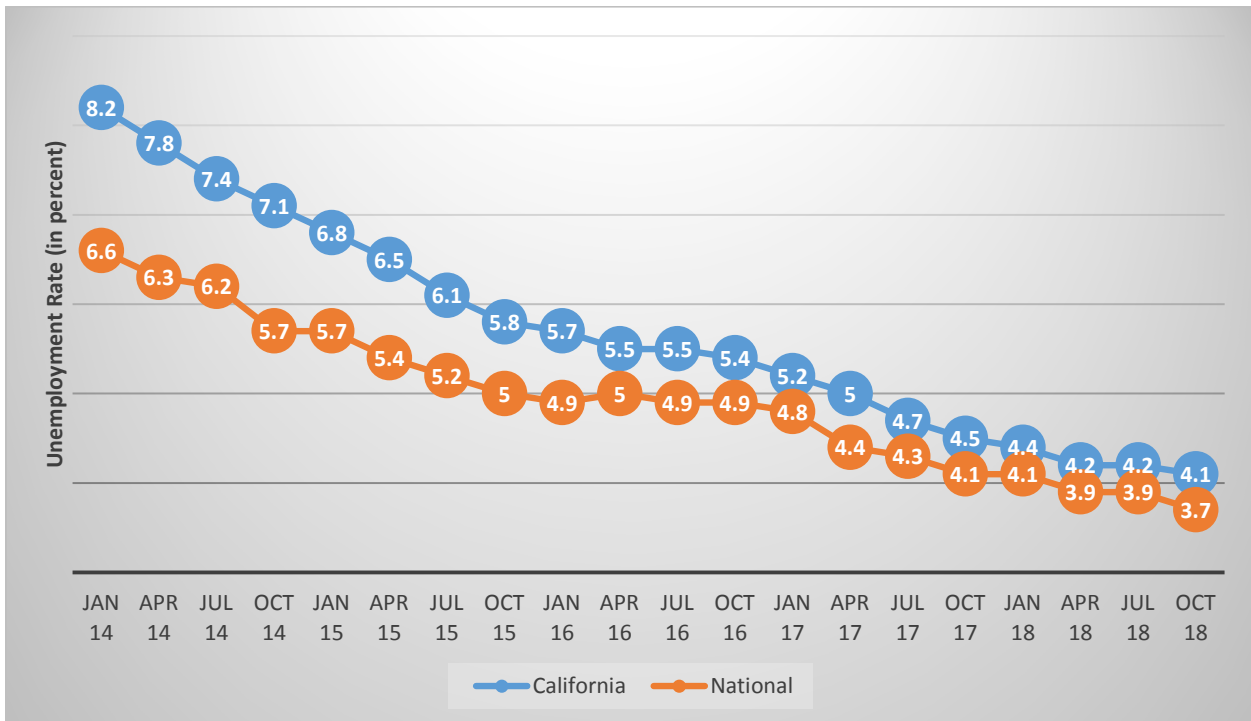
¹⁸ U.S. Bureau of Labor Statistics National Unemployment Database, 2018.

¹⁹ U.S. Bureau of Labor Statistics National Unemployment Database, 2018.

²⁰ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2018.

²¹ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2018.

**Figure 3. California vs. National Unemployment Rates (%),
January 2014 - October 2018**



Source: U.S. Bureau of Labor Statistics

The California Budget Process

The kick-off to budget season is the governor’s January budget proposal, which must be submitted to the Legislature by January 10 of each year, for the fiscal year beginning July 1. Once submitted, the proposed 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. LAO budget analysts craft several detailed reports on the governor’s budget, and frequently highlight areas of either inadequate or excessive spending in various departments, as well as highlighting changes from the previous year’s budget. The action then shifts to the Assembly Budget and Senate Budget and Fiscal Review Committees, before eventually proceeding to the Assembly and Senate floors for consideration. During this legislative review, the Department of Finance issues a revision to the governor’s budget numbers in May (colloquially known as the “May Revise”) based on updated economic forecasts and revenue projections. The Legislature uses these updated figures in crafting its final budget.

Since the adoption of Proposition 25 in 2010, budgets without tax increases require only a simple majority of both houses (41 in the Assembly and 21 in the Senate) to pass, as opposed to the previously required two-thirds vote. Tax increases still require a two-thirds vote of each chamber for passage (54 in the Assembly and 27 in the Senate). Once approved, the budget is sent to the governor for his signature.

At that point, the governor may choose to exercise his line-item veto authority. The governor can zero-out appropriations and other provisions without vetoing the entire budget. However, the governor is not empowered to increase spending on any line-item. Line-item vetoes—like regular vetoes—can be overridden by a two-thirds vote of both houses of the Legislature; however, this is exceptionally rare in California. The last successful veto override took place in 1979, with coincidentally Jerry Brown serving his first stint in office. Lawmakers haven't even voted on a veto override since 2003.²²

The California Constitution requires the Legislature to adopt a budget by June 15, and the governor to affirm his signature by July 1, the beginning of the new fiscal year. While this deadline has rarely been met in previous years, owing to the lack of a constitutional enforcement mechanism, Proposition 25 changed the political calculus. Since 2010, legislators must pass a budget by the constitutionally-mandated deadline (that specific budget does not have to be eventually enacted, a potentially large loophole), or they will forfeit their pay until a budget is passed. Since its passage in 2010, Proposition 25 has proven very effective in ensuring that California has its new budget in place by July 1.

Perennial Obstacles to California Budget-Making

California faces a series of structural and political challenges which tend to make the budget process more difficult than in other states. Several of these perennial obstacles to California budget-making are:

The Balanced Budget Requirement & Boom-and-Bust Budgeting. Like most states, California is constitutionally required to produce a balanced budget every year. However, unlike most states, California is disproportionately reliant upon income tax and capital gains tax revenue to fund its operations. This creates a boom-and-bust cycle giving the state large surpluses when times are good but huge deficits when times are bad. During difficult times, the state is forced to choose between tax increases opposed by Republicans and major spending cuts opposed by Democrats. Both options are politically unpopular with the public.

Supermajority Requirements for Tax Increases. Over the past sixty years, the Democratic Party has dominated the California Legislature. Republicans have only won a majority in the Assembly twice since 1958; Senate Republicans have controlled the chamber only once since then as well. However, state tax increases in California require a two-thirds legislative supermajority, due to Proposition 13, which passed in 1978. This gave the minority Republicans tremendous leverage over the budget-making process because they possessed an effective veto over tax policy. In recent elections, however, the Democrats have begun to frequently win a 2/3 majority in the Legislature, threatening to permanently snatch away the minority party's last major influence in state politics.

²² October 27, 2015. *Capital Public Radio*. Will California Lawmakers Ever Again Override A Veto?

Ballot Box Budgeting. Of all the states that employ direct democracy, Californians make use of their initiative, referendum, and recall procedures more than citizens of any other state.²³ 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. California's 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. For example, Proposition 98 mandates that approximately 40% of the state's budget be allocated for K-12 education and community colleges (K-14). Thus, 40% of the budget is off-the-table before any budget proposals can be made. 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 have historically approved new spending measures but rejected new tax increases. However, the voters' approval of Jerry Brown's temporary tax increases (Proposition 30) in 2012, and the extension of those taxes (Proposition 55) in 2016, might have signaled a significant change in the public's attitude. Perhaps the demographically-shifting California electorate is becoming more willing to raise taxes. Time will tell.

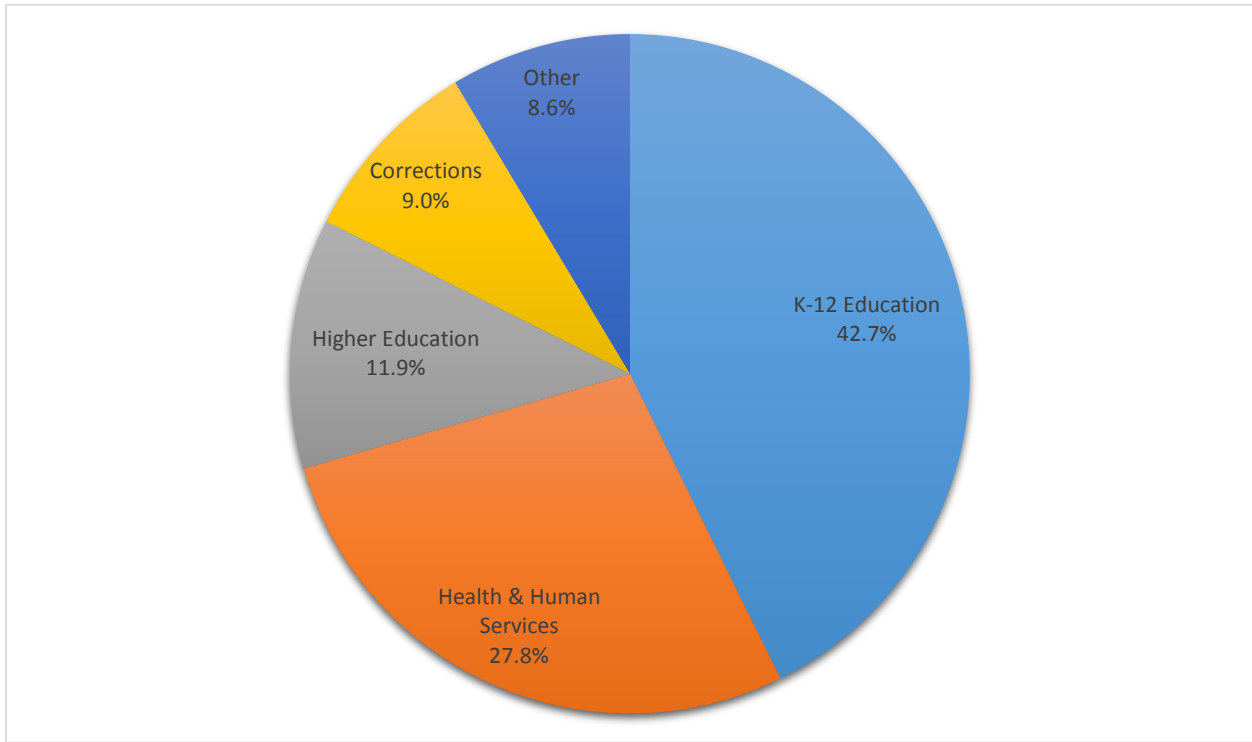
The Big Four and the Previous 2017-2018 Budget

When it comes to expenditures, the "Big Four" in California are K-12 Education, Health & Human Services, Higher Education, and Corrections. Despite the public perception of widespread waste in California government, these four fundamental categories of state services account for nearly 90% of all state General Fund spending. In the previous FY 2017-2018 budget, K-12 Education accounted for 42.7% of General Fund expenditures, Health & Human Services 27.8%, Higher Education 11.9%, and Corrections 9.0% (see Figure 4 below).²⁴

²³ Initiative & Referendum Institute, 2018.

