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California's 2012–2013 Budget: Brown's Budget Gamble

Abstract: This report will begin with an explanation of California's budget process. It is followed by a narrative of how the budget process played out this past year and an analysis of the enacted budget. Finally, the report reviews the 2012 election impact on the budget and politics in California, along with an outlook for the future.

Keywords: budget; California; FY 2012–2013; governor; legislature.

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1 Introduction

In 2011, Governor Jerry Brown spent a great deal of time and political capital trying to get legislative Republicans to put his tax plan on the ballot. As those negotiations dragged on, and ultimately failed, Brown and his allies began to seriously consider an alternative strategy: gather signatures for a November 2011 ballot initiative that would extend the tax increases. As we wrote last year, this would allow the Governor to call a special election without the need of the legislature.¹ Brown had publicly discussed the ballot initiative option even before negotiations had ended with the Republicans.

The Governor hoped California labor would help fund this expensive endeavor. But the process would require numerous months of planning and the arduous and expensive task of collecting over a million signatures in a very short amount of time, so there was a great deal of trepidation among Brown's union supporters. They ultimately decided against it, once negotiations with the Republicans broke down. Consequently, placing the tax plan on the 2012 General Election Ballot became the new centerpiece of Brown's 2012 budget plan.

But passage of the tax plan was predicated on no rival tax plans appearing on the ballot muddying the waters. For most of 2012, there were several potential

¹ Brian DiSarro & Wesley Hussey, 2012. "California's 2011–2012 Budget: Balancing the Budget Behemoth." *California Journal of Politics & Policy*, 4:56–90.

alternatives, complicating Brown's message. This redirected much of the Governor's attention and political capital but Brown and his supporters were eventually able to clear the field of all but one rival plan.

Brown's Proposition 30 was the marquee initiative on the 2012 ballot, drawing strong support from the Governor and generating intense media coverage. Proposition 30 raises sales and income taxes to provide increased funding for education. Specifically, the initiative (1) raises California's sales tax from 7.25% to 7.5%, (2) creates four new state income tax brackets at \$250,000, \$300,000, \$500,000, and \$1,000,000, (3) increases the income tax rates on those falling in those brackets, with the biggest increase for those making \$1,000,000 or more per year, and (4) makes the new income tax rates retroactive to January 1, 2012, thus enabling the state to collect additional tax revenue as early as spring 2013.²

2 The California Budget Process

Budget-making in California is a continual 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) spending obligations. In the public arena, the kick-off to budget season is the Governor's January budget proposal, which must be submitted to the legislature by January 10th of each year, for the fiscal year beginning July 1st.

Once submitted to the legislature, the proposed budget is referred to the Legislative Analyst's Office (LAO) for review. Similar to the Congressional Budget Office (CBO), the LAO is tasked with presenting the legislature with independent, objective, and nonpartisan analysis of the state budget. LAO budget analysts craft a detailed report 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. From there, the action shifts to the Assembly Budget and Senate Budget and Fiscal Review Committees, before proceeding to the Assembly and Senate floors for consideration. During this process, the state Department of Finance will issue a revision to the Governor's budget numbers in May – known as the “May Revise” – based on the most current economic forecasts and revenue projections.

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

² Legislative Analyst's Office. *The 2013–2014 Budget: Overview of the Governor's Budget*.

and 21 in the Senate). 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. The Governor is not allowed to zero-out funding for agencies or programs mandated by law, but 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, however this is very rare.

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), however this has rarely happened over the past several decades because the constitutional mandate lacked an enforcement mechanism. Proposition 25 changed that by creating an incentive for legislators to finish their work and pass a budget by the constitutionally-mandated deadline. If they do not, legislators will forfeit their pay.

3 Perennial Obstacles to California Budget-Making

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

3.1 The Balanced Budget Requirement and Boom-and-Bust Budgeting

Like most states, California is constitutionally required to produce a balanced budget every year. However, unlike most states, California is heavily and disproportionately reliant on 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 but becomes mired in huge deficits when times are bad. During difficult times, the state is then forced to choose between tax increases opposed by Republicans and major spending cuts opposed by Democrats.

3.2 Supermajority Requirements for Tax Increases

Over the past 50 years, the Democratic Party has dominated the California legislature. Republicans have only won the majority in the Assembly twice since 1958. In

the Senate, Republicans have won majorities only once since 1956, and that election was over 40 years ago. Given this legislative dominance by the Democrats, one would assume that Democrats would be in the driver's seat when it came to making difficult budgetary decisions. However, since the passage of Proposition 13 in 1978, tax increases have required a 2/3 supermajority vote in each house of the legislature in order to pass.

Even though Proposition 25 reduced the margin for passing a budget from 2/3 to a simple majority, the tax provision was unaffected. This normally gives the Republican Party – which usually holds barely above 1/3 of the seats in each legislative chamber – enormous leverage over state finances. The party holds an effective veto over taxation. Complicating 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.³ By refusing to agree to tax hikes, Republicans are generally able to force Democrats to find other solutions to balance the state budget, such as the all-cuts budget that Jerry Brown and the Democrats had to agree to in 2011.

3.3 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.⁴ On any given California ballot, voters can expect to decide the fate of 5–15 different proposals. Very often, these proposals have significant fiscal impacts. The heavy 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 40% of the state's budget be allocated for K-14 education. Thus, 40% of the budget is off-the-table before any budget negotiations commence.

This system of “ballot box budgeting” also tends to produce structural deficits for the state, even in the best of times. Voters generally approve new spending projects but reject new tax increases. From 1950 to 2008, the California budget was adopted late 44% of the time. Cummins showed the delay was exacerbated by both economic and political conditions, particularly voter-passed initiatives like Propositions 13 and 98.⁵

³ This is hardly surprising given that primary challenges and recall efforts were commonly directed at those Republicans that supported tax increases in the past.

⁴ Initiative & Referendum Institute, 2012.

⁵ Jeff Cummins, 2012. “An Empirical Analysis of California Budget Gridlock.” *State Politics & Policy Quarterly*, 12:23–42.

4 Other Political and Sociodemographic Factors

4.1 Top Two

Voters passed Proposition 14 in 2010. Proposition 14 changed California's primary system from a closed primary favored by party insiders to a nonpartisan blanket primary. Under this system, all candidates for a particular office appear on the same primary ballot. The top two vote-getters in the primary, regardless of party affiliation, advance to the general election. Ostensibly, two Democrats could face off in the November election, or a Republican and an independent candidate. It is hoped that this reform will encourage candidates to moderate their views in an effort to appeal to the median voter, as opposed to candidates sharpening their ideologies to appeal their Democratic or Republican base.

In 2012, the vast majority of November elections featured the traditional Democratic vs. Republican pairing. But in heavily Democratic and Republican areas, the top two candidates came from the same dominant party. The only major surprise was in the 31st Congressional District, where several Democratic candidates split the Democratic vote in the primary, allowing two Republicans to advance to the general election and win the newly-drawn district. This was particularly embarrassing to the Democrats since the plurality Hispanic district is heavily Democratic, with Obama overwhelmingly carrying it over Romney (57.2%–40.6%) in 2012.

Very few candidates outside of the two major parties advanced to the general election in any of the legislative or congressional races. Top two might be more of a factor in 2014 with all of the statewide executive offices on the ballot, and the two major parties slowly learning how to operate within this new electoral system.

4.2 Unemployment

Unemployment was a persistent problem in California throughout 2012. Although the unemployment rate fell 1.2% over the course of the year, unemployment was still nearly 10% in December.⁶ In addition, California's unemployment rate was nearly 2% higher than the nation as a whole.⁷ Figure 1 depicts the national and California unemployment rates from January through December 2012.

⁶ U.S. Bureau of Labor Statistics, 2013.

⁷ U.S. Bureau of Labor Statistics, 2013.

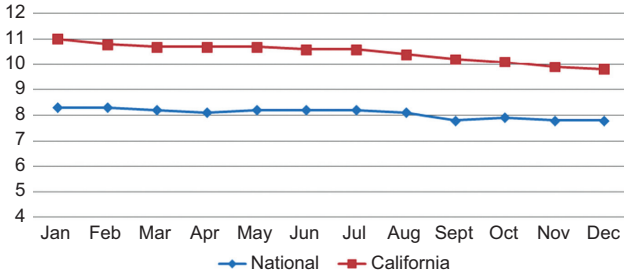


Figure 1: National and California Unemployment Rates, January–December 2012 (in percentages).

Source: U.S. Bureau of Labor Statistics.

4.3 Demographics

The state's continually changing demographics were also a major story. California has been a majority-minority state since 2000. After the 2010 Census, non-Hispanic Whites held a narrow plurality of 40.1% of the state's population, with Latinos comprising 37.6%.⁸ The US Census Bureau projected that Latinos will form a plurality by 2020 (40.8% projected), with non-Hispanic Whites declining to just 36.6%.⁹ As recently as 1980, non-Hispanic Whites accounted for two-thirds of California's population.¹⁰ Figure 2 depicts the shifting makeup of the state from 1980 to 2020 (projected).

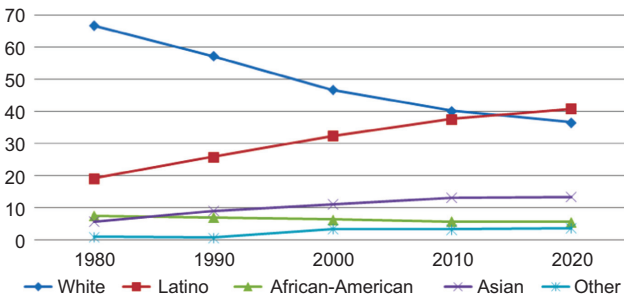


Figure 2: Changing Demographics in California, 1980–2020 (in percentages).

Source: US Census Bureau.

⁸ US Census Bureau, 2013.

⁹ US Census Bureau, 2013.

¹⁰ US Census Bureau, 2013.