²⁴ California Department of Finance. *California State Budget 2017-2018*.

Figure 4: California’s General Fund Expenditures, 2017-2018



Source: California Department of Finance

K-12 education was the single largest expense facing the state of California, and consumed nearly 43% of General Fund revenues in 2017-2018. Overall, the state provided \$92.5 billion of funding to support primary and secondary education, with \$54.1 billion coming from the General Fund and \$38.4 billion from other funds.²⁵

Health, welfare, and social service programs were the second largest expense in the 2017-2018 budget, accounting for 27.8% of all state spending. The budget provided a total of \$161 billion for such programs, with \$35 billion coming from the General Fund and \$126 billion from other funds.²⁶

Higher Education was the third largest area of state spending in 2017-2018, consuming 11.9% of General Fund revenues. Overall, the state provided \$32.5 billion in funding, with \$17.7 billion coming from the General Fund and \$14.8 billion from other funds.²⁷

Finally, Corrections was the fourth-largest category of state expenditure in the 2017–2018 budget, accounting for 9% of the 2017-2018 General Fund budget. Overall, CDCR received a total of \$11.4 billion in funding, with \$11.1 billion coming from the General Fund and \$308 million from other funds.²⁸

²⁵ California Department of Finance. *California State Budget 2017-2018*.

²⁶ California Department of Finance. *California State Budget 2017-2018*.

²⁷ California Department of Finance. *California State Budget 2017-2018*.

²⁸ California Department of Finance. *California State Budget 2017-2018*.

In its November 2017 report, the Legislative Analyst's Office (LAO) predicted positive economic conditions for at least the next two years, with the state budget operating in surplus. In fact, assuming the Legislature did not increase spending the following year, they projected the state would end the 2018-2019 fiscal year with \$19.3 billion in total reserves (\$7.5 billion in discretionary reserves).²⁹ However, they still sounded a cautionary note about overspending and urged that more money be placed in the state's reserves. In the absence of a recession, the LAO projected state budget surpluses of about \$6 billion per year through 2021-2022.³⁰ However, assuming a moderate recession begins in 2019-2020, the state's reserves would be exhausted by 2021-2022 and spending cuts, tax increases, or a combination of both would be necessary to arrive at a balanced budget.³¹

Economic Outlook: California Sunshine and Surpluses

In November 2017, the Legislative Analyst's Office (LAO) published its annual fall report on California's economic outlook. They predicted positive economic conditions in California for at least the next two years, with the state budget operating in surplus. Moreover, assuming the Legislature did not increase spending the following year, they projected the state would end the 2018-2019 fiscal year with \$19.3 billion in total reserves, with \$7.5 billion in discretionary funds, with little restrictions on how the governor and Legislature could use them.³²

However, the LAO still sounded a cautionary note about overspending and urged that more money be placed in the state's reserves. In the absence of a recession, the LAO projected state budget surpluses of about \$6 billion per year through 2021-2022.³³ However, assuming a moderate recession begins in 2019-2020, the state's reserves would be exhausted by 2021-2022 and spending cuts, tax increases, or a combination of both would be necessary to arrive at a balanced budget.³⁴

Assembly Budget Committee Chairman Phil Ting (D-San Francisco) told the media that the forecast suggests the state should be able to both keep a healthy reserve while also make "responsible progressive investments to fight poverty, increase access to healthcare, improve schools and access to early education."³⁵

California was quickly filling up its rainy-day fund, limited by law to only ten percent of the state's projected General Fund. Additional unspent revenue must either be spent on infrastructure or returned as a tax rebate, which is unlikely with Democrats in complete political control of the state. California could store additional revenue in other reserve accounts, but they could be tapped much easier than money stashed in the Emergency Fund.

²⁹ Legislative Analyst's Office. *The 2018-2019 Budget: California's Fiscal Outlook*.

³⁰ Legislative Analyst's Office. *The 2018-2019 Budget: California's Fiscal Outlook*.

³¹ Legislative Analyst's Office. *The 2018-2019 Budget: California's Fiscal Outlook*.

³² Legislative Analyst's Office. *The 2018-2019 Budget: California's Fiscal Outlook*.

³³ Legislative Analyst's Office. *The 2018-2019 Budget: California's Fiscal Outlook*.

³⁴ Legislative Analyst's Office. *The 2018-2019 Budget: California's Fiscal Outlook*.

³⁵ November 15, 2017. *Sacramento Bee*. California's lawmakers should have a surplus next year. Will they spend it or save it?

Mac Taylor, head of the state's Legislative Analyst Office (LAO), said he would have a better sense of California's financial standing after the governor's updated May revision. But, he predicted the state would have even more money than the \$3.5 billion excess revenue he initially predicted in November. "It's important to take a moment to enjoy these times budgetarily speaking. They don't get much better than this," he told legislators at a January 2018 Senate Budget Committee hearing.³⁶

Brown continues to urge caution. "What's out there is darkness, uncertainty, decline and recession," Brown told reporters at a press conference.³⁷

Even small downturns in the stock market can devastate California's budget, due to its over-reliance on capital gains tax. Since Brown already raised income taxes to balance the budget early in his term, any new proposal to increase taxes would be quite difficult. In addition, the 2018 Republican federal tax cuts also curbed the ability of filers in high-tax states like California to federally deduct their state and local taxes, causing many Californians to end up paying more in taxes than before the tax cut.

Brown's January budget did not directly address the federal tax changes, but the governor was against the Republican plan. "It does make our very progressive tax system more burdensome than need be," Brown told reporters in January. "And I think that was the point. This was an assault by the Republicans in Congress against California, New York, New Jersey, Maryland, Illinois, and Massachusetts. ... It's really a dumb move on the part of the Republicans, and I hope the next Congress will be Democratic and they reverse that."³⁸

Collectively, the decisions made in Sacramento and Washington limit the ability of Brown, and his successor, from making major tax changes, even if a recession wipes out the surplus. "[Brown's] successor gets a world in which revenues are more volatile," and with few options to raise taxes, said David Crane, a lecturer in public policy at Stanford University and a former adviser to Brown's predecessor, Arnold Schwarzenegger. "That's a really tough world to operate in."³⁹

Governor's Proposed 2018-2019 Budget

Overall, the governor proposed a \$131.7 billion General Fund budget for FY 2018-2019. K-12 Education was slated to receive the highest share, accounting for 41.9% of General Fund expenditures.⁴⁰ This would be followed by Health & Human Services at 28.4%, Higher Education at 11.7%, and Corrections at 9%.⁴¹

³⁶ February 1, 2018. *Sacramento Bee*. California's budget reserves swell but no rebate in sight

³⁷ February 13, 2018. *New York Times*. Boom and Gloom: An Economic Warning for California

³⁸ January 10, 2018. *San Francisco Chronicle*. Jerry Brown unveils record \$132 billion California budget for 2018-19

³⁹ February 13, 2018. *New York Times*. Boom and Gloom: An Economic Warning for California

⁴⁰ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁴¹ California Department of Finance. *Governor's Budget Summary 2018-2019*.

The Department of Finance predicted a sizable surplus in 2018-2019, but urged caution with the added funds. The two main concerns for the state’s fiscal outlook were the effects of federal tax changes enacted in late 2017, and the possibility of another recession on the horizon (similar to the concerns raised by the LAO in November 2017).⁴² In its analysis, the Department of Finance wrote “By the end of 2018-2019, the expansion will have matched the longest in post-war history. The best way to buffer against uncertainty and protect against future cuts is to continue building the state’s Rainy Day Fund.”⁴³ So, long a goal of Governor Brown, his budget proposal for 2018-2019 brought the Rainy Day Fund to 100% of its constitutional target.⁴⁴

K-12 Education

Fueled by higher than expected General Fund revenues and local property taxes, the Proposition 98 minimum funding guarantee for K-12 Education and community colleges rose again.⁴⁵ For 2018-2019, the figure stood at \$78.3 billion, an all-time high according to the Department of Finance.⁴⁶ When combined with other funds rolled over from prior years, this allowed the governor to propose a generous increase of \$4.6 billion in education funding.⁴⁷

Figure 5 illustrates the dramatic rise in Proposition 98 funding since the depths of the Great Recession at the beginning of the decade.

⁴² California Department of Finance. *Governor’s Budget Summary 2018-2019*.

⁴³ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

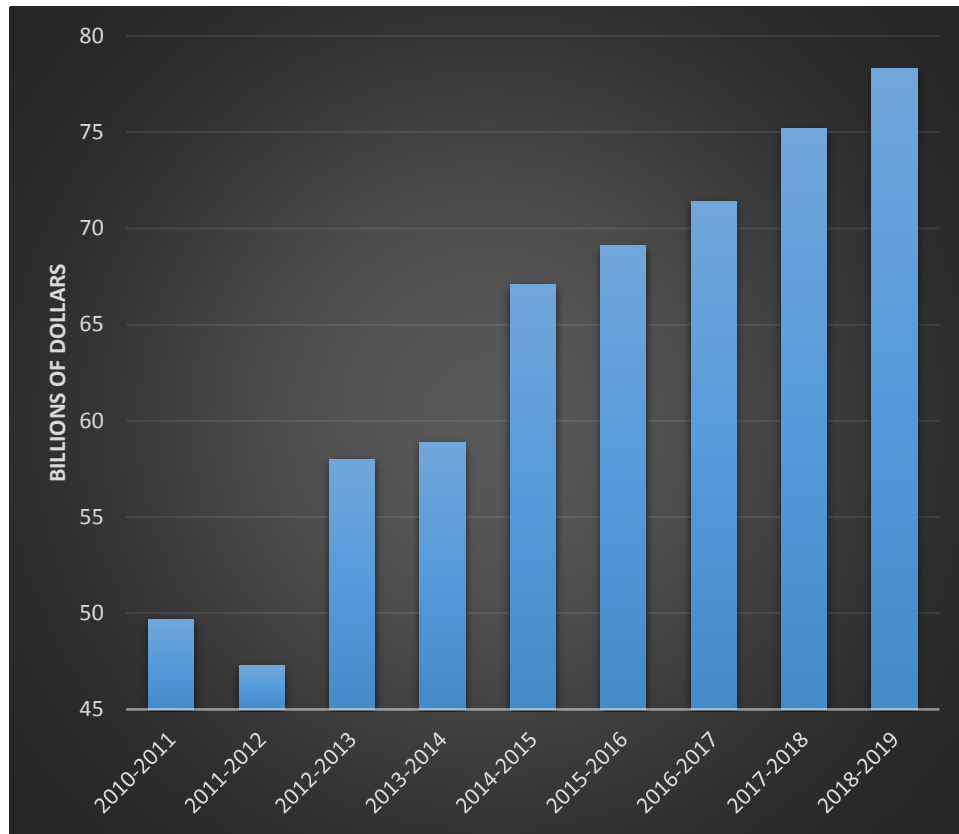
⁴⁴ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

⁴⁵ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

⁴⁶ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

⁴⁷ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

Figure 5: Proposition 98 Funding, 2010-2011 to 2018-2019



Source: California Department of Finance

The governor hoped to use these added funds to advance his key priorities in education, such as paying debts owed to schools, investing in programs to help low-achieving students, and funding the Local Control Funding Formula (LCFF).⁴⁸ Specifically, \$3 billion of the \$4.6 billion total increase was earmarked to fully fund LCFF two years earlier than originally planned.⁴⁹ LCFF was created by a 2013 law that provided local school districts with broad autonomy in determining how to spend state education funds. The law was intended to provide districts with more flexibility to meet the needs of students from more disadvantaged backgrounds, such as low-income children, foster youth, and students for whom English was not their first language.⁵⁰ However, critics of the program contended that certain school districts were using the added funds in ways that were not directed at, and did not support the students most in need.⁵¹ For example, the Long Beach Unified School District was criticized for spending most of its money on AP classes.⁵² Angelica Salazar, of the Children’s Defense Fund in California, said “Is this really going to help this population in a targeted way? The priority [for the district] is getting more students to take AP classes. [That] priority is not making sure we provide social-and-

⁴⁸ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

⁴⁹ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

⁵⁰ August 24, 2016. *The Atlantic*. Why School Funding Will Always Be Imperfect.

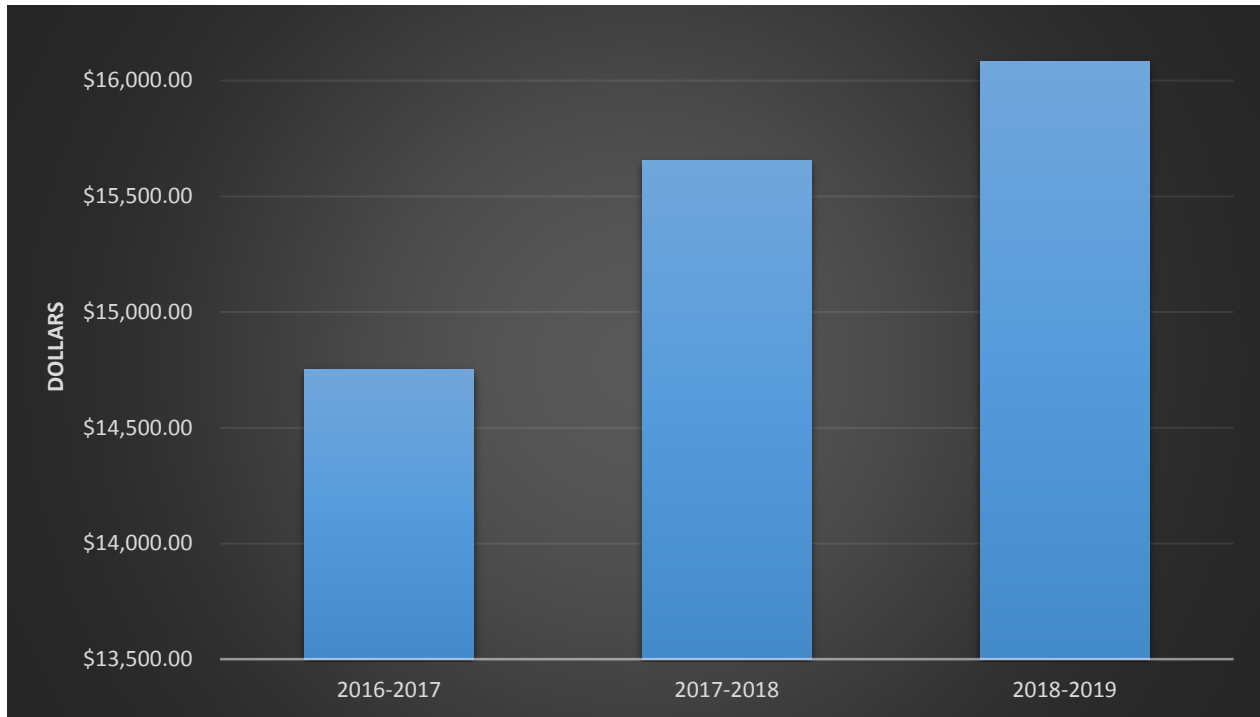
⁵¹ August 24, 2016. *The Atlantic*. Why School Funding Will Always Be Imperfect.

⁵² August 24, 2016. *The Atlantic*. Why School Funding Will Always Be Imperfect.

emotional wellness for every young person in our district.”⁵³ Despite these concerns, full funding for LCFF was high on Governor Brown’s agenda.

Governor Brown and the Department of Finance (DOF) were also eager to tout the rising levels of per pupil spending that the new education funding would make possible. From \$14,752 in 2016-2017, the governor’s budget expected 2018-2019 levels to reach \$16,085 (see Figure 6 below).

Figure 6: California Per Pupil Spending, 2016-2017 to 2018-2019



Source: California Department of Finance

Health & Human Services

The governor’s proposed 2018-2019 budget included \$155.7 billion in funding for Health & Human Services, with \$37.4 billion coming from the General Fund and \$118.3 billion from other funds.⁵⁴ This represented a \$2.4 billion increase in General Fund support for HHS programs over the 2017-2018 budget, although this was more than offset by a loss of \$7.7 billion from other funds.⁵⁵

Aside from Medi-Cal, two of the most significant programs under health and human services are CalWORKs and In-Home Supportive Services (IHSS). CalWORKs is California’s main social welfare program and offers cash assistance and child care for the poor. The In-Home Supportive

⁵³ August 24, 2016. *The Atlantic*. Why School Funding Will Always Be Imperfect.

⁵⁴ California Department of Finance. *Governor’s Budget Summary 2018-2019*.

⁵⁵ California Department of Finance. *California State Budget 2017-2018*.

Services program provides domestic care services to low-income elderly, blind, and disabled Californians.

CalWORKs caseloads have continually decreased throughout the decade due to the improving economy, and DOF expected to see this trend continue in 2018-2019. Projected caseloads in 2018-2019 were around 400,000, down from approximately 425,000 the previous year.⁵⁶ Despite this, the budget included \$26.7 million to launch a new Home Visiting pilot program. Targeting young first-time parents receiving CalWORKs benefits, the program aimed to improve self-sufficiency by assessing family dynamics, supporting healthy child development, and preparing parents for employment.⁵⁷

In contrast to CalWORKs, In-Home Supportive Services (IHSS) actually saw an increase in caseloads. From approximately 518,000 in 2017-2018, the program was expected to serve around 545,000 in 2018-2019.⁵⁸ The governor's Budget called for \$3.6 billion in General Fund support for IHSS in 2018-2019, a 7.7% increase from the previous year's level.⁵⁹ The Department of Finance pointed out that "General Fund costs in this program have more than doubled since 2010-2011, while caseload has increased 26 percent."⁶⁰ Certainly, this should merit closer attention in the years to come.