5 Setting the Stage

California had last voted to raise taxes in 2004, and had rejected several proposals in the interim. Brown hoped the mood had shifted in California towards approving more taxes. A Fall 2011 poll conducted by USC and *The Los Angeles Times* found 64% of respondents saying they would pay higher taxes if the money went to public schools. Support was strong among Democrats but also with the crucial bloc of independent voters as well. “You get a sense among people that enough is enough,” said Democratic Senate President Pro Tem Darrell Steinberg (Sacramento). “And frankly, there’s no choice. These cuts have done real damage. I know that, as one leader, I am not interested in making any more cuts.”¹¹

The main concern was that all of the circulating tax measures would qualify for the ballot, diluting the chances of any passing. “The November 2012 ballot is going to be the political equivalent of bumper cars,” said Dan Schnur, Director of the Jesse M. Unruh Institute of Politics at the University of Southern California. “What we have seen historically is that voters who are overwhelmed or overloaded with things tend to vote ‘no’ on everything.” Steinberg agreed, worried that all the tax measures would overload voters. “Our goal is to pull all these disparate efforts together into a solid, passable initiative,” he said.¹²

In mid-December, Brown announced almost \$1 billion in mid-year cuts, including reductions to higher education and free bus service for K-12 education. These cuts were built into the fiscal year 2011–2012 budget in case revenue did not match the overly optimistic forecasts Brown and legislative Democrats agreed to in June 2011. “This is not the way we’d like to run California, but we have to live within our means,” Brown told reporters. The situation could have been worse. Just a month earlier, the LAO had predicted an even bigger mid-year budget deficit that would have required even larger cuts. Brown and his Department of Finance found additional revenue to negate those larger reductions.¹³

At a press conference at the end of December 2011, Brown told reporters he would no longer try to convince legislative Republicans to support his tax measure, and instead would focus on qualifying an initiative with signatures. “There will be discussions, but I don’t believe that the Republicans can or will

¹¹ November 30, 2011. *New York Times*. In California, Asking Voters to Raise Taxes.

¹² November 30, 2011. *New York Times*. In California, Asking Voters to Raise Taxes.

¹³ December 14, 2011. *Los Angeles Times*. \$1 billion in California budget cuts to kick in soon.

vote for any kind of a tax or a vote on a tax,” he acknowledged. “I learned that the Republicans can’t vote for a tax . . . cannot vote to give the people a vote on the taxes.” The Governor admitted it was important to clear the November ballot of rival measures. “One of the things about elections, you want them simple,” Brown noted, adding that complexity only “gives fodder to the opposition.”¹⁴

It was going to be a difficult year, Brown recognized: “Pulling it all together will be probably just as hard as last year.”¹⁵

6 Budget Released

Brown released his \$92.6 billion budget proposal in early January 2012, balanced only if voters approved his November 2012 tax initiative. If voters rejected Brown’s proposed tax increases, the Governor’s plan would cut almost \$5 billion from K-14 education, as well as \$200 million each from the University of California and California State University systems. Courts would lose \$125 million. “If you don’t have the money, it’s going to come out of schools,” Brown said, noting that 40% of the state general fund is devoted to K-12 education.¹⁶

The Governor hoped the promise of future balanced budgets would encourage voters to say yes. “California is recovering,” Brown said as he unveiled the budget. “We now have the possibility of eliminating, over the next several years, the deficits that have plagued California.”¹⁷ Since 2007, general fund spending declined by nearly 20%. Yet there were some signs of hope. California’s budget deficit shrunk from \$26.6 billion in the 2011–2012 fiscal year to “only” \$9.6 billion for the upcoming 2012–2013 fiscal year. Brown hoped to cut the deficit in half with his tax increases. As the Table 1 demonstrates, this year’s proposed budget deficit is noticeably lower than the massive deficits California faced earlier.

Brown’s plan was a huge political gamble. “This budget proposal is the largest ransom note in California political history,” said Schnur. “Brown is essentially telling voters to either support his initiative or there’s going to be three fewer weeks of school next year. There’s no guarantee of success, but this is

¹⁴ December 28, 2011. *Sacramento Bee*. Jerry Brown predicts tough budget year, says he “passed” first year in office.

¹⁵ December 28, 2011. *Sacramento Bee*. Jerry Brown predicts tough budget year, says he “passed” first year in office.

¹⁶ January 5, 2012. *Ventura Star*. Gov. Brown offers Californians two budget choices; both contain cuts.

¹⁷ January 6, 2012. *Los Angeles Times*. Gov. Jerry Brown’s new budget plan targets schools.

Table 1: Budget Deficits Projected in the Governor's January Proposed Budget.

January 2008	\$14.5 billion
January 2009	\$41.6 billion
January 2010	\$18.9 billion
January 2011	\$25.4 billion
January 2012	\$9.2 billion

Source: San Francisco Chronicle.¹⁸

probably the most politically viable course he could take to build support for the initiative.”¹⁹

While tax increases would eliminate half of the state's nearly \$10 billion deficit, the other half came from more than \$4 billion in budget cuts, mainly in social services. Almost \$1 billion in cuts would come from eliminating grants to parents who do not meet federal work requirements after 24 months, as opposed to the 48 months parents previously had. Social advocates felt the state's high unemployment rate and poor economy made it difficult for welfare recipients to find work quickly. “Twenty-four months isn't enough time, and there aren't enough jobs,” said Frank Mecca, director of the California Welfare Directors Association. “I mean, if we thought people could do it, we wouldn't be saving a billion dollars.”²⁰

To maximize savings, Brown wanted the Legislature to enact his budget cuts by March 2012, giving the state 3 months to install them before the start of the fiscal year. The Democratic leadership was less in a hurry to act, especially if the economy improved, removing the major impetus for immediate action. “Why would we make cuts that are going to harm people and harm the economy in March when in fact in May there's a . . . probability that the deficit number is going to be less?” questioned Senate Democratic President Pro Tem Steinberg.²¹ “We are not interested in making early cuts here, and we don't think it is necessary. We have done significant damage to the services for those in most need in California in the past several years, and we are not going to do any more unless it's absolutely necessary.”²²

¹⁸ January 10, 2013. *San Francisco Chronicle*. Jerry Brown: California's deficit is gone.

¹⁹ January 6, 2012. *Sacramento Bee*. Jerry Brown budget plan cuts welfare, threatens deeper cuts if taxes fail.

²⁰ January 6, 2012. *Sacramento Bee*. Jerry Brown budget plan cuts welfare, threatens deeper cuts if taxes fail.

²¹ January 6, 2012. *Sacramento Bee*. Jerry Brown budget plan cuts welfare, threatens deeper cuts if taxes fail.

²² January 6, 2012. *Los Angeles Times*. Gov. Jerry Brown's new budget plan targets schools.

The Governor countered that legislative delays would require even deeper cuts. “This is not nice stuff,” Brown told reporters. “But that’s what it takes to balance the budget – and that’s assuming we get the revenues.”²³

Republicans argued Brown intentionally targeted popular programs like K-12 and university spending to scare voters into approving the tax increases. “This cynical, scare-tactic budget strategy once again hinges on the hope that voters will ignore their own financial problems to bail out the Democrats with another ill-advised tax increase,” said Tom Del Beccaro, chairman of the California Republican Party. “Can’t tax our way into economic prosperity,” tweeted Sabrina Lockhart, a spokeswoman for Assembly Republicans.²⁴

But despite their objections, Brown and the Democrats did not need Republican votes. The passage of Proposition 25 in November 2010 lowered the threshold to pass the budget in the legislature from two-thirds to a simple majority. And since legislative Republicans refused to place Brown’s tax measure on the ballot, Brown was gathering signatures. In short, Republicans were arguing into a wind chamber, with even their bark having limited influence. Brown’s gamble was with the electorate, not the Republicans.

Brown was forced to release his budget proposal 5 days early because the proposal was inadvertently posted on the state’s website. The Governor had wanted to use that extra time shoring up support for his tax initiative. Instead, the administration frantically scheduled a news conference 2 h after telling reporters the Governor would not discuss the budget until its scheduled release later.²⁵ Even with these clumsy mistakes, Brown was able to convince local government officials the same day he released his budget to drop a competing November ballot initiative that might dampen voters’ desire to approve tax increases.²⁶

The LAO threw some cold water on Brown’s budget plan a few days later when it reported school districts would probably reduce spending even if voters approve the Governor’s tax plans because districts would want to hedge their bets. “Districts have to plan for the worst case, so that even if voters do approve the taxes, schools may have to start the year with the assumption the money is not going to be there,” said Legislative Analyst Marc Taylor.²⁷ Kevin Gordon, a lobbyist and advisor to school districts across California, agreed. He urged schools

²³ January 6, 2012. *Los Angeles Times*. Gov. Jerry Brown’s new budget plan targets schools.

²⁴ January 6, 2012. *Los Angeles Times*. Gov. Jerry Brown’s new budget plan targets schools.

²⁵ January 6, 2012. *Los Angeles Times*. Gov. Jerry Brown’s new budget plan targets schools.

²⁶ January 6, 2012. *Sacramento Bee*. Jerry Brown budget plan cuts welfare, threatens deeper cuts if taxes fail.

²⁷ January 11, 2012. *San Jose Mercury-News*. California legislative analyst expects lower revenue than Gov. Brown, raising specter of more cuts.

to make cuts before the November election, telling reporters, “The notion of not knowing for sure what funding you’ll have is almost laughable if it wasn’t so dead serious.”²⁸

But threatening school funding is at the centerpiece of Brown’s political calculations. Without the school triggers, the tax increases have a much greater chance of failing at the polls. Fully funding the schools in case the initiative fails only increases the chance of the initiative failing. “The irony for Gov. Brown is that doing something that’s popular in the short run might thwart his long-term goal of winning support for his tax increase,” said Claremont McKenna College political scientist Jack Pitney. “It’s clear he’s hoping people will want to spare schools, and that sentiment will trump their aversion to taxes.”²⁹

The LAO’s preliminary budget analysis also warned the state against relying too heavily on income tax from the wealthy, whose income often fluctuates dramatically, particularly capital gains. This spoke to Brown’s tax plan specifically, since the Governor’s proposal generated most of its revenue from raising the income tax on California’s highest earners. “Already, California’s budget is dependent on volatile income tax payments by the state’s wealthiest individuals, and the Governor proposes that these Californians pay more for the next few years,” the report warned. “As has become evident in recent years, differing fortunes for these upper-income taxpayers can create or eliminate billions of dollars of projected state revenues.”³⁰

7 The Big Four

When it comes to expenditures, the “Big Four” in California are K-12 education, Health and Human Services, Higher Education, and Corrections. Despite the public perception of widespread waste in California government, these four fundamental categories of state services actually account for 90% of all state general fund spending. In the previous FY 2011–2012 budget, K-12 education accounted for 40%, Health and Human Services 27%, Higher Education 12%, and Corrections 11% (see Figure 3 below).

²⁸ January 12, 2012. *Los Angeles Times*. Tax hikes would not stop school cuts, California budget advisor says.

²⁹ January 11, 2012. *San Jose Mercury-News*. California legislative analyst expects lower revenue than Gov. Brown, raising specter of more cuts.