Higher Education

The governor's proposed 2018-2019 budget included \$33.7 billion in funding for Higher Education, with \$18.5 billion coming from the General Fund and \$15.2 billion from other funds.⁶¹ This represented an \$800 million increase in General Fund support for Higher Education over the 2017-2018 budget, and an overall increase of \$1.2 billion.⁶²

The University of California System would receive an additional \$92.1 million to increase its base level of state support (equivalent to about 3 percent).⁶³ The California State University system would also receive \$92.1 million to be used to meet its Graduation Initiative.⁶⁴ In 2016, the CSU Board of Trustees set a goal to increase its four-year graduation rate to at least 40% and its two-year transfer graduation rate to at least 45%.⁶⁵ The budget directed that the extra \$92.1 million be used to meet those goals.⁶⁶

This would mark the third straight year of increased funding for the University of California and California State University systems, which are still recovering from budget cuts imposed during the Great Recession. However, the governor's proposal provided considerably less money than

⁵⁶ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁵⁷ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁵⁸ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁵⁹ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁶⁰ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁶¹ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁶² California Department of Finance. *California State Budget 2017-2018*.

⁶³ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁶⁴ California Department of Finance. *Governor's Budget Summary 2018-2019*.

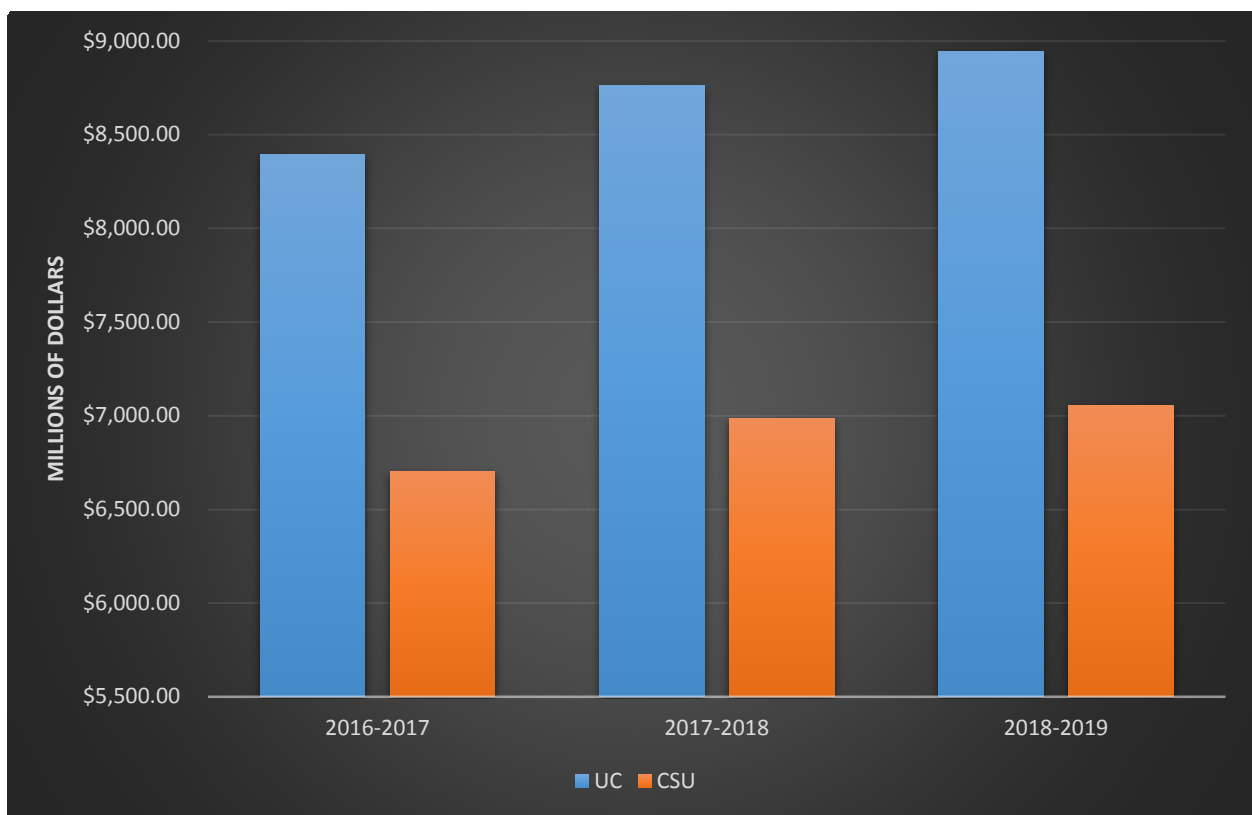
⁶⁵ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁶⁶ California Department of Finance. *Governor's Budget Summary 2018-2019*.

university officials were hoping for.⁶⁷ The three percent increase was less than the four percent that the univeristy systems received in the previous two years, and was only one-third of the total funding increase that California State trustees asked for.⁶⁸ Cal State Chancellor Timothy White said the governor’s proposal was “concerning and surprising.”⁶⁹ By contrast, Brown’s budget proposed a 6.5% increase in funding for California’s community college system, increasing General Fund support by \$609 million to \$9.9 billion in 2018-2019.⁷⁰

Figures 7 and 8 illustrate the trends in funding for both the University of California and the California State systems over the past several years.

Figure 7: Funding for University of California & California State University, 2016-2017 to 2018-2019



Source: California Department of Finance

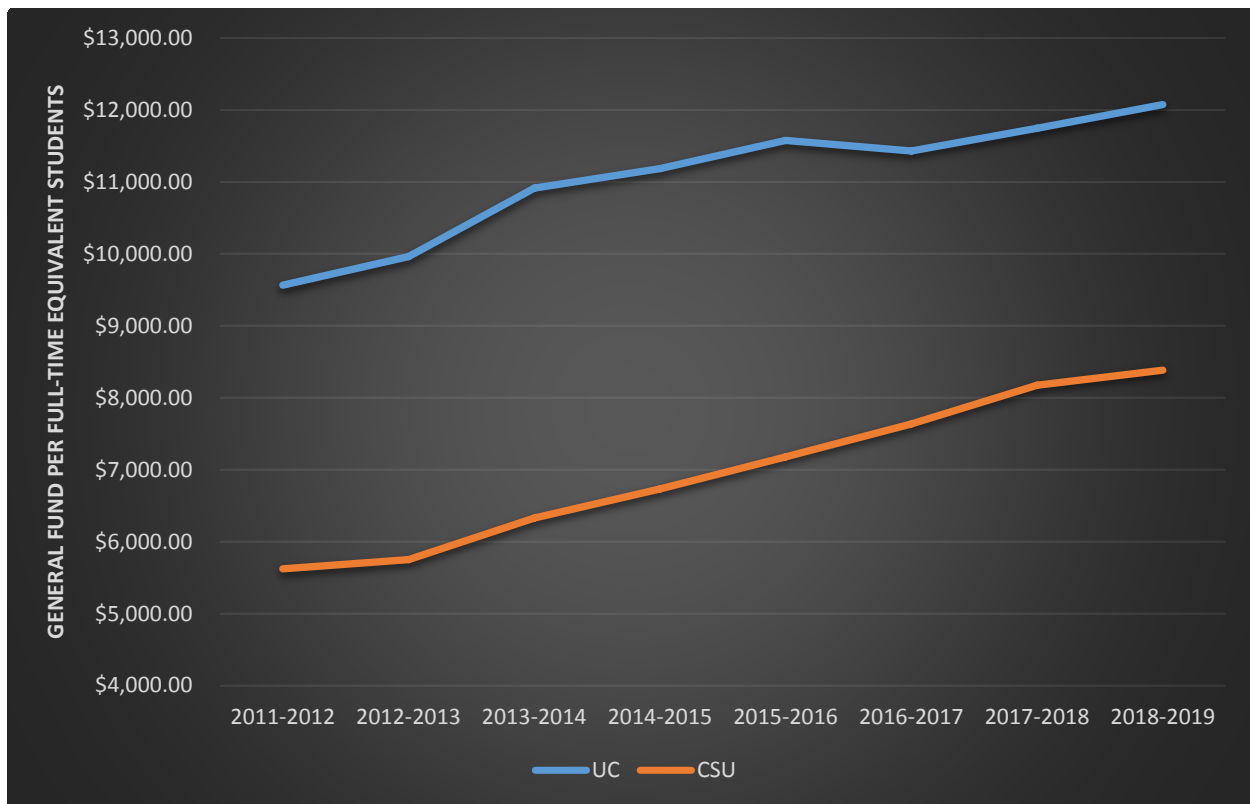
⁶⁷ January 10, 2018. *Los Angeles Times*. Gov. Brown proposes California’s first fully online public community college.

⁶⁸ January 10, 2018. *Los Angeles Times*. Gov. Brown proposes California’s first fully online public community college.

⁶⁹ January 10, 2018. *Los Angeles Times*. Gov. Brown proposes California’s first fully online public community college.

⁷⁰ January 10, 2018. *Los Angeles Times*. Gov. Brown proposes California’s first fully online public community college.

Figure 8: Per Student Funding for University of California & California State Systems, 2011-2012 to 2018-2019



Source: California Department of Finance

Related to the governor’s proposed funding increase for community colleges was his plan to create a new fully online school to help adults without college degrees obtain career skills. His budget proposal called for spending \$120 million to open such a school by fall 2019, consisting of \$100 million in one-time start-up funds plus \$20 million per year from Proposition 98 funds.⁷¹ Initially the online community college would focus its attention on short-term credential programs, in fields such as health care, home support services, and child development.⁷² “This is targeted to several million people who can upgrade their skills by taking online courses and maintaining their employment, which they certainly need,” Brown said.⁷³

However, shortly after the proposal was announced, criticism began to mount from some education advocates. Joshua Pechthalt, President of the California Federation of Teachers (which also represents community college faculty) said, “What makes education really come alive for students is interaction with instructors and other students. Online is not a good approach. Students hurt the worst are at the lower end of the economic spectrum. They tend to

⁷¹ January 11, 2018. *San Francisco Chronicle*. Jerry Brown proposes new online-only public college to help working adults succeed.