³⁰ January 12, 2012. *Los Angeles Times*. Tax hikes would not stop school cuts, California budget advisor says.

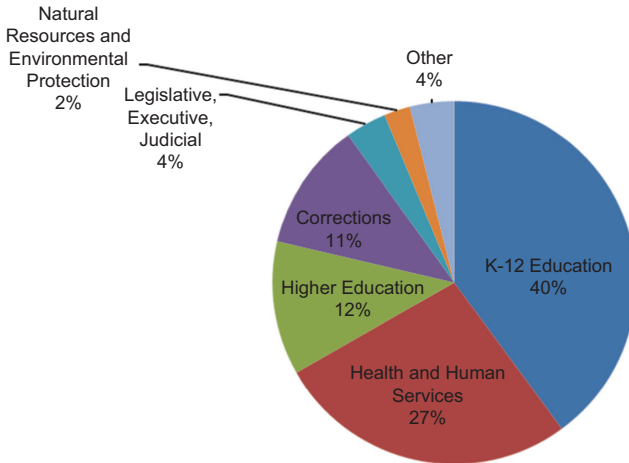


Figure 3: California General Fund Expenditures, 2011–2012.

7.1 K-12 Education

K-12 education is the single largest expense facing the state of California. Overall, the state provided some \$64.1 billion of funding (from all sources) during the previous budget year to support primary and secondary education.³¹

7.1.1 Governor’s Proposed Budget – FY 2012–2013

When the Governor released his budget proposal in January 2012, he proposed to increase Proposition 98 funding for K-14 education by \$4.9 billion, from \$47.6 billion to \$52.5 billion.³² Badly hit by the recession, California had been cutting education funding since the 2007–2008 budget year. At that time, Proposition 98 funding reached a high of \$56.6 billion, but fell \$9 billion to \$47.6 billion by 2011–2012.³³ Governor Brown’s proposed increase would have raised total per pupil spending (derived from all sources) by \$636, from \$10,610 to \$11,246.³⁴ However, this increase was largely conditional on voters approving Proposition 30, which

³¹ California Department of Finance. *California State Budget 2011–2012*.

³² California Department of Finance. *Governor’s Budget Summary 2012–2013*.

³³ California Department of Finance. *Governor’s Budget Summary 2012–2013*.

³⁴ California Department of Finance. *Governor’s Budget Summary 2012–2013*.

was the Governor’s proposal to temporarily raise sales and income tax rates for a period of 5 years. If that effort failed, automatic “trigger cuts” would have been initiated which would have substantially affected education appropriations.

The figure below illustrates the magnitude of the “trigger” reductions if voters had rejected Proposition 30. The four biggest areas to face cuts would have been K-14 education (Prop. 98), the University of California, the California State University, and the state Judiciary (see Figure 4 below). Proposition 98 funds would have been cut by \$4.8 billion, the University of California and California State systems by \$200 million each, and the Judicial Branch by \$125 million.³⁵ Cuts of this magnitude could have resulted in shortening the school year by as much as 3 weeks,³⁶ thus providing a strong incentive for voters to approve Proposition 30.

7.1.2 May Revision

In the May Revision, the Proposition 98 funding guarantee increased \$1.2 billion over the Governor’s initial proposal, from \$52.5 billion to \$53.7 billion.³⁷ Correspondingly, the level of “trigger cuts” rose from \$4.8 billion to \$5.5 billion³⁸ (see Figure 5 below). Half of this reduction would have been achieved by canceling state repayments to school districts, while the other half would have been

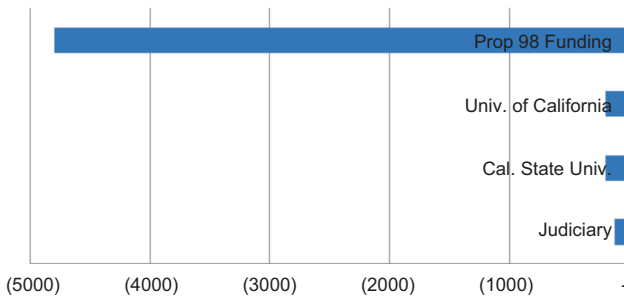


Figure 4: Distribution of Trigger Cuts (in millions).
Source: LAO 2012a.

³⁵ Legislative Analyst’s Office. *The 2012–2013 Budget: Overview of the Governor’s Budget.*

³⁶ California Department of Finance. *Governor’s Budget Summary 2012–2013.*

³⁷ California Department of Finance. *May Revision 2012–2013.*

³⁸ California Department of Finance. *May Revision 2012–2013.*

a programmatic reduction in state funding.³⁹ As a result, schools would have been required to reduce their school year by a combined 15 days (3 weeks) in 2012–2013 and 2013–2014 and would have been granted some degree of flexibility by the state in achieving that.⁴⁰

7.1.3 Enacted Budget

The enacted budget was very similar to the May Revision, with only minor changes to the overall level of funding for K-12 education. In addition, both the May Revision and the enacted budget called for a dramatic reinvestment in education over the next 4 years. Assuming that Proposition 30 passed, the enacted budget called for a \$17 billion increase in Proposition 98 funding over the next 4 years, corresponding to an increase in per pupil spending of over \$2500.⁴¹

7.2 Health and Human Services

Health and Human Services was the second largest expense in the previous budget year (2011–2012), accounting for 27% of expenditures. The final budget provided a total of \$88.2 billion for such programs (from all sources), with \$28.6 billion coming from the general fund.⁴²

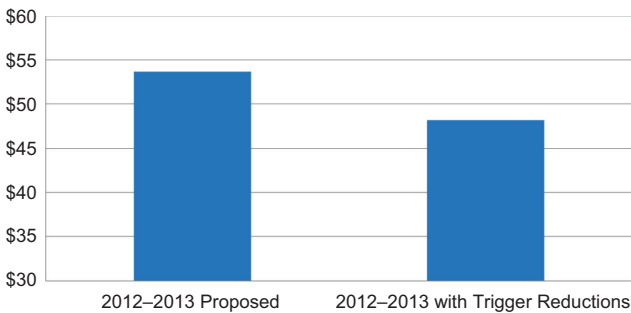


Figure 5: Proposition 98 Funding (in billions).

Source: DOF 2012b.

³⁹ California Department of Finance. *May Revision 2012–2013*.

⁴⁰ California Department of Finance. *May Revision 2012–2013*.

⁴¹ California Department of Finance. *California State Budget 2012–2013*.

⁴² California Department of Finance. *California State Budget 2011–2012*.

7.2.1 Governor's Proposed Budget – FY 2012–2013

In his 2012–2013 budget, the Governor proposed to spend \$100.1 billion on health, welfare, and social service programs, with \$26.4 billion coming from the general fund.⁴³ While health spending was slated to increase overall, this represented a \$2.2 billion reduction in spending from the general fund compared to the previous year's budget.

Most of these savings were realized through reorganizations and streamlining operations to achieve greater efficiency. For example, the Department of Mental Health was eliminated, and its functions assumed by other departments and agencies of state government.⁴⁴ Medi-Cal related mental health services are now handled by the Department of Health Care Services, while other mental health programs have been dispersed to the Department of Public Health, Department of State Hospitals, Department of Social Services, or the Office of Statewide Health Planning Development.⁴⁵

Medi-Cal is housed in the Department of Health Care Services, and is California's version of Medicaid. Medi-Cal accounts for a large share of overall state spending on Health and Human Services. In fact, when examining all sources of funding, Medi-Cal accounts for nearly 60% of state spending in this category.⁴⁶ Medi-Cal costs have risen nearly 6% since the 2006–2007 budget year, but the Governor's budget proposed a slight decrease in spending from the general fund (from \$15.4 billion in the previous budget year to a proposed \$15.1 billion in 2012–2013) due to various efficiencies and cost savings.⁴⁷

Another focus of the Governor's budget was CalWORKs, which is California's welfare program providing cash assistance and child care for the poor. In the previous year's budget, savings were realized in this program 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. In addition, monthly payouts were reduced by 8% for recipients. In the Governor's 2012–2013 budget proposal additional changes were proposed to achieve additional savings.

Under the Governor's proposal, general fund expenditures on CalWORKs and subsidized child care programs (which are often utilized by CalWORKs recipients)

⁴³ California Department of Finance. *Governor's Budget Summary 2012–2013*.

⁴⁴ California Department of Finance. *Governor's Budget Summary 2012–2013*.

⁴⁵ California Department of Mental Health website, <http://www.dmh.ca.gov/>, accessed April 12, 2013.

⁴⁶ California Department of Finance. *Governor's Budget Summary 2012–2013*.

⁴⁷ California Department of Finance. *Governor's Budget Summary 2012–2013*.

would fall by about \$1.4 billion. This would be accomplished by restructuring CalWORKs and breaking up the program into three parts – CalWORKs Basic, CalWORKs Plus, and a Child Maintenance program. CalWORKs Basic would provide the same level of benefits as the previous CalWORKs program, but for only 24 months (as opposed to the 48 months which was then guaranteed). Those families that are able to meet the state’s work requirements, which include working a certain number of hours in unsubsidized employment (30 h for single-parent families, 35 h for two-parent families, and 20 h for single-parent families with children under 6), would be eligible for a second 24 months of benefits under CalWORKs Plus.⁴⁸ Those families that fail to meet the work requirements would be transferred to the state’s Child Maintenance program. This would provide reduced cash payouts (a 27% cut from CalWORKs Basic levels) and no employment assistance or child care.⁴⁹

7.2.2 May Revision

The May Revision called for an increase in total spending on Health and Human Services, from \$100.1 billion in the Governor’s initial proposal to \$103.9 billion.⁵⁰ However, the amount spent from the general fund would be reduced by \$500 million, from \$26.4 billion in the Governor’s initial proposal to \$25.9 billion.⁵¹ Most of these savings would be achieved through changes in Medi-Cal payments to hospitals and nursing homes.⁵² Other savings were proposed in the In-Home Supportive Services (IHSS) program. IHSS is housed in the Department of Social Services, and provides domestic care services to low-income elderly, blind, and disabled Californians. The May Revision included a proposal to eliminate domestic services (such as housework, grocery shopping, cooking, and laundry) for those recipients in shared living arrangements, thus saving the state \$125.3 million.⁵³ The May Revision also included some policy changes to the Governor’s proposed CalWORKs redesign, such as broadening the definition of work to include “work-related activities” rather than just paid employment.⁵⁴

48 Legislative Analyst’s Office. *The 2012–2013 Budget: Overview of the Governor’s Budget.*

49 Legislative Analyst’s Office. *The 2012–2013 Budget: Overview of the Governor’s Budget.*

50 California Department of Finance. *May Revision 2012–2013.*

51 California Department of Finance. *May Revision 2012–2013.*

52 California Department of Finance. *May Revision 2012–2013.*

53 California Department of Finance. *May Revision 2012–2013.*

54 California Department of Finance. *May Revision 2012–2013.*

7.2.3 Enacted Budget

The enacted budget boosted total spending on Health and Human Services by \$1.2 billion over the May Revision (\$5 billion more than the Governor's initial proposal) to \$105.1 billion, and increased the general fund's contribution by \$800 million over the May Revision (\$300 million more than the Governor's initial proposal).⁵⁵ Despite these increases, most of the May Revision's proposals for cost savings were implemented. These included a reduction in supplemental payments to private hospitals under Medi-Cal, saving the state \$150 million, and adopting the proposals to reform CalWORKs, saving the state \$469.1 million.⁵⁶

7.3 Higher Education

Higher education (primarily the University of California and California State systems) is the third largest area of state spending, accounting for 12% of general fund expenditures in 2011–2012. Overall, the 2011–2012 budget provided \$22.1 billion worth of state support for higher education, with \$10.1 billion coming from the state's general fund.⁵⁷ This represented a substantial reduction from previous years' allocations.

7.3.1 Governor's Proposed Budget – FY 2012–2013

In 2012–2013, the Governor proposed to spend \$22.5 billion on higher education, with \$11.6 billion coming from the general fund.⁵⁸ This represented a \$367.5 million (1.7%) increase from the previous year.⁵⁹ Figure 6 depicts spending on the University of California and California State systems from 2007 to 2008 through Governor Brown's proposed 2012–2013 budget.

Despite the proposed increase, funding for both systems would remain below their 2010–2011 levels and well below their peak in 2007–2008, falling \$700 million below their appropriations of 5 years earlier.⁶⁰

55 California Department of Finance. *California State Budget 2012–2013*.

56 California Department of Finance. *California State Budget 2012–2013*.

57 California Department of Finance. *California State Budget 2011–2012*.

58 California Department of Finance. *Governor's Budget Summary 2012–2013*.

59 California Department of Finance. *Governor's Budget Summary 2012–2013*.

60 California Department of Finance. *Governor's Budget Summary 2012–2013*.

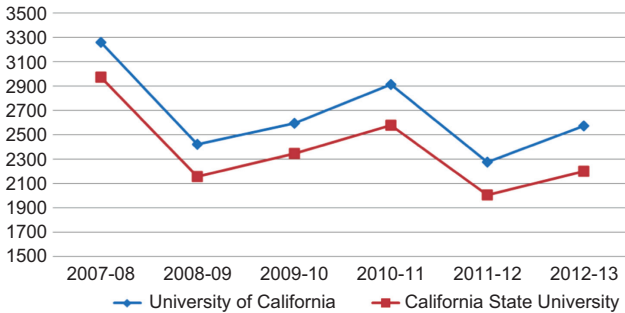


Figure 6: General Fund Expenditures on Higher Education (in millions).
Source: DOF 2012a.

However, if voters failed to approve Proposition 30, both the University of California and California State systems would have faced automatic \$200 million “trigger cuts” to their budgets. This would have essentially eliminated the Governor’s proposed funding increase and left both systems with flat budgets compared to 2011–2012.⁶¹

7.3.2 May Revision

The May Revision was very similar to the initially-proposed budget. While it called for \$500 million more in expenditures on higher education, none of that increase would have come from the general fund.⁶² The May Revision proposed to spend \$11.6 billion on higher education from the general fund, the same amount as Governor Brown initially proposed.⁶³

7.3.3 Enacted Budget

The enacted budget added \$100 million to higher education funding above the May Revision’s allocation, but again none of that increase came from the general fund.⁶⁴ Overall, \$11.6 billion was allocated from the general fund for

⁶¹ California Department of Finance. *Governor’s Budget Summary 2012–2013*.

⁶² California Department of Finance. *May Revision 2012–2013*.

⁶³ California Department of Finance. *May Revision 2012–2013*.

⁶⁴ California Department of Finance. *California State Budget 2012–2013*.

higher education.⁶⁵ However, the amount of the “trigger cut” was increased to \$250 million for both the University of California and California State systems if voters rejected Proposition 30.⁶⁶ This would have meant less funding than in 2011–2012, which was already \$1 billion less than in 2007–2008.⁶⁷ In addition, in an effort to curtail rapidly rising tuition, the budget included a provision promising both systems \$125 million increases in the 2013–2014 budget if they kept tuition at 2011–2012 levels and Proposition 30 passed.⁶⁸

7.4 Corrections

Corrections is the fourth largest category of state spending, with funding for the California Department of Corrections and Rehabilitation accounting for 11% of the state's general fund expenditures in 2011–2012. In the 2011–2012 budget, CDCR received a total of \$10.1 billion in funding, \$9.8 billion of which came from the general fund.⁶⁹

7.4.1 Governor's Proposed Budget – FY 2012–2013

Governor Brown's proposed budget would have reduced CDCR's funding to \$8.9 billion, with \$8.7 billion coming from the general fund. However, this reduction was mostly due to shifting responsibility – and costs – for lower-level offenders and parole violators from state prisons to county jails. Under the 2011 Public Safety Realignment (AB 109), counties became responsible for supervising low-level offenders.⁷⁰ This was partly a cost-saving measure, but mostly an effort to comply with the US Supreme Court's ruling in *Brown v. Plata* (2011) which held that prison overcrowding was so severe in California that it constituted a violation of the 8th Amendment. California was ordered to reduce its prison population to 137.5% of design capacity within 2 years. In order to achieve this, many low-level inmates were moved from state prisons to county jails.

⁶⁵ California Department of Finance. *California State Budget 2012–2013*.

⁶⁶ California Department of Finance. *California State Budget 2012–2013*.

⁶⁷ California Department of Finance. *Governor's Budget Summary 2012–2013*.

⁶⁸ California Department of Finance. *California State Budget 2012–2013*.

⁶⁹ California Department of Finance. *California State Budget 2011–2012*.

⁷⁰ California Department of Finance. *Governor's Budget Summary 2012–2013*.

7.4.2 May Revision and Enacted Budget

The May Revision and the enacted budget were very similar to the Governor's initial proposal. Both the May Revision and enacted budget added \$100 million to CDCR's funding from the general fund, above the Governor's initial proposal.^{71,72} Enacted spending on Corrections for 2012–2013 was \$9 billion, with \$8.8 billion coming from the general fund.^{73,74}

Both the May Revision and enacted budget also included plans to return some of the 10,000 California inmates then being housed in out-of-state prisons to California.^{75,76} As the state's prison population fell, returning these inmates was projected to save the state \$318 million annually.^{77,78}

8 Political Calculations

The budget introduced, Brown then used his annual state-of-the-state address to kick off his tax initiative. Less than 2 h after his 20-min address to a joint session of the legislature, Brown flew to Los Angeles, gave the speech again, and met with teachers in Southern California. Advisers with the Governor said the campaign would begin collecting signatures immediately, just hours after the state cleared the measure for circulation. "Given the cutbacks to education in recent years, it is imperative that California devote more tax dollars to this most basic of public services," Brown told legislators. "If we are successful in passing the temporary taxes I have proposed and the economy continues to expand, schools will be in a much stronger position."⁷⁹

Early public opinion on Brown's tax plan was favorable. A late January PPIC poll showed more than two-thirds of likely voters supported the tax initiative, including a majority of Democrats, Republicans and independents. One troubling concern was that public support dropped when asked about the taxes

71 California Department of Finance. *May Revision 2012–2013*.

72 California Department of Finance. *California State Budget 2012–2013*.

73 California Department of Finance. *May Revision 2012–2013*.

74 California Department of Finance. *California State Budget 2012–2013*.

75 California Department of Finance. *May Revision 2012–2013*.

76 California Department of Finance. *California State Budget 2012–2013*.

77 California Department of Finance. *May Revision 2012–2013*.

78 California Department of Finance. *California State Budget 2012–2013*.

79 January 19, 2012. *Sacramento Bee*. Jerry Brown pitches higher taxes, budget cuts and more public works spending.

individually, rather than as a collectively package that would offset potential cuts to education. Specifically, support for the sales tax increase polled just 35%, with 64% opposed. In the same poll, 44% of likely voters approved of Brown's job performance, compared to 38% who disapproved. This contrasted to just 17% job approval for the California Legislature.⁸⁰

In early February, supporters of two rival tax measures announced they would not back down from efforts to qualify their ballot initiatives for the November election, despite efforts by Brown to clear the ballot of competing tax measures. Leaders of both measures said they had not heard personally from the Governor, and both expressed confidence that one or more tax measures could pass. This stood in contrast to the conventional wisdom that voters usually reject all tax measures when faced multiple options. "We're not concerned that there will be multiple measures on the ballot," said Joshua Pechthalt, president of the California Federation of Teachers. This measure, backed by teachers and nurses, would raise income taxes on people who earn more than \$1 million a year, collecting about \$9.5 billion annually, with most of that revenue dedicated to education. Pechthalt felt confident voters would "be able to decide which makes sense for them."⁸¹

Molly Munger was the proponent and primary financial backer of the other rival tax measure. Munger is a wealthy civil rights attorney and daughter of Charles Munger, the billionaire financial partner of Warren Buffet. She told reporters, "I don't think we'd have a very good functioning democracy if we always just did what one person at the top wanted." She added, "In fact, one of the reasons we have democracy is because that old method, which is to just do what the king says, led to some very bad decisions over time." Munger's proposal would raise income taxes on all Californians, with the largest increases on the wealthiest. Her 12-year plan would generate approximately \$10 billion annually for education, with criminal penalties if lawmakers attempted to redirect the funding.⁸²

Opponents of Brown's tax plan were giddy. Jon Coupal, president of the Howard Jarvis Taxpayers Association acknowledged multiple tax measures helped his campaign to defeat them. "If nothing else, it reveals, if not confusion, certain divisions on the tax-and-spend side," he told reporters. "And if there are divisions on the tax-and-spend side, for those of us who are fiscal conservatives, that can help politically." Other political experts agreed. USC's Dan Schnur predicted Brown would continue to persuade the other groups to stop gathering

⁸⁰ January 25, 2012. *San Francisco Chronicle*. Jerry Brown's tax plan gets strong voter support.