⁷² January 11, 2018. *San Francisco Chronicle*. Jerry Brown proposes new online-only public college to help working adults succeed.

⁷³ January 11, 2018. *San Francisco Chronicle*. Jerry Brown proposes new online-only public college to help working adults succeed.

drop out of online courses at a higher rate. The idea that it's beneficial to them flies in the face of our experience."⁷⁴ The union, and leaders of many already-established community colleges, also feared lower student enrollment and fewer faculty positions if they had to compete with a new statewide online community college.

These concerns were rebutted by California Community College Chancellor Eloy Ortiz Oakley, an enthusiastic supporter of Brown's proposal. Oakley said, "We're not targeting the traditional college student. We're targeting people in apprenticeship programs, people who are trying to move from being a medical assistant to a supervisorial job....They don't have the time to spend getting to know instructors and students on campus."⁷⁵

Supporters of the proposal also argued that it was a way to deliver education to a segment of the population that is often victimized by expensive for-profit schools. Brown said that many students currently pay seven to nine times more per academic unit at for-profit colleges and take on "burdensome levels of student debt."⁷⁶ Michele Siqueiros, Executive Director of the Campaign for College Opportunity said the new school would be "a lifeline for millions of working Californians."⁷⁷

Still, critics alleged that the money could be better spent improving online offerings at existing community colleges. Joshua Pechthalt, head of the California Federation of Teachers said, "To create a whole independent college that does just online courses seems counterproductive....schools already offer that stuff."⁷⁸ This concern was shared by the Legislative Analyst's Office. In the analysis of the governor's proposal LAO encouraged the Legislature to "consider ways to improve online and competency-based education reforms within the existing CCC [California Community College] system."⁷⁹

The LAO report also raised other concerns about the proposal. For example, it said that it "fails to clearly identify the key reasons why the target student group is currently not seeking or receiving more education,"⁸⁰ and "the administration...has not explained how a statewide college would be able to foster sufficient industry partnerships given the regional nature of many industries."⁸¹ The LAO urged caution. Clearly, this was going to be a major issue as the year progressed.

Corrections

⁷⁴ January 15, 2018. *Los Angeles Times*. Is Gov. Brown's proposal for a public online community college a good idea? Some educators say no.

⁷⁵ January 15, 2018. *Los Angeles Times*. Is Gov. Brown's proposal for a public online community college a good idea? Some educators say no.

⁷⁶ January 11, 2018. *San Francisco Chronicle*. Jerry Brown proposes new online-only public college to help working adults succeed.

⁷⁷ January 11, 2018. *San Francisco Chronicle*. Jerry Brown proposes new online-only public college to help working adults succeed.

⁷⁸ January 15, 2018. *Los Angeles Times*. Is Gov. Brown's proposal for a public online community college a good idea? Some educators say no.

⁷⁹ Legislative Analyst's Office. *The 2018-2019 Budget: Higher Education Analysis* (February 15, 2018).

⁸⁰ Legislative Analyst's Office. *The 2018-2019 Budget: Higher Education Analysis* (February 15, 2018).

⁸¹ Legislative Analyst's Office. *The 2018-2019 Budget: Higher Education Analysis* (February 15, 2018).

The governor's proposed 2018-2019 budget included \$12 billion in funding for the California Department of Corrections and Rehabilitation (CDCR), with \$11.7 billion coming from the General Fund and \$300 million from other funds.⁸² This represented a \$600 million increase in General Fund support for Corrections over the 2017-2018 budget.⁸³

The added funds were meant to cover an expected increase in the average daily adult inmate population, as well as fund programs to increase education, provide substance abuse/mental health/other treatments, and reduce recidivism. For example, \$20.1 million was allocated for inmate mental health treatment, \$2.5 million for inmate self-help groups, and \$6.7 million to provide career training and technical education to inmates.⁸⁴

#MeToo

Sexual harassment and the #MeToo movement has occupied much of the capitol's attention since fall 2017, diverting political attention away from legislative and budget matters. The initial movement capitulated into the public's attention regarding sexual misconduct in Hollywood. But it quickly expanded into California's capital in mid-October as more than 140 female legislators, senior legislative aides and lobbyists came forward in a public letter denouncing similar behavior in California's Legislature.

"As women leaders in politics, in a state that postures itself as a leader in justice and equality, you might assume our experience has been different," the letter said. "It has not. Each of us has endured, or witnessed or worked with women who have experienced some form of dehumanizing behavior by men in power in our workplaces."⁸⁵

"Men have groped and touched us without our consent, made inappropriate comments about our bodies and our abilities," the letter continued, adding, "Why didn't we speak out? Sometimes out of fear. Sometimes out of shame. Often these men hold our professional fates in their hands."⁸⁶

By November, three legislative Democrats had been accused. Assemblyman Raul Bocanegra (Los Angeles) quickly resigned after the *Los Angeles Times* published accusations of harassment from six women. Matt Dababneh (San Fernando Valley) was accused of harassment from multiple women and resigned January 1st. And State Senator Tony Mendoza (Los Angeles County) initially refused to resign amid multiple accusations despite intense pressure from other Democrats, including Pro Tem de Leon.⁸⁷

Mendoza eventually resigned in late February 2018, just minutes before Senators were to begin debate on whether to expel him from the chamber. Mendoza's angry resignation letter attacked Pro Tem de Leon, saying he "will not rest until he has my head on a platter to convince the

⁸² California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁸³ California Department of Finance. *California State Budget 2017-2018*.

⁸⁴ California Department of Finance. *Governor's Budget Summary 2018-2019*.

⁸⁵ October 17, 2017. *New York Times*. Women Denounce Harassment in California's Capital

⁸⁶ October 17, 2017. *New York Times*. Women Denounce Harassment in California's Capital

⁸⁷ December 24, 2017. *Politico*. In California, harassment scandals roil ruling Democrats

MeToo movement of his ‘sincerity’ in supporting the MeToo cause.”⁸⁸ The situation was particularly complicated for de Leon, who was renting a room in Mendoza’s Sacramento home as the allegations emerged last November. The Pro Tem was running for the U.S. Senate against incumbent and fellow Democrat Diane Feinstein, and quickly moved out of Mendoza’s home.

These resignations cost the Democrats their two-thirds supermajority in both chambers. And although all the legislators came from safe Democratic areas that elected new Democrats in subsequent special elections, it denied the Democrats their supermajority for many months, including during much of the budget process.

Assembly Judiciary Chair Mark Stone admitted the scandal and fallout has harmed the public perception of the Legislature, “as it should,” but also noted it is encouraging much-needed reforms. “It’s also a wakeup call for some changes that should have happened and needed to happen for a long time,” he said.⁸⁹

Within this charged political atmosphere, Toni Atkins (D-San Diego) became the first woman and LGBT person to lead the California Senate, taking over for Kevin de Leon in March. “It’s the first time. And it’s about time,” Atkins told the chamber. “I came to the Senate to make progress, not history.”⁹⁰ Raised in rural Appalachia, Atkins becomes only the third person to ever serve as Assembly Speaker and Senate Pro Tem, and the first since the 1870s, previously serving as leader of the Assembly from 2014 to 2016.

Acknowledging the problems of sexual misconduct rampant in the capitol, Atkins promised a new start. “To some extent, we bear the burden of past sins too often swept under the rug,” Atkins said. “We can’t change the past. But we can and we should be judged on how we shape the future.”⁹¹ She also acknowledged it would not be easy, telling the assembled chamber “we know that true culture change cannot be legislated or decreed. It doesn’t occur overnight. And it doesn’t get solved simply by electing women to leadership.”⁹²

“When people first interact with Toni, what they see is a very unassuming, low-key person who has a bit of an earth mother affect about her,” Senator Scott Wiener (D-San Francisco) told the press. “People sometimes mistake that for weakness. But what they don’t see is right underneath that surface is pure steel. She is tough as nails. But she has a huge heart.”⁹³ *The Los Angeles Times* reported that while Brown did not attend Atkin’s swearing-in ceremony, he celebrated with her earlier in the day, giving her a gift of olive oil from the trees on his rural Northern California ranch.⁹⁴

⁸⁸ February 22, 2018. *Los Angeles Times*. California Sen. Tony Mendoza abruptly resigns, was facing expulsion after sexual harassment investigation

⁸⁹ February 19, 2018. *Associated Press*. Sexual misconduct scandal envelops California Legislature

⁹⁰ March 21, 2018. *Associated Press*. First woman, LGBT leader of California Senate sworn in

⁹¹ March 21, 2018. *Associated Press*. First woman, LGBT leader of California Senate sworn in

⁹² March 21, 2018. *Los Angeles Times*. New Senate President Pro Tem Toni Atkins pledges change in the Capitol on sexual misconduct

⁹³ March 18, 2018. *Associated Press*. California to get first female and first LGBT Senate leader

⁹⁴ March 21, 2018. *Los Angeles Times*. New Senate President Pro Tem Toni Atkins pledges change in the Capitol on sexual misconduct

May Revise, Cal State Chipotle?