⁸¹ February 7, 2012. *San Francisco Chronicle*. Tax measures to compete with Gov. Brown's plan.

⁸² February 7, 2012. *San Francisco Chronicle*. Tax measures to compete with Gov. Brown's plan.

signatures and drop out. He said “There’s no question that the multiple measures makes it harder for the Governor.”⁸³

Brown’s coalition was not happy. Steve Glazer, Brown’s top political adviser, compared multiple measures on the ballot to a circular firing squad, with all receiving diminished voter support. “This is in their control. They are making these choices,” Glazer said. “They get to fully bear the consequences of their actions if the measures fail.”⁸⁴ Senate President Pro Tem Darrell Steinberg, who privately met with Munger and asked her to withdraw, later told reporters, “I continue to believe that if there are multiple tax measures on the ballot it hurts all of us.” He added, “I believe that tie base goes to the runner. All things being equal, deference ought to be given to the elected Governor of California.”⁸⁵ Later in the month, David Kieffer, head of California’s influential Service Employees International Union (SEIU), came out publically in favor of Brown’s plan. “From a public policy point of view, we’re going to end up with a big mess, where three competing tax initiatives will collide at the ballot box and we won’t get any of them passed,” Kieffer said.⁸⁶

Brown pulled out all the stops to clear the ballot of rival measures. In mid-February, he visited the home of Joshua Pechthalt, head of the California Federation of Teachers and major supporter of the “millionaires” tax measure. The Governor wanted Pechthalt to drop his tax measure, while Pechthalt wanted Brown to modify his own measure by adding additional income taxes on millionaires. “It was a very cordial, respectful meeting,” Pechthalt said. “But we want a revenue measure and, at this point, we believe ours is the one with the best chance of winning.” Brown left no leaf unturned, even helping Pechthalt’s 12-year old daughter with her homework. “There are not a lot of Governors who’d be willing to do that,” Pechthalt admitted. “He was being a mensch.”⁸⁷

In mid-March, Brown told the *Sacramento Bee* editorial board that a failure to clear the ballot could lead to all three plans going down to defeat. “If we get down the road and there are no taxes,” he said, “there’s going to be a lot of finger-pointing.” But neither Munger nor the California Federation of Teachers showed any inkling of backing down. Steve Hopcraft, a CFT spokesman, said in response

83 February 7, 2012. *San Francisco Chronicle*. Tax measures to compete with Gov. Brown’s plan.

84 February 7, 2012. *San Francisco Chronicle*. Tax measures to compete with Gov. Brown’s plan.

85 February 10, 2012. *Sacramento Bee*. Tax Molly Munger’s tax proposal makes her a major player in California ballot wars.

86 February 29, 2012. *Sacramento Bee*. SEIU director tells Jerry Brown’s tax-plan rivals to step aside.

87 March 1, 2012. *Los Angeles Times*. Brown steps up efforts to squelch competing tax hike proposals.

to Brown's remarks that it is possible for more than one initiative to pass, but, "If you keep attacking us, you're only raising the negative." At the same time, Brown convinced the California Business Roundtable, an organization of the state's largest corporations, to announce its opposition to the CFT and Munger's tax measures, while remaining silent on his.⁸⁸

Part of this concern came from the release of the PPIC's early March poll that showed only 52% of likely voters backed Brown's tax plan, as opposed to 68% in January. In fairness, much of the change probably stemmed from PPIC using different language to describe Brown's proposal in each poll. By March, PPIC was able to use the official ballot label produced by the state Attorney General's office. In January, the question was shorter and vaguer.⁸⁹ And while PPIC did not ask about the competing plans in the March poll, they were already generating public attention. Before public support dipped below 50%, Brown and his supporters needed the rival tax plans eliminated.

In many ways, this conflict mirrored the previous year's budget fight, when Brown wanted to put his tax measure on the ballot through the legislature, which required Republican votes. The quicker Brown could win over the recalcitrant legislative Republicans, the quicker Brown could shift to focusing on winning over the electorate. When the Republicans refused to back down, Brown shifted strategies and decided to gather signatures to place his measure on the ballot without their help. This year, Brown again faces opposition, but it is now from Democrats. "It's the same formula," said Bill Whalen, a former speechwriter for ex-Gov. Pete Wilson. "There is one stumbling block between the Governor and what he wants to achieve. Last year it was legislative Republicans, and this year it's Molly Munger." Whalen added: "I give Jerry a lot of credit for making the rounds and talking to people . . . but at the end of the day, it must make him want to tear out what hair he has left."⁹⁰

Brown admitted the difficulty. "In some ways the system is designed, especially in the modern era, it invites a lot of chaos," he said. "It's a little bit of direct democracy run wild." The Governor's biggest enemy: time. He only had a few weeks left to clear the ballot before the signatures were gathered for the rival tax measures. "What I'm worried about," Brown said, "is that everyone's going to get this several months from now, when it's too late."⁹¹

88 March 9, 2012. *Sacramento Bee*. Jerry Brown predicts ongoing budget problems, "finger-pointing" if his tax measures fails.

89 March 7, 2012. *Capital Notes*. Brown's Tax Is Ahead, But Why Not By More?

90 March 11, 2012. *Sacramento Bee*. With right or left, Jerry Brown struggles to push through taxes.

91 March 11, 2012. *Sacramento Bee*. With right or left, Jerry Brown struggles to push through taxes.

Brown scored a major victory in mid-March when he reached a last-minute compromise with Pechthalt and the CFT. Brown would make adjustments to his tax proposal in exchange for the CFT dropping their “millionaires tax” and support the Governor’s revised tax plan. Brown would cut his half-cent sales tax in half to a quarter-cent, lessening the impact on the poor and middle class. To make up for the lost revenue, Brown would create a steeper income tax on wealthier Californians than his initial plan, thereby committing even more of California’s economic health into the hands of a tiny few, whose incomes fluctuate widely. The income tax increases would also last 7 years, as opposed to the 5 years Brown first proposed.

Democrats and their allies were happy to remove some of the infighting among the various liberal factions over the tax increase. “We were headed for a real collision course,” said Senate President Pro Tem Darrell Steinberg. “If this were a game, this would all be pretty interesting, the machinations. But this is not a game.”⁹²

While potentially raising more tax revenue than the old plan, the 11th-h deal forced the Governor to scrap all the signatures he had previously gathered and wait for the state to clear his revised measure for circulation. This gave Brown and his supporters about 6 weeks to gather and turn in the more than one million needed signatures. From the CFT’s perspective, the deal was a victory. While the union’s tax measure was polling the best of the three with its specific tax on millionaires, many questioned whether the union and its allies would be able to raise enough money to compete with both Brown and Munger’s heavily-funded advertising campaigns.

With the CFT measure safely put to rest, Brown and his supporters next targeted Munger and her tax measure. Brown briefly spoke to Munger in mid-March, and Brown’s wife and unofficial chief of staff Anne Gust Brown had an email exchange with the civil-rights attorney as well. “She sent my wife a nice email and my wife responded,” Brown told reporters. “And then she responded back. So that’s where we are. But we do have two incompatible initiatives.” When asked to characterize the email exchange, the Governor paused before finally settling on “nuanced . . . It was a cordial exchange.” He added, “It certainly left things as they are with a very fierce campaign on the horizon which I’m fully prepared for.”⁹³

Brown admitted he modified his tax measure to eliminate the CFT’s rival plan, but was unwilling to make further modifications to pacify Munger. “With

⁹² March 15, 2012. *Sacramento Bee*. Jerry Brown changes his tax plan to address concerns of liberal allies.

⁹³ March 20, 2012. *Los Angeles Times*. Jerry Brown reaches out to rival tax proponent.

three measures, it looked very, very difficult if not impossible to pass anything,” Brown told reporters. “With only two initiatives, it’s real possible.”⁹⁴

After those exchanges, Munger launched a new limited television ad in the San Francisco and Los Angeles media markets. The advertisement not only discussed her measure but included a dig at the Governor’s proposal, saying hers was the only initiative that would send every “K-12 dollar straight to our schools . . . not to Sacramento.”⁹⁵

9 Legislative Unease

Brown also faced problems in Sacramento as legislative Democrats not only refused to go along with many of Brown’s proposed budget cuts to social services, but the Governor’s plans to have his cuts enacted by March. Assembly Democrats voted against cutting scholarship aid to low-income students, and rejected the Governor’s welfare cuts. “We’re not going to throw a million kids over the cliff,” said San Fernando Assemblyman Bob Bluefield, Democratic chairman of the Assembly Budget Committee, referring to Brown’s welfare cuts.⁹⁶

The administration noted the Assembly had already rejected in late-March \$1.3 billion in Brown’s nearly \$4 billion in cuts. “If the actions to date were their final word on the matter, the Assembly would have to come up with more than a billion dollars in savings somewhere else to balance the budget,” said Finance spokesman H.D. Palmer. Blumenfield said the Assembly will save money in other programs to balance the budget. Speaker Perez agreed, saying, “In a deliberative process, you reject ideas you don’t agree with, and you find over time other ideas that will get you to the same budgetary savings.”⁹⁷

Senate Democrats wanted to wait until May to see if an improving economy might negate the need for early action. “It’s just March, it’s just March,” said Darrell Steinberg, emphasizing that it remained relatively early in the budget calendar. “We ought not do any more damage to people before we have to and unless we absolutely have to,” the Senate Pro Tem replied.⁹⁸

⁹⁴ March 20, 2012. *Los Angeles Times*. Jerry Brown reaches out to rival tax proponent.

⁹⁵ March 20, 2012. *Los Angeles Times*. Jerry Brown reaches out to rival tax proponent.

⁹⁶ March 27, 2012. *Sacramento Bee*. Jerry California legislative Democrats balk at Jerry Brown’s budget cuts.

⁹⁷ March 27, 2012. *Sacramento Bee*. Jerry California legislative Democrats balk at Jerry Brown’s budget cuts.

⁹⁸ March 27, 2012. *Sacramento Bee*. Jerry California legislative Democrats balk at Jerry Brown’s budget cuts.

Legislative Republicans pointed blame at the Governor and Democratic dysfunction, since they no longer had the ability to hold up the budget. “It’s not really a difficulty for Republicans,” said Sacramento Valley Republican Assemblyman Jim Nielson, the GOP’s budget committee vice chairman. “It’s a huge difficulty for the Governor. He can’t even work with his own majority party.”⁹⁹

“They’re mainly taking symbolic actions so they’re on record as opposing these proposals,” said Jeff Cummins, a political scientist at Fresno State. Voters are probably not paying attention to the legislature right now. “But come October when the Governor is making a pitch for his initiative,” Cummins added, “he will have a stronger argument if he can say the Legislature made some significant cuts.”¹⁰⁰

Brown decided the best course of action was to publicly scold the legislature. In mid-April, the Governor appeared on Bay Area talk radio and said that as a result of the Democrats’ reluctance to cut spending, the state budget deficit was probably larger than his earlier estimates. “We’re trying to be as prudent as we can,” Brown said. “That’s why the Legislature has to man up, make the cuts, and get some taxes and we’ll make it.” This seemed remarkably similar to Republican Governor Arnold Schwarzenegger’s “girlie man” comments he made about the legislative Democrats in 2004. “Uh-oh . . .” Aaron McLearn, Schwarzenegger’s former press secretary, said on Twitter, “sounds a lot like ‘Girly Men.’”¹⁰¹

In mid-May, Munger and Brown’s campaigns were racing to submit their signatures. Ultimately, Munger’s campaign turned in their signatures before Brown’s. After spending \$7.2 million by that point, she was asked if there was any chance of compromise with the Governor. She told the *Sacramento Bee*, “Well, there’s no time to blend the two initiatives to create one on the ballot. But there is time, and it’s something we’re very interested in doing, to find a path where we can run a cooperative campaign that maximizes the chances we get a successful outcome this fall.” And although she admitted she had talked with the Governor on the phone, she downplayed talk of any real cooperation later in the interview. Asked how soon she might reach an agreement with Brown, Munger said, “I couldn’t speculate . . . let’s not get ahead of ourselves here. The Governor has made no commitment to us that we can arrive at a cooperative relationship.”¹⁰²

⁹⁹ March 27, 2012. *Sacramento Bee*. Jerry California legislative Democrats balk at Jerry Brown’s budget cuts.

¹⁰⁰ March 27, 2012. *Sacramento Bee*. Jerry California legislative Democrats balk at Jerry Brown’s budget cuts.

¹⁰¹ April 13, 2012. *Sacramento Bee*. Jerry Brown tells Legislature to “man up,” make cuts.

¹⁰² May 8, 2012. *Sacramento Bee*. Molly Munger says she and Jerry Brown could work together on tax measures.

A few days later Brown submitted signatures for his tax measure at a choreographed appearance at the Sacramento County Registrar of Voters. Brown along with his wife, and dog Sutter, turned in the first of more than 1.5 million signatures. "As Governor, my responsibility is to balance the budget, protect our schools, protect public safety," Brown said. "That's what I'm doing. I need to get this initiative passed, so that's my focus."¹⁰³ Brown's measure qualified for the ballot in late June.

May was a big month for Brown since that is typically when the Governor releases the May Revision to his earlier state budget proposal. While Democrats were hoping for good news that might help their tax campaign, Brown declared that the projected budget deficit had grown to \$16 billion, \$7 billion larger than estimated in January. Brown blamed a slow recovery, along with judges blocking certain cuts to social services spending previously expected. "This means that we will have to go much further, and make cuts far greater, than I asked for at the beginning of the year," Brown said on a YouTube video released a few days before his revision announcement. "But we can't fill a hole of this magnitude with cuts alone without doing severe damage to our schools." He urged Californians to vote for his tax measure.¹⁰⁴

Many experts had warned that Brown's January budget was too optimistic, especially with projected capital gains. The LAO projected the state would collect a few billion less than the Governor's proposal. In addition, taxes fell short of projections in April, a crucial month when gauging the state's economic health. Things might have been worse for Brown without Facebook's initial stock offering. Brown's proposal assumed the state would collect \$1.5 billion more in fiscal year 2012–2013 from the stock sale, or \$1.9 billion if voters approved Brown's tax measure.

To compensate for the increased deficit, Brown proposed even deeper cuts in his now \$91.7 billion state budget. "You name it, and we've got to cut it," he told reporters at the news conference announcing the revision.¹⁰⁵ The Governor asked state employee unions to come up with several hundred million in cost savings, a 5% cut in compensation.

Social services were further cut, on top of the several billion in cuts proposed in January. "It's a daunting number," Steinberg said of the new deficit estimate. "We've dealt with a larger number before, but . . . the choices are even more

103 May 11, 2012. *Sacramento Bee*. Jerry Brown submits tax petitions, says "difficult" budget cuts next.

104 May 13, 2012. *Sacramento Bee*. Brown: California budget deficit rises to \$16 billion.

105 May 15, 2012. *Los Angeles Times*. Jerry Brown's plea to voters: "Please increase taxes temporarily."

difficult this time.”¹⁰⁶ Steinberg said Democrats still wanted to stop Brown’s \$1 billion welfare reduction.

“It’s bad, it’s big, and it’ll mean brutal cuts,” said Anthony Wright, executive director of Health Access California. “The kind of cuts left to make will have huge impacts not just on families but the economy. There’s no good news here.”¹⁰⁷

Brown admitted his budget plan relies on the same borrowing and budget trickery he campaigned against in 2010. He admitted to reporters, he was relying on “one-time revenues to handle one-time problems,” adding, “This is the best that I could do.”¹⁰⁸

K-14 education would face even deeper trigger cuts if his tax measure failed because Brown’s initiative now raised more tax revenue than when first proposed, so steeper cuts would occur if voters rejected it. Total trigger cuts would now total over \$6 billion, including higher education. “I’m counting on the voters to say yes because I know voters don’t want to cut schools,” Brown said.¹⁰⁹

Democratic lawmakers had refused to make the reductions Brown wanted in March, with Brown’s budget office claiming it cost the state \$400 million. Steinberg said he did not regret holding off on budget cuts earlier this year, even if it widened the deficit. “The cuts that are a matter of life and death we should avoid at all cost,” he said. “And we should try to spread out the impact as widely as possible.”¹¹⁰

“We recognize that we’re going to have to make some cuts,” said Inglewood Democratic Senator Current Price. “But we think these areas have already been cut to the bone. And so we’re going to be looking for ways to increase revenues. Taxes are certainly one way. Taking a look at some other loopholes, seeing how we can shift funds around.” The LAO reports that 72% of CalWORKs cases are African American or Latino. Price, who heads the California Legislative Black Caucus, told reporters, “We’re just not going to stand by and go along with it,” Price said. “We’re going to be fighting hard to find alternatives.”¹¹¹

106 May 13, 2012. *Sacramento Bee*. Brown: California budget deficit rises to \$16 billion.

107 May 13, 2012. *Sacramento Bee*. Brown: California budget deficit rises to \$16 billion.

108 May 15, 2012. *Los Angeles Times*. Jerry Brown’s plea to voters: “Please increase taxes temporarily.”

109 May 15, 2012. *Contra Costa Times*. Gov. Jerry Brown slashes programs for the poor, threatens to do the same to school.

110 May 12, 2012. *Los Angeles Times*. California deficit grows to \$16 billion, Gov. Jerry Brown says.

111 May 20, 2012. *Sacramento Bee*. California Democrats balk at deeper cuts for state’s poorest residents.

Other Democrats agreed. “We will scour the cupboards, look behind the pots and underneath the cushions, doing everything we can do to see if there’s some opportunity to reduce the extent to which we have to make these cuts,” said Sacramento Democratic Assemblyman Roger Dickinson.¹¹² Steinberg suggested eliminating or reducing the \$1 billion proposed budget reserve, an option heavily opposed by credit rating agencies.

Legislators offered few specifics, however. When told that Democrats want to “buy out” his cuts, Brown responded, “With other cuts?”¹¹³

By early June, Brown and Democratic legislative leaders began meeting daily to resolve the nearly \$2 billion in differences between them. Legislative Democrats disagreed with Brown specifically on four large cuts: welfare-to-work, Cal Grants, In-Home Supportive Services and child care for low-income families, collectively totaling \$1.85 billion. They later settled on approximately \$1 billion in cuts, with about half paid for by cutting the proposed \$1 billion budget reserve in half. The rest would come from the standard California practice of raiding special funds or recalculating funding formulas. “I strongly believe that the differences between the Governor’s proposal and our proposal are bridgeable,” said Speaker Perez. “Frankly, we’re not only on the same page as the Governor, we’re in the same paragraph.”¹¹⁴

On June 15, the Legislature passed the 2012–2013 budget, just meeting the state’s constitutional deadline, and avoiding any loss of pay. The budget did not include the various “trailer” bills that change the law to implement the spending plan, and are routinely part of the annual budget package. In addition, the legislative Democrats were still negotiating with the Governor over the four major spending cuts, and hoped to reach an agreement before June 27, when Brown would have to act on the budget bill. After the vote, Brown’s spokesman Gil Duran had little to say in an e-mail statement: “We’re still not there yet.”¹¹⁵

A few days later, Brown reached a deal with the legislative Democrats over the contested spending cuts. Lawmakers went along with Brown’s reduction of welfare-to-work benefits from 4 years to 2, as well as shifting low-income children from Healthy Families to Medi-Cal, which would save the state money. In exchange, the Governor backed off several of the other spending cuts he initially supported.

112 May 20, 2012. *Sacramento Bee*. California Democrats balk at deeper cuts for state’s poorest residents.

113 May 20, 2012. *Sacramento Bee*. California Democrats balk at deeper cuts for state’s poorest residents.

114 June 14, 2012. *Sacramento Bee*. California Democrats ready to send Gov. Jerry Brown a budget that rejects \$1 billion in cuts.

115 June 16, 2012. *San Francisco Chronicle*. State Legislature approves budget on time.

Republicans voted unanimously against the budget, but were no longer needed since the budget only required a majority vote. This was the second budget since Proposition 25, and the first where Republicans were shut out completely. Last year, when Brown was still trying to get his tax measure on the ballot through the Legislature, the Democrats still included the Republicans in the budget negotiations. After the Republicans refused to budge and Brown was forced to gather signatures, the Republicans were not invited back to the table. The “Big Five” of state budget lore has become the “Big Three,” with only the Governor, the Speaker and Senate Pro Tem essential to pass a California Budget.