Brown unveiled his budget revision, or “May Revise”, in mid-May. The projected \$6.1 billion surplus in January now stood at \$8.9 billion, and Brown proposed saving about two-thirds of the funding, spending much of the rest of a backlog of infrastructure maintenance. “We’re nearing the longest economic recovery in modern history, and as Isaac Newton observed, ‘What goes up must come down’,” Brown told reporters at his press conference. “This is a time to save for our future, not to make pricey promises we can’t keep. I said it before and I’ll say it again: Let’s not blow it now.”⁹⁵

Brown once again, reiterated his resistance to expanding social spending. “All the people who want things won’t be getting what they’d like to have, the governor warned. “Life is very giddy at the peaks ... but I’m not giddy,” he reminded everyone.⁹⁶

Despite a major push by higher education advocates, Brown held the line at his 3% January budget increase for the two university systems. The governor did allocate an extra \$100 million to the CSU and UC for deferred maintenance however. “During this final stretch of budget negotiations,” California State University Chancellor Timothy White released in a statement, “the university community will continue to reinforce to California’s lawmakers that sufficiently funding the CSU is the key to the state’s prosperity.”⁹⁷

Brown started his presentation with a playful note, accompanied by his wife and political advisor Anne Gust Brown, along their new puppy, Cali “the newest member of our team.” Before the conference began, the room played a mix of money-themed tunes including Destiny’s Child’s 1999 hit “Bills, Bills, Bills.”⁹⁸

The Legislature usually pushes back on the governor’s budget in California, and this year the majority legislative Democrats focused on increasing state funding for higher education. In May, the two higher education budget subcommittees approved hundreds of millions in additional funding, increasing overall enrollment, and eliminating a potential tuition increase. Assemblyman Kevin McCarty (D-Sacramento), who heads one of the budget subcommittees, said the state’s booming economy enabled legislators to “do what we like to do, which is properly fund higher education in California.”⁹⁹

At a UC Regents meeting held soon after the budget increases, UC President Janet Napolitano praised the 2,500 students, employees, and alumni who contacted state legislators more than

⁹⁵ May 11, 2018. *San Jose Mercury*. Gov. Jerry Brown proposes \$137.6 billion budget with a nearly \$9 billion surplus

⁹⁶ May 11, 2018. *Associated Press*. California governor pitches robust budget as revenues surge

⁹⁷ May 11, 2018. *San Jose Mercury*. Gov. Jerry Brown proposes \$137.6 billion budget with a nearly \$9 billion surplus

⁹⁸ May 11, 2018. *San Jose Mercury*. Gov. Jerry Brown proposes \$137.6 billion budget with a nearly \$9 billion surplus

⁹⁹ May 23, 2018. *Los Angeles Times*. California’s public universities on the way to getting a big longed-for boost in funding

5,600 times this year. “We are pleased and grateful that our state legislators recognize how crucial it is to adequately fund the university,” Napolitano said.¹⁰⁰

A few days later Brown launched into an extended aside while addressing the California Chamber of Commerce in late May, suggesting California universities should be more like the fast-casual restaurant Chipotle. “What I like about Chipotle is the limited menu. You stand in the line, get either brown rice or white rice, black beans or pinto beans,” Brown said. “You put a little cheese, a little this, a little that, and you're out of there. I think that's a model some of our universities need to follow.”¹⁰¹

The governor suggested the UC and CSU systems adopt Chipotle’s “limited-menu concept” which might boost graduation rates. “They have so damn many courses because all these professors want to teach one of their pet little projects, but then you get thousands and thousands of courses, and then the basic courses aren't available. It takes kids six years instead of four years,” Brown said.¹⁰²

Following the breakfast gathering, Brown was asked about the Legislature’s plan to increase higher education spending. “No comment,” the governor told reporters. “Budgets will be going on all next month.”¹⁰³

Here a Reserve Fund, There a Reserve Fund...

A budget compromise was reached between Brown and Democratic lawmakers about a week before the June 15 constitutional deadline to pass a balanced budget. The UC and CSU would get most of the additional funding approved earlier by the legislative budget committees. Brown would get to set aside the maximum amount for the rainy-day fund and expand the state’s day-to-day contingency fund. Legislative Democrats had to abandon their proposals to expand Medi-Cal coverage to residents without legal status, at a cost of more than \$1 billion a year. The governor agreed to expand funding for homelessness, a growing problem in the state.

“California's finances are on rock-solid ground,” Senate President Pro Tem Toni Atkins (D-San Diego) tweeted. “Our budget is the strongest in a generation. It balances fiscal responsibility with social responsibility by investing in our people and guarding against the next downturn.”¹⁰⁴

The state would also create two new additional reserve funds to prepare for a recession, including a \$200 million account set aside specifically to protect social services that tend to get cut first during a recession. Journalists noted the state’s main contingency fund can only grow to

¹⁰⁰ May 23, 2018. *Los Angeles Times*. California's public universities on the way to getting a big longed-for boost in funding

¹⁰¹ May 24, 2018. *Sacramento Bee*. Be more like Chipotle, Jerry Brown tells California universities

¹⁰² May 24, 2018. *Sacramento Bee*. Be more like Chipotle, Jerry Brown tells California universities

¹⁰³ May 24, 2018. *Sacramento Bee*. Be more like Chipotle, Jerry Brown tells California universities

¹⁰⁴ June 8, 2018. *Sacramento Bee*. \$200 billion California budget deal rejects health care, tax breaks for undocumented

4 percent of the General Fund, about \$5.5 billion, before an automatic quarter-cent sales tax cut gets triggered.¹⁰⁵

Legislative Republicans felt the collection of savings accounts might be an accounting trick to stop the sales tax from lowering. “I don’t think we need a third type of reserve account,” Assemblyman Jay Obernolte (R-San Bernardino County) said at one budget hearing. “Even if we hit the trigger and we would be required to reduce the state sales tax rate by a quarter percent, I don’t think that would be an inappropriate action for us to take in a year when we have a \$9 billion surplus.”¹⁰⁶

A day before the legal deadline, the Legislature passed the state budget, with Republicans largely voting no. Democrats, however, were upbeat. “This is a solid budget,” Senate Pro Tem Atkins (D-San Diego) told reporters. “And it builds upon what we’ve already done.” Legislative staffers projected the state’s budget reserve will grow to nearly \$16 billion reserve by summer 2019, larger than 33 state’s general funds.¹⁰⁷

Brown signed the \$200 billion budget into a law a few days before July 1 and the start of California’s fiscal year. For the third consecutive year, Brown did not use his line-item veto, an unprecedented record in a state where governors often vetoed hundreds of millions of dollars from the general fund. Not usually one for pomp and circumstance, the governor signed his final budget in front of cameras in Los Angeles, appearing along side Assembly Speaker Anthony Rendon and Senate President Pro Tem Toni Atkins. “This is a budget that represents the collective effort of the people of California,” Brown said. “This is the way we together, 40 million people, invest in our collective future.”¹⁰⁸

Legislative Democrats praised Brown for stabilizing the budget over his past eight years in office. “We owe a great debt to Gov. Brown for his leadership in getting California back on solid financial footing,” Senate Pro Tem Atkins told reporters.¹⁰⁹ Rendon agreed, telling the press, “Clearly there is more to do in these areas, but by investing in our people and saving for the future this budget gives us the tools we need to keep doing better.”¹¹⁰

Final 2018-2019 Budget

The total budget passed by lawmakers and signed by the governor was \$201.4 billion, with \$138.7 billion coming from the General Fund.¹¹¹ K-12 Education accounted for 40.3 percent of General Fund expenditures, Health and Human Services for 28.5 percent, Higher Education for 11.6 percent, and Corrections for 8.7 percent (see Figure 9 below).¹¹²

¹⁰⁵ June 13, 2018. *Sacramento Bee*. California has billions in extra money. Why don't taxpayers get a refund?

¹⁰⁶ June 13, 2018. *Sacramento Bee*. California has billions in extra money. Why don't taxpayers get a refund?

¹⁰⁷ June 14, 2018. *Los Angeles Times*. California lawmakers meet deadline, sending nearly \$200-billion state budget blueprint to Gov. Jerry Brown

¹⁰⁸ June 27, 2018. *Associated Press*. California governor touts turnaround in his final budget

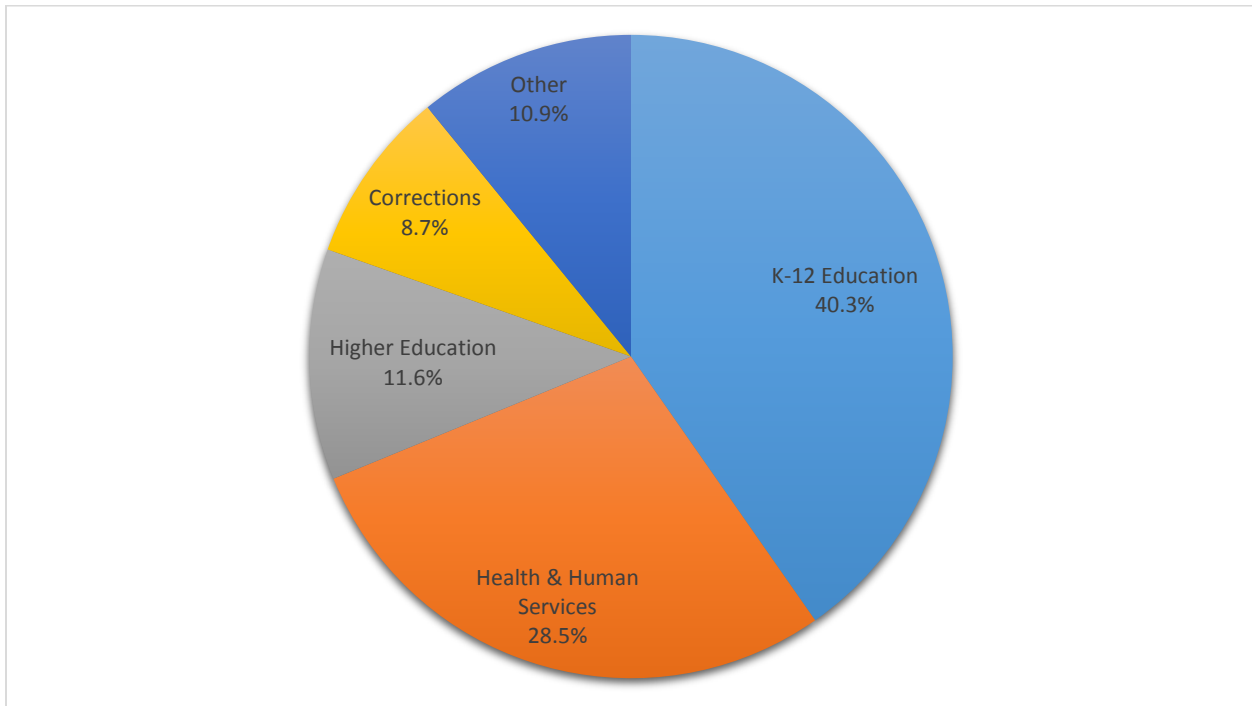
¹⁰⁹ June 27, 2018. *Los Angeles Times*. Gov. Jerry Brown signs his final state budget, California's largest yet