A few hours before his midnight deadline on June 27, Brown signed the \$92 billion budget into law. The Governor waited until the Democrats first passed the 21 trailer or implementation bills that would specify all the budget details. Just like the budget Brown first proposed in January, the state would only balance its budget if voters passed the Governor’s tax measure in November. Otherwise, K-12 and higher education would face automatic cuts. “Ultimately, it will be up to the voters,” said Steinberg. “I trust the voters. I think they’ve seen what has occurred in this state with these cut-only budgets over the last number of years.”¹¹⁶

Even Republicans agreed the budget rests on the November election. Republican Assemblyman Jim Nielsen, vice chairman of the Assembly Budget Committee, predicted an unbalanced budget. “It’s based on taxes that will probably not pass. It’s a roll of the dice, but a poor one.”¹¹⁷ Assemblyman Martin Garrick (San Diego) agreed, calling the entire budget process a “sham.” “Holding our kids hostage as a means to convince voters to approve billions in tax increases is reprehensible.”¹¹⁸

Brown line-item vetoed an additional \$200 million from the budget. He did not explain his vetoes publicly, but the extra savings brought the state’s reserve to a little shy of \$1 billion, Brown’s initial target. With the last-minute cuts, Brown reduced the General Fund to \$91.3 billion, with \$142.4 billion in total state spending, which includes bond money and other dedicated funding. Democratic lawmakers were not happy with additional spending reductions. “We moved extremely far to get a budget that reflected his position,” said Democratic Assembly Budget Chairman Bob Blumenfield (Woodland Hills). “There’s no way I’m happy about it.” Steinberg agreed with the sentiment but noted, “It could have been worse.”¹¹⁹

116 June 28, 2012. *Sacramento Bee*. Brown signs main California budget.

117 June 28, 2012. *Sacramento Bee*. Brown signs main California budget.

118 June 27, 2012. *San Diego Union-Tribune*. Governor signs state budget.

119 June 29, 2012. *Los Angeles Times*. Jerry Brown cuts \$195.7 million from budget.

10 The Munger Games

With the campaign in full swing by early October, Brown and his allies realized they had a Munger problem – two, in fact. Molly Munger had already spent almost \$30 million on her rival tax measure, 99% of the money raised. Her Republican half-brother Charles Munger, Jr., a Stanford physicist, had spent more than \$5 million opposing Brown's measure and supporting another initiative that would severely restrict unions from using dues for political purposes. This diverted union campaign spending away from Brown's tax initiative. Despite the family connection, both Mungers downplayed any coordination. "This is not some vast Munger family conspiracy," Charles told a reporter. Molly agreed, "I am very fond of Charles. He is my brother. He is dear to my heart. But people who are dear to us are not always people we agree with."¹²⁰

Proposition 32 would ban all corporate and union donations to political candidates. More upsetting to unions, it would also ban political contributions from union dues deducted through paychecks. Unions responded to the measure by raising more than \$75 million to defeat it, with some of that money going into a joint "Yes on Proposition 30, No on Proposition 32" campaign. Charles Munger was the proposition's primary backer, giving it more than \$36 million by the end of the campaign, almost 60% of the funding. He had gotten involved in numerous earlier ballot measures, including several involving redistricting reform that would shift redistricting away from the legislature. A Republican, Munger is more interested in changing the way politics is played in California, and he has used his considerable fortune to back changes.

Brown and his campaign allies were worried about both Mungers. Proposition 30 campaign consultant Dan Newman refused to talk about the Mungers specifically, but told a reporter, "If any billionaires decide to spend their fortunes attacking us, it will make our job a little tougher." Even the Governor was hesitant to specifically mention the Mungers by name. Asked about Molly Munger's initiative during the campaign, the former Jesuit seminary student simply said, "Everything in a campaign gets in the way of everything else."¹²¹ Another time when asked why Brown could not persuade Molly Munger to stop her campaign, Brown replied, "There's something called free will. Even God can't stop somebody from sinning if that's their free will."

The Legislature had done its part to help Brown by passing a bill in late June that placed Brown's initiative higher on the ballot than Munger's, despite

¹²⁰ October 3, 2012. *Reuters*. Insight: In California, the Mungers haunt Jerry Brown.

¹²¹ October 3, 2012. *Reuters*. Insight: In California, the Mungers haunt Jerry Brown.

Munger's campaign turning in her signatures first. Brown's initiative was the ninth to qualify, out of ultimately 11 measures, but now would appear first on the ballot. The bill, signed into law by Brown, would place constitutional amendments, including initiatives like Brown's, higher on the ballot than regular initiatives, like Munger's. Munger's campaign was not amused. "It's like changing the rules of the game in the seventh inning," said Nathan Ballard, Munger's spokesman.¹²² Democratic lawmakers also moved a massive \$11 billion water bond off the ballot, hoping to improve the chances for Brown's tax measure.

The Governor had tried earlier in August to reach a truce with Munger and her campaign, enlisting the help of US Senators Dianne Feinstein and Barbara Boxer, among other Democratic leaders. They called for both campaigns to refrain from attacking or referring to each other. Munger's campaign declined, noting that Brown's coalition already had formed a campaign committee opposed to Proposition 38.

Some criticized Brown for largely disappearing from public view in the Summer and early Fall. Even by mid-October his last public campaign event was on August 30. "He's got to explain it to people, because it's his measure. He needs to be out there explaining it," said Mark Baldassare, president of the Public Policy Institute of California.¹²³ The pro-Proposition 30 campaign waited until October to begin advertising on television. Brown was busy dealing with the end of the legislative session, when hundreds of bills are sent to the Governor and he has only 30 days to act. Asked about this in late October, right before the election, a dismissive Brown told the *New York Times*: "I don't need to go over what the Governor does. You know all that. It's a full-time job."¹²⁴

By then, Munger's Proposition 38 campaign had been running ads for several weeks, highlighting that tax revenue generated by Prop. 38 would avoid the Legislature and go directly to schools. When Prop. 30 began running its ads in October with a similar message, Munger's camp created a new attack ad that said, "Don't be misled by the politicians," and showed a Proposition 30 sign crashing to the ground.¹²⁵ Munger later defended her ad by again attacking Prop. 30s ad: "It was deceptive because it was so at odds with the truth of their initiative."¹²⁶ While

122 June 26, 2012. *Sacramento Bee*. Budget tweaks could help Gov. Jerry Brown make his case for tax hikes.

123 October 11, 2012. *AP*. Brown's Calif. tax initiative hit from both sides.

124 November 3, 2012. *New York Times*. California's Governor Is in High Gear Over a Tax Initiative.

125 October 11, 2012. *AP*. Brown's Calif. tax initiative hit from both sides.

126 October 12, 2012. *Sacramento Bee*. Gov. Jerry Brown's budget plans threatened by a determined Molly Munger.

both major teachers unions backed Brown's measure, the California PTA backed Munger's. Both initiatives failing would have been a disaster for the education community.

"This is an absolutely unprecedented situation in California politics," said Dan Schnur. "The approach that Molly Munger is taking is very similar to what a candidate would do who's down in the polls weeks before an election."¹²⁷ Meanwhile, the "No on Prop. 30" campaign began running ads, funded primarily with money raised by Charles Munger, attacking the initiative and claiming it would not help schools.

In mid-October, State Superintendent of Public Instruction Tom Torlakson, a close political friend of Molly Munger, and other educational groups asked for a cease-fire between the two sides. Even the PTA asked Munger to pull the ad. Within a few days, Munger's campaign agreed to phase out the anti-Prop. 30 TV spot. The campaign's spokesmen said, "This isn't the No on 30 campaign. It's the Yes on 38 campaign. We listened to our allies, and we will continue to listen to our allies."¹²⁸

By the end of October, things looked increasingly dark for Brown and his allies. A PPIC poll showed support had dropped for Prop. 30, pushing approval below 50% for the first time. Opposition had increased, and the poll was now only ahead 48%–44% (see Figure 7 for Proposition 30 polling). Public school parents, a group the initiative was targeting, were evenly divided. Munger's initiative had lost support too, with more voters opposed than in favor. There was a strong chance that both school-funding initiatives would fail. Charles Munger kept pouring money into the campaign against Prop. 30.

Moreover, a non-profit corporation from Phoenix, Americans for Responsible Leadership, gave \$11 million to the California Small Business Action Committee, a leading opponent of Prop. 30 and supporter of Prop. 32, which would restrict labor unions' paychecks.¹²⁹ After weeks of fighting in court to keep its funding sources secret, the nonprofit was forced to eventually reveal that the source of that \$11 million was another non-profit, Americans for Job Security, which had funneled the money through still another organization, the Center to Protect Patient Rights.¹³⁰ No additional information about the contribution was discerned.

¹²⁷ October 12, 2012. *Sacramento Bee*. Gov. Jerry Brown's budget plans threatened by a determined Molly Munger.

¹²⁸ October 15, 2012. *Sacramento Bee*. Munger phasing out ad critical of Gov. Jerry Brown initiative.

¹²⁹ October 24, 2012. *EdSource*. School initiative's bumpy road to the ballot box.

¹³⁰ November 5, 2012. *New York Times*. Arizona Group Says It Was Middleman for Donations to California Ballot Measures.

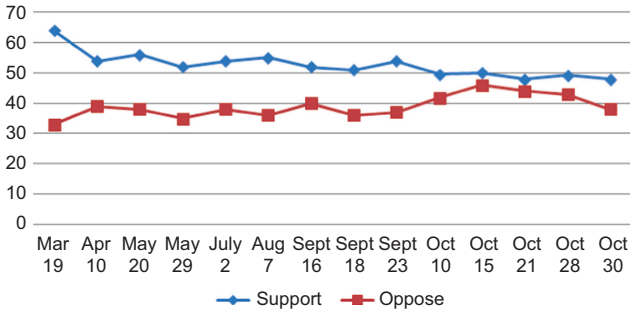


Figure 7: Polling on Proposition 30 March–October 2012.

The situation became critical when Lt. Governor Gavin Newsom criticized fellow Democrat Brown for not beginning his campaign until mid-October with a series of campaign events at the state’s various colleges and universities. “He finally got back on the campaign trail yesterday at UCLA,” Newsom said of Brown. “He hadn’t been on the campaign trail since August 30th, and the election is happening today. Meaning people are already starting to put in their absentee ballots.” Although also a Prop. 30 supporter, Newsom disputed Brown’s campaign assertions that students would not see a tuition hike if the tax measure passed. “My big concern is, we went down yesterday and said there will be no tuition increase if you support this,” Newsom said. “That’s just not true. You can’t say things like this.” Newsom sits on both university boards along with Governor. He told the radio station, “The point the Governor should make is an accurate one, and I support his tax measure, but we have to be honest and straightforward with folks.”¹³¹

It was not just Newsom. “I think it’s great that in the closing weeks, the Governor is playing such a strong role,” said Speaker Pérez, adding, “In my opinion, it would have been great if he had started on Day 1.”¹³²

Everything was now on the line. Proposition 30. A balanced state budget. Perhaps even Brown’s desire, let alone chances, of another term in 2014. The Field Poll released its last poll right before the election: 48%–38% in favor of Proposition 30, but tax initiatives usually fail if they fall below 50%. “It is very close,” said Mark Baldassare, president of the PPIC. “The numbers that support it

¹³¹ October 31, 2012. *Sacramento Bee*. Gavin Newsom criticizes Jerry Brown in KGO Radio interview.