¹¹⁰ June 27, 2018. *Associated Press*. California governor touts turnaround in his final budget

¹¹¹ Public Policy Institute of California. *California's State Budget: The Enacted 2018-19 Budget*.

¹¹² California Department of Finance. *California State Budget 2018-2019*.

Figure 9: California's General Fund Expenditures, 2018-2019



Source: California Department of Finance

K-12 Education

K-12 education is the single largest expense facing the state of California, and consumed over 40 percent of General Fund revenues in 2018–2019.¹¹³ Overall, the state provided \$97.2 billion of funding to support primary and secondary education, with \$56.1 billion coming from the General Fund and \$41.1 billion from other funds.¹¹⁴ Compared to the previous year, the 2018–2019 budget increased spending on K-12 education by \$4.7 billion, with \$2 billion of that increase coming from the General Fund.¹¹⁵

As Brown wanted, the final budget fully funded the Local Control Funding Formula (LCFF), with the Legislature even including \$700 million more for LCFF than the governor’s original budget proposal in January.¹¹⁶ K-12 schools also received an additional \$1.1 billion in discretionary funds and \$300 million in funds to help low-performing students through the Low-Performing Students Block Grant.¹¹⁷ This grant provides additional assistance to schools that perform poorly on the state’s academic assessments.¹¹⁸

¹¹³ California Department of Finance. *California State Budget 2018-2019*.

¹¹⁴ California Department of Finance. *California State Budget 2018-2019*.

¹¹⁵ California Department of Finance. *California State Budget 2017-2018*.

¹¹⁶ Public Policy Institute of California. *California’s State Budget: The Enacted 2018-19 Budget*.

¹¹⁷ Public Policy Institute of California. *California’s State Budget: The Enacted 2018-19 Budget*.

¹¹⁸ California Department of Finance. *California State Budget 2018-2019*.

Health & Human Services

Health, welfare, and social service programs were the second largest expense in the 2018–2019 budget, accounting for 28.5 percent of all state spending.¹¹⁹ The budget provided a total of \$160 billion for such programs, with \$39 billion coming from the General Fund and \$121 billion from other funds.¹²⁰ This level of expenditure represented a decrease of \$1 billion from the previous year’s budget, with \$4 billion in additional funding from the General Fund being offset by \$5 billion less funding from other sources.¹²¹

The final budget increased CalWORKs grant levels by 10 percent beginning April 1, 2019, at a cost of \$90.1 million in 2018-2019, and \$359.9 million each year thereafter.¹²² The budget also included \$26.7 million for the CalWORKs Home Visiting pilot program, exactly what Governor Brown proposed in his January budget.¹²³ Moreover, the budget also provided nearly \$47 million to expand programs helping the homeless or those at risk of homelessness, with \$24.2 million specifically to help CalWORKs families find permanent housing.¹²⁴

Higher Education

Higher education was the third largest area of state spending in 2018–2019, consuming 11.6 percent of General Fund revenues.¹²⁵ Overall, the state provided \$34.3 billion in funding, with \$19.2 billion coming from the General Fund and \$15.1 billion from other funds.¹²⁶ Compared to the previous year, the 2018–2019 budget increased spending on higher education by \$1.8 billion, with \$1.5 billion of that increase coming from the General Fund.¹²⁷

Both the University of California and Cal State systems made out much better under the final budget than under Brown’s January proposal. The University of California’s base funding increased by \$92 million, with the promise of an additional \$5 million in future years to support enrollment growth.¹²⁸ They also received \$105 million in one-time funding for 2018-2019.¹²⁹ The Cal State system received even more than the UC, with base funding increased by \$92 million, an additional \$105 million in future years to support the Graduation Initiative and other operational expenses, and \$120 million over the next four years to support enrollment growth.¹³⁰

Also, despite strong resistance from some lawmakers, the opposition of the California Community Colleges Academic Senate, and skepticism from the Legislative Analyst’s Office, the Legislature ultimately approved the creation of the all-online community college that Brown

¹¹⁹ California Department of Finance. *California State Budget 2018-2019*.

¹²⁰ California Department of Finance. *California State Budget 2018-2019*.

¹²¹ California Department of Finance. *California State Budget 2017-2018*.

¹²² California Department of Finance. *California State Budget 2018-2019*.

¹²³ California Department of Finance. *California State Budget 2018-2019*.

¹²⁴ California Department of Finance. *California State Budget 2018-2019*.

¹²⁵ California Department of Finance. *California State Budget 2018-2019*.

¹²⁶ California Department of Finance. *California State Budget 2018-2019*.

¹²⁷ California Department of Finance. *California State Budget 2017-2018*.

¹²⁸ Public Policy Institute of California. *California’s State Budget: The Enacted 2018-19 Budget*.

¹²⁹ Public Policy Institute of California. *California’s State Budget: The Enacted 2018-19 Budget*.

¹³⁰ Public Policy Institute of California. *California’s State Budget: The Enacted 2018-19 Budget*.

proposed in January.¹³¹ The new school will be funded at the levels called for in his January budget proposal, \$120 million initially then \$20 million annually thereafter.¹³² Brown's response? "California is a leader. It will lead in this. And I say hallelujah. Let's get going."¹³³

Corrections

Corrections is the last of the "big four" spending categories, with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for 8.7 percent of the 2018–2019 General Fund budget.¹³⁴ Overall, CDCR received a total of \$12.1 billion in funding, with \$11.8 billion coming from the General Fund and \$334 million from other funds.¹³⁵ This is nearly identical to the governor's January budget proposal, with the Legislature only adding an additional \$134 million in funding for CDCR's budget. This total represents an overall increase of \$700 million from the previous year's budget, nearly all of which comes from the General Fund.¹³⁶

2018 Elections, Top Two Primary

Much of Sacramento's attention throughout the year was distracted by the 2018 Election, both the June primary and the general election in November. California elects its plural executive offices in federal midterm elections, and the state's unusual "Top Two" primary, adopted by voters in 2010, magnifies the political complexity. The two candidates with the most votes for each office in June advance to the general election, even if they are both from the same party.

The Democrats held immense advantages going into the election, holding every statewide office, an overwhelming number of legislative and congressional seats, and were on the brink of knocking the California Republican Party out of any strategic importance. The election could become California's "biggest moment of transition" to a state functionally run by elected officials from one party, noted political scientist Thad Kousser, at the University of California, San Diego. Across the country "red states have gotten redder and blue state have gotten bluer and the fights have been within, rather than between, the parties," Kousser told the Associated Press right before the primary.¹³⁷ As mentioned earlier, the Republican percentage of registered voters in the state dropped below "no party preference" (California's name for independent voters) a few days before the primary.

Jerry Brown was term-limited and could not run again, serving an unprecedented sixteen years in office in two different time periods. There were 27 candidates on the ballot running to replace him. Most of them raised little money and got zero media attention, with political experts limiting the race to seven major candidates, five Democrats and two Republicans. While polls

¹³¹ Legislative Analyst's Office. *The 2018-2019 Budget: Higher Education Analysis* (February 15, 2018).

¹³² Public Policy Institute of California. *California's State Budget: The Enacted 2018-19 Budget*.

¹³³ July 16, 2018. *EdSource*. As Gov. Brown urges work on new online college, community college faculty drop their opposition.

¹³⁴ California Department of Finance. *California State Budget 2018-2019*.

¹³⁵ California Department of Finance. *California State Budget 2018-2019*.

¹³⁶ California Department of Finance. *California State Budget 2017-2018*.

¹³⁷ April 4, 2018. *Associated Press*. California primary election could solidify Democrats' power

showed Lt. Governor Gavin Newsom securely in first place, a large amount of uncertainty existed about who would qualify for the second spot. Ultimately, businessman John Cox secured the second spot, in part due to a last-minute endorsement from President Trump.

The Top Two primary was also front and center in the U.S. Senate race, as Democratic Senate Pro Tem Kevin de Leon decided to challenge longtime Democratic Senator Diane Feinstein. Republicans decided to avoid running a candidate entirely, and although numerous minor candidates ran, the contest was between Feinstein and de Leon, with both easily expected to advance to the November general election.

De Leon blocked Feinstein from earning the state party's endorsement in February. Feinstein only won 31% of the vote to de Leon's 54%, just shy of the 60% threshold needed to win the endorsement. "There's a difference between Republicans and Democrats that I've noticed," Feinstein told her supporters at a breakfast hosted before the delegate vote, Republicans tend to stick by their man no matter what. Democrats don't always. We fractionate. We divide."¹³⁸ The Pro Tem highlighted controversial comments Feinstein made in 2017 calling for "patience" with Trump and expressing the hope that he could become "a good president." During Feinstein's speech to delegates, music began playing after she ran past her allotted five minutes, and de Leon's supporters began chanting "Time's up! Time's up!"¹³⁹

Feinstein led de Leon overwhelmingly in all public polls however, often by 20 to 30 points. She led him in fundraising by a more than 10-1 margin, while also loaning her campaign millions of dollars. Feinstein won the primary 44% to 12% for de Leon, with the remaining vote scattered among 33 candidates. Both Democrats advanced to the November election.

National Democrats were also looking at California as ground zero in their efforts to capture the House of Representatives. Republicans only hold fourteen of the state's 53 congressional seats, but Hillary Clinton won more votes than Trump in seven of those districts, four of them in the former Republican bastion of Orange County. Strong Democratic animosity towards President Trump generated dozens of Democratic candidates in those seats, and pushed two Republican incumbents to retire, Darrel Issa (North San Diego County/South Orange County) and Ed Royce (North Orange County).

The only bright spot for Republicans in the primary was defeating Democratic State Senator Josh Newman in a recall election linked to last year's gas tax increase passed in the Legislature. Newman had barely won an open Orange County seat in 2016 and ultimately provided the necessary vote to pass Brown's \$5.2 billion transportation funding bill.¹⁴⁰ Republicans openly admitted they targeted Newman solely because of his close victory margin in 2016, calling it the "gazelle strategy". He lost the recall 42-58 and was replaced by Ling Ling Chang, whom Newman had defeated in 2016. While Newman has not officially announced that he plans to run against Chang again in 2020, he held a fundraiser in August.

¹³⁸ February 26, 2018. *Los Angeles Times*. California Democrats' snub of party icon Dianne Feinstein could be a speed bump — or a signal

¹³⁹ February 26, 2018. *Los Angeles Times*. California Democrats' snub of party icon Dianne Feinstein could be a speed bump — or a signal

¹⁴⁰ You can read about the gas tax increase and close Senate vote in our previous budget report (authors 2018).

A Brown Retrospective

Brown came into office with a \$27 billion budget deficit, and no easy pathway to raise revenue. “What surprised me was how deep the deficit became during Schwarzenegger’s last few years,” Governor Brown told the *Los Angeles Times* in June 2018. “We had to get in there and cut, and find some new revenue and work it out the best way we could.”¹⁴¹

To balance the budget meant cutting social spending and causing conflict with legislative Democrats. Brown even vetoed their initial legislative budget in 2011, something no other governor had done before, because Brown felt it wasn’t balanced. “We were frustrated,” former Assembly Speaker John Pérez (D-Los Angeles) told the *Times*. “But it laid the foundation for what has become eight years of on-time, balanced budgets.”¹⁴² The Legislature made deeper cuts and rating agencies took notice, moving California’s credit outlook to positive, and saving the state millions from lower interest rates.

“I tell my friends that Jerry Brown is one of the most fiscally conservative Democrats that I know,” said former Assembly Republican Leader Connie Conway (R-Tulare County). Conway further acknowledged that the governor at “is the adult in the room because at least he’s admitting we have debt.”¹⁴³

And Jerry Brown has been at this game for a long time. At his January budget press conference, Brown’s first comment was a friendly taunt at Dan Walters, one of California’s great journalists, who had just retired from a lengthy tenure at the *Sacramento Bee* and had started work at the online media site CALmatters. “Hey, I thought you retired,” Brown joked. “No, I’m waiting for you to retire,” Walters replied.¹⁴⁴

But like any politician, Brown knows how to pivot, something he does quite well. Two nights before the 2016 presidential election, the governor was eating chips and salsa at an airport bar in Durango, Colorado, after spending the day campaigning for Hillary Clinton. If Trump won the election, Brown said it would be “game over” for climate change. “Game over” he said again. Asked about it a year later, Brown tried to lower the stakes, “I say a lot of things while waiting for a drink in bars across America.”¹⁴⁵

Trump’s election elevated Brown’s standing on the issue of climate change, according to journalist and academic Orville Schell, who wrote a biography of Brown back in 1978. The governor participated with many other global leaders in a major climate change conference in Europe during November 2017. “The opportunity has presented itself, the inclination is there,

¹⁴¹ July 1, 2018. *Los Angeles Times*. With one final signature, Gov. Jerry Brown closes the chapter on his quest to reshape California's budget

¹⁴² July 1, 2018. *Los Angeles Times*. With one final signature, Gov. Jerry Brown closes the chapter on his quest to reshape California's budget

¹⁴³ July 1, 2018. *Los Angeles Times*. With one final signature, Gov. Jerry Brown closes the chapter on his quest to reshape California's budget

¹⁴⁴ January 10, 2018. *Twitter*, Judy Lin (@byJudyLin). 10:12AM.

¹⁴⁵ November 11, 2017. *Politico*. Jerry Brown, President of the Independent Republic of California

and he's sort of ratcheting the state up to rush into that breach that Washington is leaving." Schell pointed out, "Trump is leaving many vacuums, and I think Jerry Brown has long imagined himself as a kind of global player."¹⁴⁶

Brown is also considering writing once he leaves office, something he wasn't able to accomplish earlier in his life, because he felt his preliminary drafts "didn't rise to the quality that met my standards." But now? "I have much more to say," the governor told *Politico*.¹⁴⁷

Brown and his wife Anne Gust Brown plan to retire to a largely self-sufficient home they are building on family ranch land owned by Browns' great-grandfather in rural Colusa County, about 75 minutes northwest of Sacramento by car. His family calls the sprawling property Rancho Venada, and the house is designed to use as little electricity as possible, since it's off the electric grid.

"This land and this place put me in touch with the way people lived before," Brown told *The Los Angeles Times* in a January 2018 interview. "In the evening, particularly when the moon comes up over the mountains, and the silver glow on the trees and the barns and the shapes of the mountains, it's a feeling that I'm in the right place at the right time," the governor added.

While Brown has finally retired from seeking another political office, he is still a consummate politician. Brown lost Colusa County in every statewide election he's ever run, handily in the 2010 and 2014 gubernatorial elections. He points out the county just barely supported his father Pat Brown over Richard Nixon in the 1962 governor's race. "Colusa County, you know, is the only county without a Democratic central committee," Brown told a reporter with a slight smile. "They're very anxious to get me."¹⁴⁸

And Brown clearly has the future on his mind. The governor wrapped up a busy fall with a marathon of bill signings and vetoes. "16 years — and nearly 20,000 bills — later, the desk is clear. #Eureka," he tweeted, which included a montage of Brown signing numerous bills over the decades.¹⁴⁹ The governor signed his final bill, A.B. 237 in late September, which raises the dollar threshold for small personal loans under a pilot program to steer consumers away from payday and other predatory loans. Brown felt the loan program was better than the marketplace alternative, but he warned the Legislature to take heed of *Exodus 22:25*, "If you lend money to any of my people with you who is poor, you shall not be like a moneylender to him, and you shall not exact interest from him." And as a parting goodbye, Governor Jerry Brown wrote, "PS: And now onto the Promised Land — Colusa County!"¹⁵⁰

With Brown finally retiring, it also means the Brown political dynasty ends as well. Claremont McKenna College political scientist Jack Pitney noted that among the 18 midterm elections between 1946 and 2014 there were 15 with a member of the Brown family on the statewide

¹⁴⁶ November 11, 2017. *Politico*. Jerry Brown, President of the Independent Republic of California

¹⁴⁷ November 11, 2017. *Politico*. Jerry Brown, President of the Independent Republic of California

¹⁴⁸ January 7, 2018. *Los Angeles Times*. Gov. Jerry Brown plants the seeds of his next chapter on a ranch in rural Northern California

¹⁴⁹ October 1, 2018. *New York Times*. California Today: Readers Talk About Homelessness With Their Children

¹⁵⁰ October 1, 2018. *New York Times*. California Today: Readers Talk About Homelessness With Their Children

ballot: Jerry Brown, his father former Governor Pat Brown, or his sister former State Treasurer Kathleen Brown. “It really is the end of an era,” Pitney told the Associated Press.¹⁵¹

Conclusion

It might be the end of a Brown era in California, but it is just the beginning of a new age of Democratic dominance. The November 2018 elections went overwhelmingly Democratic, with strong turnout propelling the party into historic victories. Gavin Newsom defeated John Cox by almost 25 points, even winning Orange County, and Democrats swept all of the other statewide offices again. They also picked up nine additional legislative seats, giving them a 3-1 majority in the Assembly, and more than 70% of the State Senate. Democrats also won all seven of their targeted congressional races in the state too, reducing the Republican congressional delegation to numbers last seen in the 1880s.

With such an overwhelming victory, there will be a lot of pressure on California Democrats to push through a liberal policy agenda in Sacramento, including single-payer health insurance, universal preschool, and other social programs Newsom and the Democrats campaigned for. Expectations are high, and it remains to be seen if Newsom wants to spend his political capital on an agenda that might be too liberal even for the Golden “Blue” State.

California is still tax-wary, and its revenues fluctuate greatly based on the economic volatility of its wealthiest taxpayers. Now that Brown is gone, will there be anyone willing to challenge this pent-up spending demand? Will the economy continue to hum along, generating excess state revenue, or will downward economic pressure bring back budget deficits? Such is budget politics in the Golden State.

¹⁵¹ April 4, 2018. *Associated Press*. California primary election could solidify Democrats' power