¹³² November 3, 2012. *New York Times*. California’s Governor Is in High Gear Over a Tax Initiative.

are lower than we are seeing when we asked about it a month ago. Passing a state tax increase in California is very, very tough to do.”¹³³

“This would be a huge blow to California and the public sector,” Brown said, if Proposition 30 failed. “As to how or what it does to me as a political leader, I think that’s hard to say. I battled very hard to defeat Prop. 13, and I went on to win by 21 points. If you’re only interested in what happens to this one person, Jerry Brown – that’s such a narrow question.”

Brown felt he was never in trouble. Despite public surveys showing declining support for Prop. 30, Brown’s internal polls had shown steady support for his measure. The Governor was also watching a surge in Democratic registration, in part due to the new online voter registration system he had just signed into law. Unions were mobilizing to get voters to the polls. Brown knew President Obama was very popular in California, and the president particularly appealed to the same demographic groups that would pass Proposition 30, the young, and non-White voters. Brown joked with reporters after the election that they had misread the conventional wisdom in the waning days of the campaign. “Some people began to read tea leaves incorrectly,” Brown told reporters. “And then you all go off like a herd of buffalo down the road. Hopefully you’re all now back on the plane of common sense.”¹³⁴ Brown’s analysis proved spot-on. Proposition 30 ended up passing by a comfortable 55%–45% margin.

11 Election 2012: a Deeper Shade of Blue

These trends manifested themselves on Election Day and turned California an even deeper shade of blue. President Obama easily captured California’s 55 electoral votes, defeating challenger Mitt Romney with over 60% of the vote. This result was nearly equal to Obama’s margin over John McCain in 2008, and reflects a long-term upswing in support for Democratic presidential candidates in California. In the post-war period, the nadir of Democratic presidential performance in the state came in 1980 when Jimmy Carter lost to Ronald Reagan with only 35.9% of the vote. As Figure 8 illustrates, Democrats have been steadily gaining support ever since, partly owing to shifting demographics.

Even against this backdrop, President Obama’s performance is quite impressive. He has twice won California with over 60% of the vote, outperforming both John Kerry and Al Gore by more than five percentage points and Bill Clinton

¹³³ November 3, 2012. *New York Times*. California’s Governor Is in High Gear Over a Tax Initiative.

¹³⁴ November 8, 2012. *Los Angeles Times*. Prop. 30 win gives Jerry Brown major boost.

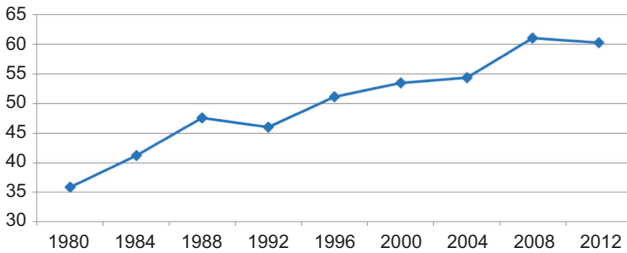


Figure 8: Percentage of the Vote for Democratic Presidential Candidates in California 1980–2012.

by 10%–15% points (although the three-way race in 1992 partly explains that). Obama even outperformed Lyndon Johnson, who won the state in his 1964 landslide with 59% of the vote.

On the congressional level, US Sen. Diane Feinstein (D) was easily re-elected to another term, defeating little-known Republican candidate Elizabeth Emken 62.5%–37.5%. Feinstein’s margin was about two points larger than Obama’s. In US House races, Democrats gained a staggering four seats from Republicans, and now hold 38 of California’s 53 seats in the House of Representatives. Among the notable pickups, Democratic challengers defeated Republican incumbents Dan Lungren of Sacramento, Mary Bono Mack of Palm Springs, and Brian Bilbray of San Diego.

In the state legislature, Democrats were finally able to realize their dreams of a 2/3 majority. Before the election, Democrats were two seats short of a two-thirds supermajority in each chamber. While most pundits figured the Democrats would reach that threshold in the Senate due to redistricting, very few expected a two-thirds majority in the Assembly. By gaining three seats in the Assembly and an astonishing four in the Senate, Democrats came out of the election with a 55-25 Assembly majority and a 29–11 Senate majority. In both cases, this was above the 2/3 threshold and assured Democrats total control of state government, including the ability to pass tax increases without any Republican votes.

This is the first time either party has had a supermajority in both chambers since the Republicans controlled the Legislature in 1933. Democrats have a two-thirds majority in the Assembly and Senate for the first time since 1883. Even a two-thirds majority in one chamber is rare for the Democrats. They last had that margin in the Assembly in 1978, and 1965 in the Senate. Nearly half of the Assembly class are freshmen, the highest number since 1948. And with the recent change to term limits, this freshmen cohort will be able to serve for 12 years, double the amount of their predecessors.

Democrats immediately downplayed any attempts to increase taxes with their two-thirds control of the Legislature. Brown said he would not support any additional tax increases without another public vote, a campaign pledge he made in 2010. He cautioned that California's budget problems could not be solved immediately. "This is not instant coffee here," Brown said. "This takes time and effort. But over the next few years we're on a correct glide path."¹³⁵

Voters also passed Proposition 36 by a surprisingly large margin of 69%–31% (voters had rejected a similar proposition in 2004). Proposition 36 revised the state's long-standing "three strikes and you're out" law in ways that may reduce the prison population in the future and save the state money. By some estimates, this change could potentially save the state \$150 million to \$200 million per year.¹³⁶ The Legislative Analyst's Office projected more conservative savings of between \$70 million to \$90 million per year.¹³⁷

Voters also easily passed Proposition 39 by a 61%–39% margin. Proposition 39 changed the way multistate businesses calculate their taxable income, which should result in increased corporate tax revenue for the state budget and clean energy programs (projected to be \$900 million total in the forthcoming 2013–2014 budget year).¹³⁸

The added revenues from Propositions 30 and 39, coupled with the potential savings from Proposition 36, should make the state's books easier to balance in the coming years. The Legislative Analyst's Office projects an additional \$6 billion per year through 2018–2019 from Prop. 30 alone.¹³⁹ Passage of Proposition 30 also prevented the automatic "trigger cuts" from taking effect, which was welcome news to those in K-12 and higher education. Most importantly, perhaps Proposition 30 signals that California voters are becoming increasingly willing to raise taxes in order to pay for specific public services like education.

Brown emerged from the election politically stronger than ever. "His standing in the Capitol is probably higher than it has ever been," said Tony Quinn, co-editor of the California Target Book. "Now we have a strong Governor . . . He is going to be able to get his way a lot more."¹⁴⁰

135 November 8, 2012. *Sacramento Bee*. Prop. 30 win gives Democrats cash they have sought for budget woes.

136 November 28, 2011. *San Francisco Chronicle*. "3 Strikes": Proposed law tries to restore intent.

137 Legislative Analyst's Office. *The 2013–2014 Budget: Overview of the Governor's Budget*.

138 Legislative Analyst's Office. *The 2013–2014 Budget: Overview of the Governor's Budget*.

139 Legislative Analyst's Office. *The 2013–2014 Budget: Overview of the Governor's Budget*.

140 November 8, 2012. *Sacramento Bee*. Prop. 30 win gives Democrats cash they have sought for budget woes.

As for Newsom? Late election night when it became clear that Proposition 30 would pass, Brown’s press secretary sent the Lt. Gov. a tweet. It was a link to Elvis Presley performing “Are You Lonesome Tonight?”¹⁴¹

12 Looking Ahead to 2013–2014

A few days after the election, the LAO released its most optimistic forecast since the dot-com boom. In the executive summary, the LAO said, “The state’s economic recovery, prior budget cuts, and the additional, temporary taxes provided by Proposition 30 have combined to bring California to a promising moment: the possible end of a decade of acute state budget challenges.”¹⁴² “For the first time since about 2001, we actually show us being in the Black,” said Legislative Analyst Mac Taylor. “This is a dramatic turnaround.”

The report showed a relatively small \$1.9 billion deficit for fiscal year 2012–2013, followed by annual surpluses that grow beyond \$9 billion in 2017–2018. Figure 9 depicts the LAO’s projected budget surpluses, beginning in 2014–2015. This positive news was in contrast to the \$13 billion deficit the state faced in November 2011, and the colossal \$25 billion deficit in the Fall of 2010. The forecast projected California’s unemployment rate dropping from 10.6% in 2012 to 6.7% in 2017. However, Facebook’s lagging stock price meant the state would collect \$600 million less than expected.¹⁴³

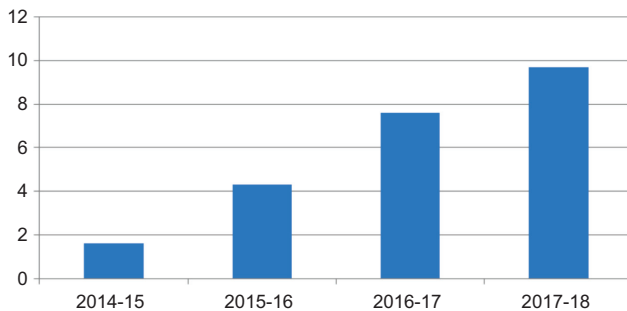


Figure 9: LAO Projected Budget Surpluses (in billions).

Source: LAO 2012b.

¹⁴¹ November 8, 2012. *Los Angeles Times*. Prop. 30 win gives Jerry Brown major boost.

¹⁴² Legislative Analyst’s Office. *The 2013–2014 Budget: California’s Fiscal Outlook*.

¹⁴³ November 15, 2012. *Sacramento Bee*. Analyst sees potential for budget surpluses in California’s future.

The new clash will not be between Brown and the Republicans, or even Brown and the legislative Democrats, but between legislative Democrats and their constituents. “It’s difficult to imagine anyone on the short end of those types of budget cuts accepting them without a fight,” said Dan Schnur. “If you’re a legislator who has a battalion of interest groups outside your door trying to drag you in one direction and the governor on the phone trying to convince you to hold firm, it’s not a fun place to be.”¹⁴⁴

¹⁴⁴ November 15, 2012. *Sacramento Bee*. Analyst sees potential for budget surpluses in California’s future.